



## The Pakistan Credit Rating Agency Limited

### Rating Report

## Dawood Equities Limited | BFR

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#### Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
30-Nov-2023	BFR 3+	Stable	Initial	-

### Rating Rationale

Factor	Comment
<b>Ownership</b>	DEL is a part of First Dawood Group having presence in multiple sectors such as capital markets, power sector, education sector, etc. 50% of the Company's shares are free float, owned by individuals and entities. Mr. Ayaz Dawood is the primary sponsor, having ~19% ownership stake in the Company.
<b>Governance</b>	The Company has a sound governance structure with a seven-member board. Two independent directors are present, and the board committees are all chaired by independent directors, enhancing the oversight framework.
<b>Management and Client Services</b>	A lean organizational structure is present with the focus being on operational efficiency. An experienced and qualified management team provides comfort to the rating. Client services are considered adequate with online trading and research reports present.
<b>Internal Controls and Regulatory Compliance</b>	The board audit committee oversees the outsourced internal audit function, resulting in a sound internal control environment. Presence of requisite policies is noted; however, room for improvement exists in terms of the depth and scope of the policies. A dedicated compliance head ensures effective compliance reporting.
<b>Business Sustainability</b>	DEL's topline is concentrated to equity brokerage, with diversity present in the form of underwriting. During 1QFY24, the Company earned ~PKR 14mln (SPY: ~PKR 11mln) as operating revenue, with a profit after tax of ~PKR 4mln (SPY: ~PKR 1mln).
<b>Financial Sustainability</b>	A low-leveraged capital structure provides support to the rating. DEL has an adequate equity base of ~PKR 255mln at end-Sep'23.

### Key Rating Drivers

The Brokerage Industry has picked up pace during 1HFY24 due to political stability and positive macro-economic developments. Dawood Equities Limited ('DEL' or the 'Company') plans to take advantage of the market boom by focusing on new retail clientele in untapped areas to enhance its market share. Moving forward, the materialization of planned revenue and geographical diversification is important for the rating. Maintenance and enhancement of market share and sustainability and growth in revenue and profitability remain vital. Meanwhile, it is imperative to uphold robust internal controls, retention of key management personnel, and diligently monitor risks.

#### Disclosure

<b>Name of Rated Entity</b>	Dawood Equities Limited   BFR
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Broker Fiduciary Rating (BFR)
<b>Applicable Criteria</b>	Methodology   Broker Fiduciary Rating(Jan-23)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jan-23)
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## Profile

**Background** The Company was incorporated in May 2006, as a public unlisted company, later on converted into public listed company in 2008. In January 2017, the Company obtained registration as an underwriter with SECP.

**Operations** With its head office in Karachi, Dawood Equities operates through branches located in Karachi, Hyderabad and Lahore. Following its expansion strategy, the Company has expanded its branch network by opening new branches in Faisalabad and Sargodha. The Company primarily offers the services of Equity Brokerage and also provides the services of Underwriting, Corporate Finance & Financial Advisory, and Research.

## Ownership

**Ownership Structure** The Company, being a listed entity, the ownership stakes are divested between different entities and individuals, out of which Mr. Ayaz Dawood, the primary sponsor, owns ~19% stakes in the Company, followed by Equity International (Pvt.) Limited (~11%) and BFIs/IFIs/ Individuals (~67%). While 50% pertains to free-float shares.

**Stability** The Dawood Family Group is counted amongst the largest business groups in the country, and has a diversified investment portfolio.

**Business Acumen** The business acumen is strengthened by the entrepreneurial and business skills of Mr. Ayaz Dawood. He is the CEO of BRR Guardian Modaraba and Chairman of Dawood Family Takaful Limited.

**Financial Strength** The primary sponsor has sizeable financial strength due to his linkage with the Dawood Group, which has sizeable shareholding different companies operating in diverse sectors such as fertilizers, securities & commodities brokerage, corporate advisory, asset management, cement, power and real estate development sectors.

## Governance

**Board Structure** The Company's Board of Directors (BoD) comprises of seven members, which include two independent directors, four non-executive directors and one executive director. The Board is chaired by Mr. Junaid Dada, an independent director.

