



The Pakistan Credit Rating Agency Limited

Rating Report

Dawood Equities Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Sep-2022	A-	A2	Stable	Maintain	-
24-Sep-2021	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Dawood Equities Limited ('DEL' or 'the Company') mainly provides the services of equity brokerage while the Company has diversified its revenue base with the addition of underwriting income. DEL has a sustained position in the market and the brokerage revenue mainly stems from Retail and HNWI clients, while corporate clientele is also present. Parallel to the declining market volumes, the brokerage revenue has decreased by ~42% to ~PKR 76mln in FY22 when compared with FY21; however, the topline has been augmented by ~PKR 34mln of underwriting income. The Company earned a profit after tax of ~PKR 13mln during FY22 (FY21: ~PKR 42mln), where the decrease is mainly due to unrealized losses on prop-book and lower brokerage revenue as a result of low market volumes. The equity of DEL is adequate and stood at ~PKR 283mln at end-Jun'22; however, credit lines are available to augment the equity base. The ratings take comfort from a low-leveraged capital structure. The Company manages its own proprietary book which exposes it to market risk to some extent; however, the Investment Committee (IC) keeps a close eye on market conditions to effectively manage its proprietary investments. The Company has a strong governance structure supported by the presence of independent directors and requisite board-level committees. The ratings take comfort from an experienced and qualified management team. The client services are adequate, supported by the presence of a research analyst while the strength of the research department may be enhanced. The Company has an in-house internal audit function while the appointment of a category 'A' auditor is well noted. However, the separation of the Risk Management and Compliance functions would improve the control framework further moving forward. The Company plans to improve its product and geographical diversification in the near future to improve client outreach. The management also intends to enhance their corporate finance function to add to their topline.

The ratings would remain dependent on the Company's ability to enhance and sustain the equity base, improvement in profitability and stability of market share are important. Furthermore, retention of key personnel, strong governance framework, diligent monitoring of market risk, liquidity management, and 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 Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22),Methodology Broker Entity Rating(Jun-22)
Related Research	Sector Study Brokerage & Securities(Jan-22)
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Profile

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 branches located in Karachi, Hyderabad. Following its expansion strategy, the Company has expanded its branch network by opening new branches in Multan and Sargodha. The Company primarily offers the services of equity brokerage, and has recently added underwriting services as well, while the services of research analyst is also present.

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 Mr. Junaid Dada (~7%). 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.

Transparency Reanda Haroon Zakaria & Company Chartered Accountants were the external auditors of the Company. The auditors have expressed an unqualified opinion on the financial statements for FY21. The firm is QCR rated by ICAP and is in the B Category of SBP's panel of auditors. For FY22, the Company has appointed M Yousuf Adil & Company Chartered Accountants as their auditors, who are in the A category of SBP's panel of auditors.

Management

Organizational Structure The organizational structure commiserates with the business operations, and all the departments are present. 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. 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.

Management 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, while the separation of the risk management and compliance function would have improved the control framework further.

Business Risk

Industry Dynamics Pakistan's economy has been volatile so far during FY23, with the sustained high inflation and political instability getting further compounded by the devastating floods that have ravaged both the North and South of the country. The revival of the IMF program and receiving the tranche of \$1.16bln is a positive indication; however, the pressure on the domestic economy remains high due to implementation of further taxes and levies to continue to adhere to the IMF conditions. Going forward, the market may adopt a 'wait and see' approach for some time before volumes surge again as activity rebounds once the post-flood rebuilding starts.

Relative Position The Company primarily caters to HNWI's and Retail clientele, while corporate clientele are also present. DEL has an average market share of ~1.1% during FY22 on traded volume basis.

Revenues The Company's brokerage income is the primary source of topline. The brokerage income stood at ~PKR 76mln during FY22 while it was ~PKR 129mln during FY21 (FY20: ~PKR 27mln). During FY22, the Company bolstered their top-line with ~PKR 34mln of underwriting revenue.

Cost Structure DEL's administrative expenses increased from ~PKR 37mln in FY21, to ~PKR 54mln in FY22, where the main increase is due to an increase in salaries and brokerage related expenses. The Company earned a profit after tax of ~PKR 13mln in FY22 while it stood at ~PKR 42mln during FY21 (FY20: PKR ~8mln).

Sustainability The brokerage income is expected to remain steady with the market volumes estimated to remain low during 1HFY23. 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 the BoD - addressing exposure in different avenues. At end-Jun'22, the proprietary book of the Company stood at ~PKR 85mln, constituting ~30% of equity.

Liquidity Risk At end-Jun'22 the current assets of the Company stood at ~PKR 321mln against the current liabilities of ~PKR 96mln. The Company has an adequate liquidity profile.

Capital Structure The Company has a low-leveraged capital structure, with short-term borrowing standing at ~PKR 52mln at end-Jun'22. The equity of the Company stood at ~PKR 283mln at end-Jun'22, while the equity is supported by credit lines of PKR 150mln.



Dawood Equities Limited
Listed Public Limited

PKR mln

Jun-22	Jun-21	Jun-20	Jun-19
12M	12M	12M	12M

A BALANCE SHEET

1 Finances	7	3	1	2
2 Investments	90	93	65	60
3 Other Earning Assets	5	5	2	1
4 Non-Earning Assets	280	263	178	164
5 Non-Performing Finances-net	-	-	-	11
Total Assets	381	364	246	237
6 Funding	82	46	11	9
7 Other Liabilities (Non-Interest Bearing)	16	25	7	4
Total Liabilities	98	71	18	13
Equity	283	293	228	224

B INCOME STATEMENT

1 Fee Based Income	116	139	29	16
2 Operating Expenses	(104)	(97)	(23)	(20)
3 Non Fee Based Income	9	17	8	9
Total Operating Income/(Loss)	21	59	15	6
4 Financial Charges	(2)	(0)	(0)	(0)
Pre-Tax Profit	18	59	15	6
5 Taxes	(5)	(18)	(7)	(5)
Profit After Tax	13	42	8	0

C RATIO ANALYSIS

1 Cost Structure

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

11.9%	0.1%	0.5%	2.0%
5.1%	19.0%	4.6%	0.3%

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)

74.3%	80.5%	92.7%	94.5%
512.8%	42135.9%	11775.6%	-2849.3%

3 Liquidity

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

69.3%	64.0%	57.4%	51.6%
953.5%	510.8%	1253.4%	1287.7%

4 Credit & Market Risk

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

222.2%	299.3%	714.8%	703.0%
94.3%	94.1%	91.0%	89.6%

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	
CC	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.
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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- (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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- (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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