



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
19-Sep-2023	A-	A2	Stable	Maintain	-
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”) focuses primarily on delivering equity brokerage services as its core product portfolio. Concurrently, the company exhibits diversification by engaging in underwriting. DEL enjoys an adequate market share whereas the clientele is diversified between corporate/Institutional and Retail/HNWIs. Challenging economic conditions in Pakistan have had a notable impact on investor sentiment within the market, particularly in FY23, leading to a decrease in market activity levels and profitability. During FY23 DEL’s revenue declined by 62% to ~ PKR 44mln (SPLY: ~PKR 116mln) on account of low market volumes due to low investor interest. The Company reported a net loss of ~ PKR 14mln (SPLY profit of ~PKR 16mln) where the decrease is mainly due to a decrease in underwriting commission and lower brokerage revenue. The Company has an adequate equity base of ~PKR 254mln at end-Jun’23 (SPLY: ~PKR 283mln). The Company’s limited investment in equity securities amounted to ~PKR 52mln which exposes it to limited market risk. DEL has a well-developed organizational structure, with most department heads reporting directly to the CEO. The Company has a strong governance structure supported by the presence of independent directors and board-level committees. The ratings take comfort from an experienced and qualified management team. The client services are adequate, supported by a research analyst while the strength of the research department may be enhanced. The control framework is deemed satisfactory, primarily attributed to the presence of a dedicated risk management department within the Company. Moreover, DEL has outsourced its internal audit department to Reanda Haroon Zakaria & Company which strengthens the Company’s control framework. As a part of long-term strategic plans, DEL is considering diversifying its presence in areas where a higher influx of potential clients is anticipated. Furthermore, DEL’s approach to branch expansion is based on a franchise model. The inherent structure of this model is expected to result in limited expenses, which will aid the Company’s bottom line going forward. The improvement of the technological platform is also under consideration.

Going forward, the company will focus on revenue diversification and geographical expansion, ensuring the sustainability and enhancement of market share, and improvement in profitability, thereby bolstering its competitive stance in the brokerage industry. Simultaneously, it is imperative to uphold robust internal controls, retention of key management personnel, and diligently monitor risks.

Disclosure

Name of Rated Entity	Dawood Equities Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Broker Entity Rating(Aug-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	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 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 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

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. 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 The brokerage industry faced significant challenges during FY23 due to elevated political uncertainty and soaring inflation, which adversely impacted the country's economic landscape. As a result, market activities were subdued, with investors favoring the security of fixed returns from the higher interest rates prevalent in the economy. However, as FY24 commenced, there emerged a recovery in investor confidence. This can be attributed to the resumption of the IMF program and recent government initiatives aimed at tackling persistent economic issues, including addressing circular debt. Despite these positive trends, the political situation in the country remains unstable, leading many investors to adopt a cautious stance until the conclusion of the elections.

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 FY23 on traded volume basis.

Revenues 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). During FY23, the underwriting commission stood at ~PKR 6mln.

Cost Structure DEL's administrative expenses decreased from ~PKR 53mln in FY22, to ~PKR 43mln in FY23, where the main decrease is due to a decline in salaries. The Company reported a net loss after tax of ~PKR 20mln in FY23 while it earned a profit after tax of ~PKR 10mln during FY22 (FY21: PKR ~42mln).

Sustainability The brokerage income is expected to remain steady with the market volumes estimated to remain low during FY23. 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'23, the proprietary book of the Company stood at ~PKR 52mln, constituting ~19% of equity.

Liquidity Risk At end-Jun'23 the current assets of the Company stood at ~PKR 305mln against the current liabilities of ~PKR 102mln. The Company has an adequate liquidity profile.

Capital Structure The Company has a low-leveraged capital structure, with short-term borrowing standing at ~PKR 64mln at end-Jun'23. The equity of the Company stood at ~PKR 254mln at end-Jun'23.



PKR mln

Dawood Equities Limited
Listed Public Limited

Jun-23	Jun-22	Jun-21	Jun-20
12M	12M	12M	12M

A BALANCE SHEET

1 Finances	12	7	3	1
2 Investments	57	90	93	65
3 Other Earning Assets	8	39	49	24
4 Non-Earning Assets	281	238	219	156
5 Non-Performing Finances-net	-	-	-	-
Total Assets	358	373	364	246
6 Funding	65	54	-	-
7 Other Liabilities (Non-Interest Bearing)	39	39	71	18
Total Liabilities	104	93	71	18
Equity	254	280	293	228

B INCOME STATEMENT

1 Fee Based Income	44	116	139	29
2 Operating Expenses	(51)	(107)	(97)	(23)
3 Non Fee Based Income	1	9	17	8
Total Operating Income/(Loss)	(6)	18	59	15
4 Financial Charges	(8)	(2)	(0)	(0)
Pre-Tax Profit	(14)	16	59	15
5 Taxes	(6)	(6)	(18)	(7)
Profit After Tax	(20)	10	42	8

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)	-125.7%	13.6%	0.1%	0.5%
Return on Equity (ROE)	-7.7%	3.8%	19.0%	4.6%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	70.9%	75.1%	80.5%	92.7%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long	-179.6%	-364.2%	42135.9%	11775.6%

3 Liquidity

Liquid Assets / Total Assets (D+E+F)	60.4%	62.4%	64.0%	57.4%
Liquid Assets / Trade Related Liabilities	807.7%	839.1%	510.8%	1253.4%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to	197.6%	218.8%	299.3%	714.8%
Equity Instruments / Investments	91.6%	94.3%	94.1%	91.0%

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+	
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-	
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):
 a) Broker Entity Rating
 b) Corporate Rating
 c) Debt Instrument Rating
 d) Financial Institution Rating
 e) Holding Company Rating
 f) Independent Power Producer Rating
 g) Microfinance Institution Rating
 h) Non-Banking Finance Companies Rating

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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 | Clause 11-(A)(p).

(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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