



The Pakistan Credit Rating Agency Limited

## Rating Report

### 786 Investments Limited (Formerly: Dawood Capital Management Limited)

#### Report Contents

1. Rating Analysis
2. Rating Scale
3. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Dec-2018	AM3	-	Stable	Maintain	-
29-May-2018	AM3	-	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The rating reflects 786 Investment Limited's modest standing in the competitive asset management industry. The rating takes into account reasonably experienced management team and adequate organizational structure. Strong financial strength of the sponsors is considered positive for the rating. The company's AUMs reached ~PKR 765mln at end Oct-18 as compared to ~PKR 657mln in Dec-17, though still remained low when compared to peers. Meanwhile, the company's rising administrative and operating expenses have impacted its profitability. The management is cognizant of this and intends to strengthen its financial performance by increasing its fund management revenue through fresh influx of AUMs as well as starting investment advisory services. The company is in the process of expanding the human resource and strengthening its research and risk management functions. The management is anticipating expansion in the fund slate and is focused to materialize its strategic plans by enhancing its position in the industry coupled with major focus on both retail and institutional clientele.

The rating is dependent on the company's ability to enhance its market position, gain in terms of assets under management, diversification in fund slate and maintaining strong performance of its funds. Meanwhile, upholding high governance standards and strengthening of risk management is crucial for the rating.

#### Disclosure

<b>Name of Rated Entity</b>	786 Investments Limited (Formerly: Dawood Capital Management Limited)
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Asset Manager Rating
<b>Applicable Criteria</b>	Methodology   AMC (Jun-18)
<b>Related Research</b>	Sector Study   Asset Management(Jun-18)
<b>Rating Analysts</b>	Shahzaib Khalid   shahzaib.khalid@pacra.com   +92-42-35869504



## Profile

**Structure** 786 Investments Limited is a public listed asset management company and was founded in 1990.

**Background** The company commenced business operations of venture capital financing in 1993, Asian Development Bank being its co-founding sponsor. In 1999, the company was acquired by the First Dawood Group. Later, in 2002, First Dawood Group in partnership with Asian Development Bank converted the company's business operations to asset management.

**Market Share** The company's market share remained below 1%. As at end Sep-18, the market share stood at ~0.1%.

**Diversification Of Fund Mix** The company's limited fund slate includes three open-end funds, representing income, balanced and shariah compliant asset allocation categories. The management plans to launch new funds in other categories, which would offer exposure to different investment avenues.

**Investor Concentration** The top ten investors concentration is significantly high (above 80%) at end Sep-18. Average related party holdings represents ~71% of total AUMs of the company, which reduces redemption pressure.

## Ownership

**Ownership Structure** The company's major shareholding vests with the Dawood Group through First Dawood Investment Bank (15%), Bank of Khyber (15%), B.R.R. Guardian Modaraba (~13%), Miss Tara Uzra Dawood (~9%) and Mr. Ayaz Dawood (~5%). The remaining shareholding of ~43% is held by other individuals.

**Business Acumen** Dawood Group is an industrial conglomerate and has a long standing history in Pakistan. The group, through its subsidiaries, operates in the textile, financial, chemical, power and other sectors.

**Financial Strength** Building on experience and expertise of decades, Dawood Group enjoys a strong financial foundation emanating from its well diversified profitable businesses.

## Governance

**Board Structure** The seven member board comprises three independent, three non-executive and one executive director. Miss Tara Uzra, executive director is the company's CEO.

**Members' Profile** The board members have strong educational backgrounds and carry extensive diversified experience. The Chairman, Mrs. Shafqat Sultana is the President and CEO of First Women Bank Limited, having 37 years of professional experience in banking industry.

**Board Effectiveness** To ensure its effectiveness, the board has formulated the audit and HR and remuneration committees.

**Financial Transparency** The audit committee ensures accuracy of the company's accounts and effectiveness of internal controls system. The internal audit function is in-house and reports to the audit committee on quarterly basis. The external auditors of the company are Haroon Zakaria and Co. which fall into the 'B' category of SBP audit firm rankings.

## Management

**Organizational Structure** The organizational structure is well-defined and aligns with the operations of the company. The seven departments fall under the purview of the CEO except for the internal audit department which reports to the audit committee.

**Management Team** The senior management team possess extensive experience in their domains. Miss Tara Uzra Dawood is on the Board of Directors of MUFAP and is part of the Faculty at Danube University Krems (Austria).

**Technology Infrastructure** The company has deployed Sidat Hyder Financials as its core software. A dedicated software exists for portfolio management, unit holder accounting and general ledger systems which is provided by Sidat Hyder Morshed Associates (Pvt) Ltd.

**Control Environment** Detailed policies are devised for operations, IT, investment and risk among others. Regular MIS reports are generated for the senior management which relate to investment risk management.

