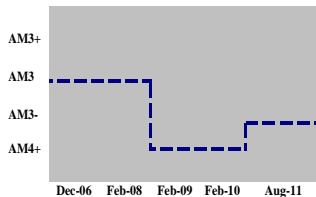




RATINGS (AUGUST 2011)
DAWOOD CAPITAL
MANAGEMENT LIMITED
(DCM)



RATING HISTORY



ASSETS UNDER MANAGEMENT
Amount in PKR mln

Funds	Size		
	Open-end	Apr-11	Apr-10
DMMF		437	329
DIF		355	282
FDMF		564	491
Total AUM		1,358	1,103
System Share		<1%	<1%

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RATING RATIONALE AND KEY RATING DRIVERS

- The rating reflects DCM’s experienced management team and adequately structured investment process, adequately taking care of relatively small, though expanding, size of funds and scale of operations. However, unit holder concentration in AUM is still high. The company has taken various steps to improve efficacy of business functions such as research and investor services platform by deploying requisite resources. Moreover, DCM has enhanced the quality of its decision making framework with expanded investment committee and representation of related functions on IC. At the same time, DCM has achieved operational break-even, attributed to cost rationalization and relative improvements in assets under management and lately funds’ performance. This is expected to provide financial space to establish its distribution network and further strengthen overall operational framework.
- The rating is dependent on effective execution of DCM’s business plan in order to ensure consistent growth in AUMs, enabling the company to upgrade its system & controls in a consistent manner. Moreover, sustainability in the underlying performance of funds remains critical.

ASSESSMENT

- DCM, a First Dawood Group (FDG) company, started asset management business in 2003. Majority holding in DCM is held by FDG (48%) through group companies (31%) and family members (17%). The other major shareholders include BoK & NIT with 15% and 3% stake in the company, respectively. FDG’s interests include Islamic banking, asset management, brokerage, Islamic insurance and Modaraba. Non-banking financial companies (NBFC) continue to face tough operating environment, and nearly all the companies of FDG have simultaneously come under significant pressure. During FY19, First Dawood Investment Bank relinquished its equity in DCM, to swap its debt to BoK. This left FDIB with 15% share in DCM, with BoK having 15% share.
- The Board of DCM comprises seven members including the CEO. Two members represent FDG having executive positions in group companies, one nominee comes from NIT and BoK each. Two seats are vacant pending approval of SECP for independent directors. The CEO, Ms. Tara Uzra Dawood, a member of Dawood family, is a Harvard law graduate.
- DCM’s equity stands at PKR 155mln at end Mar-11 (end-Mar 10: PKR 147mln). The equity barely meets the minimum capital requirement as per revised NBFC regulations (end-Jun11:PKR150mln). During FY11, DCM’s cost rationalization efforts have enabled the company to achieve operational break-even. This has helped in reducing downward pressure on the equity base.
- Presently, DCM has three funds under management: (i) Dawood Money Market Fund (DMMF) – an open-end income fund launched in Apr03, invests in a mix of spread transactions, debt securities, COIs, money market instruments, and reverse repurchase transactions, (ii) First Dawood Mutual Fund (FDMF) – a closed-end balanced fund launched in Mar05 is focused on building a long-term value portfolio of quality stocks, having high earning growth prospects, (iii) Dawood Islamic Fund (DIF) – an open-end Islamic asset allocation fund launched in Jul07 has option to invest in fixed income Islamic avenues including Sukuks, Shariah compliant TFCs, and placements with Islamic Banks, in addition to equities depending on the prevailing market conditions. The overall prevailing AUM mix depicts high unit-holder concentration with significant investments made by top 10 unit holders (DMMF: 81%; DIF: 100%; FDMF: 61% as at end-Dec10). Meanwhile, the company’s penetration in the retail segment is minimal. Cognizant of the limited fund slate and to cater risk averse investor base, DCM plans to launch a cash fund in the medium term. However, extent of success in this initiative remains to be seen.
- The marketing strategy of DCM has been to follow the low cost market penetration. At present, the marketing and company resurrection through meeting prospective investors is being spearheaded by the CEO herself, Ms. Tara Uzra Dawood. Moreover, DCM is in process to re-establish its distribution agreements with established players to enhance assets under management. However, the related timeline and effectiveness of strategy is subject to multiple challenges. Further, management’s focus and deployment of resources, in order to ensure consistent growth in AUMs, would be critical
- The investment committee comprises three members – 1) CEO, 2) CFO and 3) Fund Manager. The IC meets on a weekly basis to take major portfolio-related decisions, and monitor funds’ performance. Due to small size of the company, DCM has not been able to institute a strong risk management and control environment. Nevertheless in FY11, DCM revamped its risk & investment management policies in order to strengthen the overall fund management framework. Risk policy document has also been revised and approved by the BoD. Daily compliance sheets are produced, ensuring compliance with regulations laid down by SECP. However, there still remains concentration in decision making process.
- The company is planning to have a dedicated resource to head the research function. Presently, due to low volumes and size of funds, the Head of Customer Services (HOCS) oversees DCM’s in-house research function, besides resourcing to independent research reports from peer groups. The department in addition of HOCS comprises one research analyst and a newly engaged trainee analyst. Meanwhile, induction of a requisite resource to lead research function, enhancing efficiency and independence of decision making process, will further enhance quality of investment decision making.
- For internal audit function, the management engaged Riaz Ahmed & Co, Chartered Accountants. The internal auditor reports directly to the Board’s Audit Committee on a quarterly basis. The company uses an in-house developed software system based on Oracle 9i for portfolio management and general accounting requirements.

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