

RATING REPORT

Topline Securities Limited

REPORT DATE:

July 19, 2017

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Initial Rating	
	Long -term	Short -term	Long -term	Short -term
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	July 19, 2017		March 22, 2016	

COMPANY INFORMATION

Incorporated in 2001	External auditors: M/s Naveed Zafar Ashfaq Jaffery & Co. – Chartered Accountants
Public Unlisted	Chairman of the Board: Mr. Mohammad Sohail
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Mohammad Sohail
Mr. Mohammad Sohail – 70.91%	
Mr. Haroon Fatani – 22.3%	
Mr. Amir Fatani – 6.8%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria Methodology – Securities Firms Rating (May 2015)

<http://www.jcrvis.com.pk/Images/Securities%20methodology%201%20-2015.pdf>

Topline Securities Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
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Topline Securities Limited was incorporated under the Companies Ordinance 1984. The company is a TRE certificate holder of Pakistan Stock Exchange. M/s Naveed Zafar Ashfaq Jaffery & Co., Chartered Accountants audited Topline’s financial statements for FY16.

Profile of Chairman & CEO

Mr. Muhammad Sobail holds dual position of Chairman and CEO in the company. Mr. Sobail is an entrepreneur possessing vast experience in capital markets including research and equity sales. Mr. Sobail holds an MBA degree and is a certified director from Pakistan Institute of Corporate Governance.

In June 2001, Topline Securities Limited (TOPLINE) was incorporated as a private limited company under Companies Ordinance, 1984. During the ongoing year, TOPLINE’s status was changed from a Private Limited Company into a Public Limited Company by Securities of Exchange Commission of Pakistan (SECP). Management of the company plans to get TOPLINE listed on stock exchange. The company is a holder of Trading Rights Entitlement Certificate (TREC) of Pakistan Stock Exchange (PSX) Limited and membership card of Pakistan Mercantile Exchange Limited. The company is principally engaged in provision of equity brokerage services to domestic and foreign clients.

Rating Drivers

Market Share & Profitability: In terms of volume traded, TOPLINE’s market share witnessed growth during FY16. Profitability has depicted modest growth on the back of increase in the brokerage commission earned. Revenue from equity brokerage accounted for 94% of total revenue during FY16. TOPLINE has developed an aggressive marketing strategy for foreigners given higher commission rates offered by the same. Proportion of income from foreign operations has further grown and represented 70% (FY15: 63%) of total brokerage revenues during FY16. Moreover, management’s focus on diversifying core income through growth in corporate finance & advisory services is reflected in increased income from the same during 2016.

Capitalization & Liquidity: Driven by year on year accumulation of profits, equity base of the company has exhibited sizeable growth enabling steady expansion of business operations. Given the sale of 60% stake of PSX, further growth in the equity base is anticipated in FY17. Improvement in equity is also expected as the company plans to get listed. Liquidity profile of the company has improved with a significant increase in liquid assets during FY16; this lead to lower utilization of short term financing vis-à-vis preceding year, liquid assets in relation to total liabilities exceeded by 100% at-end-FY16. Capitalization indicators have depicted improvement with average debt leverage (based on month end average of short term borrowings) and gearing at 0.3x (FY15: 0.5x) and 0.2x (FY15: 0.2x) respectively at end-FY16.

Credit Risk: Credit risk of the company is considered manageable. During FY16, major volume of transactions was conducted through Institutional Delivery System (IDS) thereby minimizing the risk borne by the company. With respect to foreign institutions, all trades are dealt by custodian banks which have been inducted as Custodian Clearing Members (CCM) of NCCPL. Moreover, ageing of receivables is also considered satisfactory with 3/5th of the trade debts outstanding for under 14 days.

Investments: Market risk on investment portfolio is considered manageable since the company mostly engages in ready future transactions. As at end-June 2016, the company’s investment held in near term government securities amounted to Rs. 73.7m. TOPLINE also holds shares of Pakistan Stock Exchange Limited which were revalued as at end June 2016, carrying value thus slightly increased to Rs. 60m (FY15: Rs. 58.2m). Total value of the PSX shares at offer price of Rs. 28 per share is Rs. 112m. Post inclusion of gain realized from the sale of 60% of PSX shares, the quantum of investment in PSX shares will decrease.

Corporate Governance: Existing corporate governance at TOPLINE exhibits considerable room for improvement. Currently, there are two Board level committees in place. However, going forward, as the company plans to get listed on the exchange; management envisages improvement in corporate governance structure of the company. These developments include addition of independent directors to the Board and segregating the position of Chairman of the BoD & CEO which is currently being held by same individual.

FINANCIAL SUMMARY (amounts in PKR millions)			Appendix I
<u>BALANCE SHEET</u>	30-Jun-16	30-Jun-15	30-Jun-14
Trade Debts	42.5	70.4	121.9
Investments	73.8	24.8	78.4
Cash and Bank balances	202.7	54.8	41.4
Total Assets	528.5	451.2	421.7
Trade and Other Payables	85.7	85.4	95.4
Long Term Loans	0.0	0.0	0.0
Short Term Loans - Secured	0.0	19.3	75.4
Net Worth	440.8	332.0	244.4
<u>INCOME STATEMENT</u>	30-Jun-16	30-Jun-15	30-Jun-14
Total Revenue	359.3	284.6	137.2
Brokerage Income	297.2	258.0	119.7
Advisory Income	28.6	3.8	0.0
Administrative Expenses	190.5	150.6	61.5
Finance Costs	2.9	7.9	1.6
Profit Before Tax	165.9	124.9	74.1
Profit After Tax	118.7	87.6	49.4
<u>RATIO ANALYSIS</u>	30-Jun-16	30-Jun-15	30-Jun-14
Liquid Assets to Total Liabilities	315%	66.8%	34.6%
Liquid Assets to Total Assets	52.3%	17.6%	14.5%
Debt Leverage	0.2	0.4	0.7
Gearing	0.0	0.1	0.3
Efficiency (%)	55%	56%	49%
ROAA (%)	24%	20%	12%
ROAE (%)	30%	30%	22%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES				Appendix III	
Name of Rated Entity	Topline Securities Limited				
Sector	Brokerage				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	19-July-17 22-Mar-16	A- A-	A-2 A-2	Stable Stable	Re-affirmed Initial
Instrument Structure	N/A				
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
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