



The Pakistan Credit Rating Agency Limited

Rating Report

Dawood Equities Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Sep-2021	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings assigned to Dawood Equities Limited ("DEL" or "the Company") draw comfort from improved financial performance, revamped business strategy, improved cost control measures and enhanced customer base. The assigned rating also incorporates the Company's high exposure to market risk due to the proprietary book, augmented by well-established policies to mitigate conflict of interest. Revenue base of the Company largely comprises earnings from equity brokerage through mix of investors along with support from capital gains on investments. Over the past few years, the Company has posted a steady growth in revenue leading to reduction in accumulated losses however, given the lack of diversity in operations profitability is likely to remain volatile. Going forward, the Company is planning to diversify its revenue stream through underwriting and advisory services. Zero leveraged capital structure and strong liquidity buffers continue to provide support to overall financial risk profile. During 9MFY21, the brokerage commission witnessed an increase of ~2.4x resulting in profit after tax of ~PKR 42mln (9MFY20: ~PKR 9.2mln). While the equity of the Company stood at PKR 276mln at end Mar'21. This is supplemented by pledge of sponsor's shares, with latest market value of above PKR 150mln, in favor of DEL. Based on these securities, in addition to the securities available on balance sheet, a credit line of PKR 150mln is exclusively available to the Company. The assigned rating is also supported by experienced management team. The Company has a lean organization structure with most of the heads reporting to CEO. Sound risk assessment and dedicated personnel for compliance function provides further support to the ratings. The internal audit function of the Company is in house and reports independently to the audit committee. The Company has accustomed IT infrastructure in place.

The ratings would remain dependent on the Company's ability to sustain stable equity, improved profitability and stable market share. Furthermore retention of key personnel, strong Board framework, insightful monitoring of market risk, liquidity management, upholding strong internal controls would remain imperative.

Disclosure

Name of Rated Entity	Dawood Equities Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Broker Entity Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Brokerage & Securities(Jan-21)
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PROFILE

Legal Structure Dawood Equities Limited (“Dawood Equities” or “The Company”) is listed on Pakistan Stock Exchange (PSX) as a public limited company.
Background The Company was incorporated in May 2006, as a public unquoted company, later on converted into public listed company in 2008.
Operations With its head office in Karachi, Dawood Equities operates through two branches located in Karachi and Hyderabad. The Company’s service offering includes Economic and Investment Research, Equity Brokerage, and Corporate Finance & Custodial services. The revenue stream is going to be further strengthened through addition of underwriting.

OWNERSHIP

Ownership Structure Mr. Ayaz Dawood owns 19% stakes in the Company followed by Bank of Khyber (15%) and Mr. Asim Abdul Ghani (10%). While 55% pertains to free float shares.
Business Acumen Mr. Ayaz Dawood is an entrepreneur and businessperson. He is the CEO of BRR Guardian Modaraba and Chairman of Dawood Family Takaful Limited.
Financial Strength Dawood Group has sizeable shareholding in many 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 seven members, which include one independent director, five non-executive directors and one executive director. The Board structure is in compliance with CCG regulations.
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. TOR’s for both committees are well defined. Audit committee meets on quarterly basis to review the financial statements and internal audit findings. Both the committees are chaired by an independent director.
Financial Transparency Reanda Haroon Zakaria & Company Chartered Accountants are the external auditors of the Company. The auditors have expressed an unqualified opinion on the financial statements for FY20. The firm is QCR rated by ICAP and is in the B Category of SBP’s panel of auditors.

MANAGEMENT

Organizational Structure The Company has well developed organizational structure. Finance and Accounts functions report to the Company’s CFO. However, the branch managers, Settlement Department, Research and Customer Support reports to the Company’s Chief Operating Officer (COO). COO, reports to the CEO of the Company. CEO and CFO are accountable to the Board. The Head of Internal Audit reports to the Board Audit Committee which enhances the internal controls.
Management Team Mr. Aziz Habib, CEO of the Company, holds M.A. degree in Economics. He is seasoned professional and have more than a decade experience of brokerage business. Mr. Salman Yaqoob is CFO and Company Secretary of the Company. He is an Associate member of Institute of Certified Chartered Accountants & Institute of Corporate Secretaries of Pakistan. Ha has more than 12 years financial and corporate experience especially in NBFC’s, Modaraba, Insurance and Brokerage business.
Effectiveness The Company has an integrated front and back office system which provides the Company with System generated – real-time based – MIS reports, adding more efficiency in decision making.
Control Environment 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.