**Members' Profile** All the directors are seasoned professionals and possess manifold experiences in the relevant fields. The Chairman, Mr. Junaid Dada holds diploma in business management from Santana Monica College, California. He is also the Chief Executive Officer (CEO) of Electricity Power Limited and United Sales Private Limited.

**Board Effectiveness** Dawood Equities has two board committees, namely i) Audit Committee and ii) HR and remuneration committee. Audit committee meets on quarterly basis to review the financial statements and internal audit findings.

**Financial** The Company's external auditors are M Yousuf Adil & Company Chartered Accountants. The firm is QCR-rated by ICAP and is in the A category of SBP's panel of auditors.

## Management And Client Services

**Organizational Structure** The organizational structure is aligned with the business operations, and all necessary departments are present. Within this structure the branch managers, Settlement Department, Research, and Customer Support report to the Company's Chief Operating Officer (COO). The COO reports to the CEO of the Company. CEO and CFO are accountable to the Board. The Internal Auditor reports to the Board Audit Committee which enhances the internal controls.

**Management Team** Mr. Abdul Aziz Habib, the CEO of the Company, holds M.A. degree in Economics. He is a seasoned professional and has more than a decade experience of brokerage business. Mr. Salman Yaqoob is the CFO and Company Secretary of the Company. He is an Associate member of Institute of Certified Chartered Accountants & Institute of Corporate Secretaries of Pakistan. He has more than 13 years of financial and corporate experience especially in NBFC's, Modaraba, Insurance and Brokerage business.

**Client Servicing** The Company offers multiple account opening mediums. Similarly, various channels, including a mobile app, are available to customers to execute and monitor their transactions. The Company has a strong client reporting mechanism with account statements and market reports communicated to the clients on regular basis.

**Complaint Management** A sound complaint management system is in place. Complaints can be made via e-mail, SMS, calls, and website.

**Extent Of Automation / Integration** The front and back-end software is procured from an approved vendor with complete integration. The system is capable to generate real-time MIS pertaining to order placements, execution and risk management, and compliance.

**Continuity Of Operations** DEL has a detailed disaster recovery plan to ensure business continuity at the time of disaster. Backups are maintained on a timely basis.

## Internal Controls And Regulatory Compliance

**Risk Management Framework** To ensure operational efficiency and appraisal of internal controls, the Company has an in-house internal audit department, which implements and monitors the policies and procedures of the Company. Further, The responsibilities of Audit Committee are governed by its Charter approved by the Board of Directors and are broadly categorized into : Financial Reporting and related internal controls, Corporate governance and compliance, Supervision of Internal Controls and Review of Internal Audit activities.

**Regulatory Compliance** The Risk Management & Compliance Department ensures regular monitoring of controls and systems, which ensures all functions are in line with the applicable policies and procedures.

## Business Sustainability

**Operating Environment** The brokerage industry encountered notable challenges in FY23 due to heightened political uncertainty and surging inflation, which had a detrimental impact on the nation's economic landscape. Consequently, market activities were subdued, with investors preferring the security of fixed returns offered by the higher interest rates prevailing in the economy. However, with the onset of FY24, there has been a resurgence in investor confidence. This revival can be attributed to the reinstatement of the IMF program and recent governmental efforts aimed at addressing persistent economic issues, such as tackling circular debt. Despite these encouraging trends, the country's political situation remains volatile, prompting numerous investors to exercise caution until the conclusion of the election

**Performance** The Company's brokerage income is the primary source of topline. The brokerage income stood at ~PKR 42mln during FY23 while it was ~PKR 76mln during FY22 (FY21: ~PKR 129mln). Whereas, in 1QFY24 the equity brokerage revenue was reported at ~PKR 22mln, (SPLY: ~PKR18mln). During FY23, the underwriting commission stood at ~PKR 6mln. The Company reported a loss after tax of ~PKR 24mln in FY23 while it earned a profit of ~PKR 9mln during FY22 (FY21: PKR ~42mln). During 1QFY24, earned a net profit of ~PKR 4mln (SPLY: ~PKR 0.9mln)

**Strategy** The Company is planning to increase their geographical presence further, as evidenced by them opening new branches in Faisalabad and Sargodha. Furthermore, the plan is to increase their revenue diversification further by boosting their underwriting income.

## Financial Sustainability

**Credit Risk** Dawood Equities has due diligence procedures in addition to its KYC, for the assessment of its client's creditworthiness. The Board has approved per party and per scrip limits, which are strictly adhered to by the management which minimizes the credit risk.