## Investment Risk Management

**Credit Risk** To monitor credit risk, internal assessment modules are in place with a combination of qualitative and quantitative analysis. Excel based credit risk scorecards are being used to provide statistical estimates for counter party credit risk. The fund manager ensures that the credit portfolio of the fund exposed to credit risk is broadly diversified.

**Liquidity Profile** The risk management department vigilantly monitors the liquidity profile to avoid any mismatch between the liquidity of the portfolio as compared to the liquidity provisions offered to investors. Sufficient liquidity is maintained by investing significant portion of funds assets' in liquid investment avenues.

**Market Risk** The company has set appropriate metrics to measure exposure to market risk factors. Excel-based financial models are being used to measure the sensitivity of the portfolio instruments due to movements in interest rates. The exposure limits applicable to interest bearing securities and any breaches of the limits are regularly reviewed and reported to the management.

## Portfolio Management

**IC Composition** The investment committee comprises six individuals, including company's CEO, CFO, CIO, fund manager, head of research and risk analyst.

**Effectiveness** The IC meets formally on weekly basis and on adhoc basis for formulating, selecting and monitoring of strategic investment decisions.

**Investment Research And Analysis** The research function is managed solely by one individual (Head of Research). Investment proposals are generated using both the in-house and third-party research. The company is in the process of building the capacity of its research function to further improve the quality of investment decision making.

## Customer Relationship

**Investor Services** Adequate services are provided to clients. Unit Holder Management Department handles client queries and complaints in a timely manner. The inclusion of information technology in client facilitation systems is in initial stage.

**Investor Reporting** Fund manager reports are published on the company's website on monthly basis. The FMRs cover all the mandatory disclosure requirements. The company is also in-process of improving its FMRs

**Distribution And Sales Network** Currently, the sales department consists of two personnel. The company plans to expand its distribution and sales network to increase its assets under management through third party distribution agreements.

## Performance

**Asset Under Management** The assets under management reached ~PKR 765mln mark at end Oct-18 as compared to ~PKR 657mln at end Dec-17, which depicts an increase of ~16%. The growth in assets is owed to both return on investment and fresh sales of the mutual funds units. Dawood Income fund posted a return of ~12% in FY18 as compared to benchmark return of ~6%. Dawood Islamic fund and First Dawood mutual fund posted negative returns of ~12% and ~-3% respectively in FY18 which was in line with their category returns.

**Asset Manager** Going forward, the company plans to focus on retail and HNWI clients in order to have sustained revenues and for diversifying the revenue stream. The company reported net loss of ~PKR 10mln for 1QFY19 due to high administrative and operating expenses. The equity is ~PKR 232 million at end Sep-18 which complies with the minimum capital requirement of PKR 230mln.

**Financial Summary: 786 Investments Limited**

Sr. no	Fund Name (Category)	Asset Under Management		Return FY18	Top Ten Investor Concentration	Performance Ranking / Stability Rating
		Oct18 (PKR mln)	Dec17 (PKR mln)			
1	Dawood Income Fund (Income)	456	304	12%	80%	AA-(f)
2	Dawood Islamic Fund (Shariah Compliant Asset Allocation)	114	105	(12%)	95%	3
3	First Dawood Mutual Fund (Balanced)	195	248	(3%)	91%	4

## Asset Manager Rating Scale & Definitions

An independent opinion on the quality and expertise deployed by an asset management company

Scale	Definition
AM1	<b>Very high quality.</b> Asset manager meets or exceeds the overall investment management industry best practices and highest benchmarks.
AM2++ AM2+ AM2	<b>High quality.</b> Asset manager meets high investment management industry standards and benchmarks with noted strengths in several of the rating factors.
AM3++ AM3+ AM3	<b>Good quality.</b> Asset manager meets investment management industry standards and benchmarks.
AM4++ AM4+ AM4	<b>Adequate quality.</b> Asset manager demonstrates an adequate organization that meets key investment management industry standards and benchmarks.
AM5	<b>Weak.</b> Asset manager does not meet the minimum investment management industry standards and benchmarks.

**Outlook (Stable, Positive, Negative, Developing)** 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'.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or in anticipation of some material identifiable event. 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.

**Suspension** 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.

**Withdrawn** 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

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** PACRA shall not keep the Asset Manager Rating under constant surveillance. The rating will be reviewed at least once every six months. Any material happening during a period that may warrant a revision of rating will be incorporated in the following review.

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### **Rating Team Statements**

(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)

### **2) Conflict of Interest**

- 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

### **Restrictions**

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

### **Conduct of Business**

- (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.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (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)

### **Independence & Conflict of interest**

- (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)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (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)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

### **Monitoring and review**

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

### **Probability of Default**

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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