BUSINESS RISK

Industry Dynamics FY21 started with marginal gains, boosted Investors’ confidence and improved external front on the back of well-managed fiscal and monetary actions by regulatory authorities including ease of doing business and relief policies. The benchmark, KSE-100 index witnessed an upwards trajectory. The index touched the highest point of 46,934 on Feb 3rd, 2021 and currently stands at 46,636 points. The traded volumes during FY21 remained elevated over the period at an average of ~595mln shares (SPLY: ~197mln. Shares), depicting increased participation in the equity market led by country’s economic rebound and the global COVID-19 vaccine rollout. Foreigners continued to be net sellers and offloaded ~USD 269mln worth of stocks during FY21 period. Looking ahead, the market is favorably placed to deliver robust return and underpinned by attractive market fundamentals.
Relative Position The Company has an average market share of ~1% during 9MFY21 on traded volume basis. The market share may improve going forward based on historically high shares turnover during FY21.
Revenue The Company's brokerage income is the primary source of topline. The brokerage income surged by ~2.4x in 9MFY21 to clock in at ~PKR 101mln (FY20: ~PKR 30mln).
Profitability The Company earned a profit after tax of ~PKR 42mln in 9MFY21 reflecting a surge of ~3.6x (SPLY: PKR ~9.2mln). The substantial increase in profit is mainly attributable to significant inflow from brokerage commission.
Sustainability The brokerage income is expected to improve with recent upward tick and better performance of stock market. The management's ability to strengthen its supplementary income and maintain its niche will be important.

FINANCIAL RISK

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 BoD - addressing exposure in different avenues and authorizes signatories. At end-Mar’21, the short-term investments stood at ~26% of equity to stand at ~PKR 71mln.
Liquidity Risk At end-Mar’21 the current assets of the Company stood at ~PKR 288mln against the current liabilities of ~PKR 73mln. The Company has an adequate liquidity profile.
Coverages The Company has leverage free capital structure.
Capitalization At end-Mar’21, the equity of the Company stood at ~PKR 276mln and the Company may have Assets Under Custody of up to 25x of equity.



Dawood Equities Limited
Listed Public Limited

PKR mln

Mar-21	Jun-20	Jun-19	Jun-18
9M	12M	12M	12M

A BALANCE SHEET

1 Finances	-	1	2	4
2 Investments	77	65	60	119
3 Other Earning Assets	18	2	1	13
4 Non-Earning Assets	255	178	164	183
5 Non-Performing Finances-net	-	-	11	(15)
Total Assets	349	246	237	304
6 Funding	73	11	9	27
7 Other Liabilities (Non-Interest Bearing)	0	7	4	23
Total Liabilities	73	18	13	50
Equity	276	228	224	254

B INCOME STATEMENT

1 Fee Based Income	65	29	16	32
2 Operating Expenses	(27)	(23)	(20)	(20)
3 Non Fee Based Income	9	8	9	6
Total Operating Income/(Loss)	47	15	6	18
4 Financial Charges	(0)	(0)	(0)	(1)
Pre-Tax Profit	47	15	6	17
5 Taxes	(5)	(7)	(5)	(9)
Profit After Tax	42	8	0	8

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)
Return on Equity (ROE)

0.1%	0.5%	2.0%	4.4%
27.1%	4.6%	0.3%	3.9%

2 Capital Adequacy

Equity / Total Assets (D+E+F)
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)

79.1%	92.7%	94.5%	83.5%
97545.8%	11775.6%	-2849.3%	1496.5%

3 Liquidity

Liquid Assets / Total Assets (D+E+F)
Liquid Assets / Trade Related Liabilities

57.7%	57.4%	51.6%	64.2%
276.7%	1253.4%	1287.7%	726.1%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers
Equity Instruments / Investments

165.7%	714.8%	703.0%	261.7%
92.7%	91.0%	89.6%	100.0%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 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.

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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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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)

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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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.
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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)
- (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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