



The Pakistan Credit Rating Agency Limited

## Rating Report

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

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#### Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action   | Rating Watch |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 27-Dec-2019        | AM3              | -                 | Stable  | Maintain | -            |
| 28-Jun-2019        | AM3              | -                 | Stable  | Maintain | -            |
| 28-Dec-2018        | AM3              | -                 | Stable  | Maintain | -            |
| 29-May-2018        | AM3              | -                 | Stable  | Initial  | -            |

#### Rating Rationale and Key Rating Drivers

The rating reflects the Company's modest positioning in the competitive asset management industry. The Company has a strong governance framework in place. The management is working on further improving the profitability through consolidation of fund slate and growth in niche Islamic Market. In this regard, the Company has merged First Dawood Mutual Fund and 786 Rising Star Fund with and into 786 Smart Fund, which falls under Shariah compliant Income category. The effective date of merger is December 20, 2019. The fund performance remained strong with 786 Smart Fund outperforming the peers in the category. The Company has limited fund size. Losses in previous periods eroded its equity, although it meets the minimum regulatory requirement. Equity is expected to build up through internal generation. Strong sponsor commitment is considered positive for the rating. The Company has an experienced management team and adequate organizational structure.

The rating is dependent on materialization of strategy to enhance AUM's and market position of the Company. Meanwhile, maintaining strong fund performance and diversifying fund slate is important. 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-19)  |
| <b>Related Research</b>      | Sector Study   Asset Manager(Jun-19)                                  |
| <b>Rating Analysts</b>       | Madiha Sohail   madiha.sohail@pacra.com   +92-42-35869504             |

## Profile

**Structure** 786 Investments Limited ("786 Investments" or "The Company") is a public listed company.

**Background** The Company was founded in 1990 and commenced business operations of Venture Capital Financing in 1993. Asian Development Bank (ADB) was 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. Then, in January 2017, the Company's name changed from Dawood Capital Management Limited to 786 Investments Limited to better reflect its focus on Islamic asset management.

**Market Share** 786 Investments is a small Asset Management Company. As at end Sep-19, the market share of the Company stood at only 0.1% (SPLY: 0.1%)

**Diversification Of Fund Mix** The Company has merged its existing funds, First Dawood Mutual Fund and 786 Rising Star Fund, with and into 786 Smart Fund, which falls under Shariah compliant Income category. The effective date of merger is December 20, 2019. The Company is in the process of renewing its Investment Advisory License.

**Investor Concentration** The average percentage share of top 10 investors remains at ~91% at end Sep-19. Average related party holdings represents ~74% of the total AUM, which reduces redemption pressure.

## Ownership

**Ownership Structure** The Company's major shareholding vests with the First Dawood Group through First Dawood Investment Bank Limited (15%), Bank of Khyber (15%), B.R.R. Guardian Modaraba (~13%) and Miss Tara Uzra Dawood (~12%). The remaining shareholding of ~45% is held by other individuals and corporate entities.

**Business Acumen** First Dawood Group is a conglomerate and has a long standing history in Pakistan. The group, through its subsidiaries, has diversified interests.

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

## Governance

**Board Structure** The Company's Board of Directors currently comprises seven board members out of which, four are independent and two are non-executive. Miss Tara Uzra Dawood, is the CEO of the Company. Strong governance framework bodes well for oversight and control.

**Members' Profile** The board members have strong educational backgrounds and carry extensive experience. The Chairperson, Ms. Shafqat Sultana, was the President and CEO of First Women Bank Limited, possessing more than 37 years of professional experience in banking industry.

**Board Effectiveness** The board ensures effective governance structure through its committees, namely, (i) Audit and (ii) HR and Remuneration.

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

## Management

**Organizational Structure** The organizational structure is lean and aligns with the operations of the company. The Company operates through various departments. All departments report to the CEO except for the internal audit department, that reports to the audit committee.

**Management Team** The management team comprises experienced professionals carrying requisite experience and skill set. Mr. Noman Shakir has been appointed as the Chief Financial Officer and Company Secretary of the Company in Nov-19. He has almost 10 years experience in financial and accounting services.

**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.

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

## Investment Risk Management

**Credit Risk** The Company has internal assessment modules 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 monitors the liquidity profile to avoid any mismatch. Sufficient liquidity is maintained by investing significant portion of funds assets' in liquid investment avenues. Short-term Investments and Cash Balances were increased significantly by the Company.

**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. Currently, the Company does not have an equity fund.

## Portfolio Management

**IC Composition** The Investment Committee comprises 4 individuals, the CEO, CFO, AVP Finance and the Fund Manager.

**Effectiveness** The IC meets formally on a weekly basis and on ad hoc basis for formulating and monitoring of strategical 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 inhouse 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 in the process of improving the presentation of its FMR.

**Distribution And Sales Network** Currently, the sales department does not have any personnel. The Company plans to expand its distribution and sales network to increase its assets under management through digital footprint and focusing on Islamic wallet services.

## Performance

**Asset Under Management** The assets under management declined by ~10% , to PKR ~597mln at end Sep-19 (Dec 18: PKR ~655mln). 786 Smart Fund posted above average return of ~14% in FYTD-20 as compared to benchmark return of ~5.9%.

**Asset Manager** Going forward, the Company plans to focus on HNWI and institutional clients in the Shariah compliant Income niche to improve the AUM's. The Company improved its performance and reported a small loss of ~PKR 0.64mln in 1QFY20. The equity was ~PKR 200mln at end Sep-19, meeting the minimum regulatory requirement.

**Financial Summary: 786 Investments Limited**

| Sr. No | Fund Name  | Category                           | Assets under Management |                  |                  | Return Sep-19 (%) | Top Ten Investor Concentration (%) | Performance Ranking / Stability Rating |
|--------|--|------------------------------------|-------------------------|------------------|------------------|-------------------|------------------------------------|--|
|        |  |                                    | Sep'19 (PKR mln)        | Jun'19 (PKR mln) | Sep'18 (PKR mln) |                   |                                    |  |
| 1      | 786 Smart Fund (Formerly: Dawood Income Fund)        | Shariah compliant Income           | 387.87                  | 445.69           | 376.87           | 11.94%            | 91.97%                             | AA-(f)                                 |
| 2      | 786 Rising Star Fund (Formerly: Dawood Islamic Fund) | Shariah Compliant Asset Allocation | 103.22                  | 101.92           | 112.04           | -7.52%            | 95.26%                             | 2-Star                                 |
| 3      | First Dawood Mutual Fund                             | Balanced                           | 105.54                  | 107.14           | 206.93           | -21.26%           | 88.28%                             | 1-Star                                 |
|        | <b>Total</b>   |                                    | <b>596.63</b>           | <b>654.75</b>    | <b>695.84</b>    |                   |                                    |  |

## 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++<br>AM2+<br>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++<br>AM3+<br>AM3 | <b>Good quality.</b> Asset manager meets investment management industry standards and benchmarks.  |
| AM4++<br>AM4+<br>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.

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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

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- (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)

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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)
- (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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