**Market Risk** Dawood Equities established a formal Investment Policy document (IPS) for its proprietary book approved by the BoD - addressing exposure in different avenues. At end-Sep'23, the proprietary book of the Company stood at ~PKR 44mln, constituting ~17% of equity.

**Liquidity Risk** At end-Sep'23 the current assets of the Company stood at ~PKR 309mln against the current liabilities of ~PKR 106mln. The Company has an adequate liquidity profile.

**Capitalization** The Company has a low-leveraged capital structure, with short-term borrowing standing at ~PKR 54mln at end-Sep'23. The equity of the Company stood at ~PKR 254mln at end-Sep'23.

PKR mln

Dawood Equities Limited	Sep-23	Jun-23	Jun-22	Jun-21
	3M	12M	12M	12M

#### A BALANCE SHEET

1 Finances	6	10	7	3
2 Investments	49	60	90	93
3 Other Earning Assets	2	39	22	44
4 Non-Earning Assets	305	243	254	224
5 Non-Performing Finances-net	-	-	-	-
<b>Total Assets</b>	<b>362</b>	<b>353</b>	<b>373</b>	<b>364</b>
6 Funding	56	65	54	46
7 Other Liabilities (Non-Interest Bearing)	52	38	39	25
<b>Total Liabilities</b>	<b>108</b>	<b>104</b>	<b>93</b>	<b>71</b>
<b>Equity</b>	<b>255</b>	<b>250</b>	<b>280</b>	<b>293</b>

#### B INCOME STATEMENT

1 Fee Based Income	22	62	121	139
2 Operating Expenses	(19)	(77)	(107)	(97)
3 Non Fee Based Income	4	8	9	17
<b>Total Operating Income/(Loss)</b>	<b>6</b>	<b>(7)</b>	<b>24</b>	<b>59</b>
4 Financial Charges	(3)	(8)	(2)	(0)
<b>Pre-Tax Profit</b>	<b>4</b>	<b>(16)</b>	<b>21</b>	<b>59</b>
5 Taxes	(0)	(8)	(6)	(18)
<b>Profit After Tax</b>	<b>4</b>	<b>(24)</b>	<b>15</b>	<b>42</b>

#### C RATIO ANALYSIS

##### 1 Business Sustainability

Pre Tax Margin	16.9%	-25.3%	17.6%	42.6%
EBITDA/ Revenue	32.7%	-7.3%	21.8%	43.7%
Profit / (Loss) Before Interest & Taxes / Total Assets	1.7%	-2.1%	6.4%	16.3%

##### 2 Financial Sustainability

Total Investments / Equity	19.1%	24.0%	32.1%	31.8%
NCB / Equity	9.2%	0.0%	0.0%	0.0%
LCB/ Total Equity	9.2%	10.5%	16.8%	0.0%
( Cash & Cash Equivalents + Government Securities ) / Total Assets	69.3%	63.7%	59.0%	54.3%
Total Debt / Equity	21.8%	26.1%	19.3%	0.0%

### Broker Fiduciary Rating Scale & Definitions

An independent opinion on a broker's quality of management and client services, and sustainability of operations

Scale	Definition
<b>BFR 1</b>	<b>Very Strong.</b> Very Strong quality of management and client services, and very high likelihood of sustaining operations.
<b>BFR 2++</b> <b>BFR 2+</b> <b>BFR 2</b>	<b>Strong.</b> Strong quality of management and client services, and high likelihood of sustaining operations.
<b>BFR 3++</b> <b>BFR 3+</b> <b>BFR 3</b>	<b>Good.</b> Good quality of management and client services, and above average likelihood of sustaining operations.
<b>BFR 4++</b> <b>BFR 4+</b> <b>BFR 4</b>	<b>Adequate.</b> Adequate quality of management and client services, and average likelihood of sustaining operations.
<b>BFR 5</b>	<b>Weak.</b> Weak quality of management and client services, and weak likelihood of sustaining operations.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.</p>	<p><b>Rating Watch</b> Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.</p>	<p><b>Suspension</b> It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.</p>	<p><b>Withdrawn</b> A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the rating remains suspended for six months, or/and d) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p><b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.</p>
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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

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- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
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- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
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- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
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