



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
19-Sep-2024	A-	A2	Stable	Maintain	-
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) has steadily improved its market presence over the past year. DEL focuses primarily on equity brokerage services while underwriting and consultancy services are also provided. The clientele is concentrated to Retail and HNWI's, while the Company is aiming to enhance its footprint in Institutions/Corporates segment. FY24 was a favorable period for the brokerage industry, with the KSE-100 Index reaching historic highs and surpassing the 81k mark for the first time in June 2024. This milestone attracted significant interest from both local and foreign investors. Additionally, the continuous reduction in the headline inflation, and decrease in policy rate, is likely to drive fresh investments as investors shift their focus from fixed-income securities to equities. While FY24 results were promising for the brokerage sector, maintaining political and economic stability will be crucial to sustaining investor confidence in FY25. DEL's performance was in line with the market's upward trend. The Company earned a revenue of ~PKR 132mln during FY24 (SPLY: ~PKR 62mln). During FY24, the Company reported a net profit of ~PKR 33mln as compared to a net loss of ~PKR 24mln in FY23. This surge in profitability was primarily driven by higher brokerage income and underwriting commissions. DEL has an adequate equity base of ~PKR 294mln at end-Jun'24. The market risk is negligible as the Company has a low proprietary trading book which is effectively managed by a dedicated team. Ownership structure is considered stable, with the business acumen of the primary sponsor well noted. 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 risk management department. Moreover, DEL is expanding its branch network through franchising model.

Moving forward, income diversification, enhancement or sustainability in market share, and sustainability in revenue and profitability remains vital. Meanwhile, 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 Rating Modifiers(Apr-24),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-24),Methodology Broker Entity Rating(Aug-24)
Related Research	Sector Study Brokerage & Securities(Jan-24)
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Profile

Background Dawood Equities Limited ('DEL' or 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, and Research.

Ownership

Ownership Structure The Company's ownership stakes are divested between different entities and individuals, out of which Equity International (Pvt.) Limited, the primary sponsor, owns ~21% stakes in the Company, followed by Mr. Ayaz Dawood (~19%) and BRRI (~10%). Whereas 50% pertains to free float shares.

Stability Ownership stability is ensured through control vesting with Dawood Family Group, which 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. Mr. Ayaz has decades of experience managing financial institutes.

Financial Strength The primary sponsor has sizeable financial strength due to his linkage with the Dawood Group, which has sizeable shareholding in 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. Mr. Syed Muhammad Abbas, an independent director, has a masters in marketing and has over a decade of experience of working with various financial institutions.

Board Effectiveness Dawood Equities has two board committees, namely i) Audit Committee and ii) HR and remuneration committee. Audit committee meets on a quarterly basis to review the financial statements and internal audit findings. Both committees are chaired by an independent director (Mr. Abbas) enhancing the oversight framework.

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. The auditors expressed an unqualified opinion on the financial statements for FY23.

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. The CEO, CFO, and COO are members of the Investment Committee, which has a daily meeting to take quick decisions on proprietary investments.

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 improve the control framework further.

Business Risk

Industry Dynamics The Brokerage industry faced extremely low years during FY22 and FY23, due to limited investor interest. High interest rates and crippling inflation resulted in investors opting for safer fixed income returns instead of the riskier equities market. The trend continued during 1QFY24; however, 2QFY24 experienced a surge in investor interest, pushing the KSE-100 index to historic highs. 2HFY24 showed great performance in terms of market volumes and the index trading between the 70K to 80K point range. During FY25, the KSE-100 Index is expected to grow further as policy rates are expected to be reduced. On the other hand, political sentiments play a key role whereas economic stability remains important.

Relative Position The Company primarily caters to HNWIs and Retail clientele, while corporate clientele are also present. DEL had an average market share of ~1.1% during FY24 on traded volume basis.

Revenues The Company's brokerage income is the primary source of topline. The brokerage income stood at ~PKR 132mln during FY24 while it was ~PKR 62mln during FY23. The surge in revenue is primarily attributed to renewed investor interest leading to a rise in market volumes during FY24.

Cost Structure DEL's administrative expenses has increased to ~PKR 56mln in FY24, from ~PKR 43mln in FY23, where the main increase is due to a rise in salaries. The Company reported a net profit after tax of ~PKR 34mln in FY24 while it earned a net loss after tax of ~PKR 24mln during FY23.

Sustainability The brokerage income is expected to remain steady with the market volumes estimated to remain high during FY25. 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.

Liquidity Risk At end-Jun'24 the current assets of the Company stood at ~PKR 422mln against the current liabilities of ~PKR 178mln. The Company has an adequate liquidity profile.

Capital Structure The Company has a low-leveraged capital structure, with short-term borrowing standing at ~PKR 44mln at end-Jun'24. The equity of the Company stood at ~PKR 294mln at end-Jun'24.



PKR mln

Dawood Equities Limited
Listed Public Limited

Jun-24	Jun-23	Jun-22	Jun-21
12M	12M	12M	12M

A BALANCE SHEET

1 Finances	12	12	7	3
2 Investments	80	57	90	93
3 Other Earning Assets	2	8	39	49
4 Non-Earning Assets	379	281	238	219
5 Non-Performing Finances-net	-	-	-	-
Total Assets	474	358	373	364
6 Funding	46	65	54	-
7 Other Liabilities (Non-Interest Bearing)	134	39	39	71
Total Liabilities	180	104	93	71
Equity	294	254	280	293

B INCOME STATEMENT

1 Fee Based Income	133	44	116	139
2 Operating Expenses	(105)	(51)	(107)	(97)
3 Non Fee Based Income	31	1	9	17
Total Operating Income/(Loss)	58	(6)	18	59
4 Financial Charges	(12)	(8)	(2)	(0)
Pre-Tax Profit	46	(14)	16	59
5 Taxes	(12)	(6)	(6)	(18)
Profit After Tax	34	(20)	10	42

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)	21.3%	-124.2%	13.6%	0.1%
Return on Equity (ROE)	16.0%	-7.7%	3.8%	19.0%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	62.1%	70.9%	75.1%	80.5%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long	81.3%	-33.8%	-364.2%	42135.9%

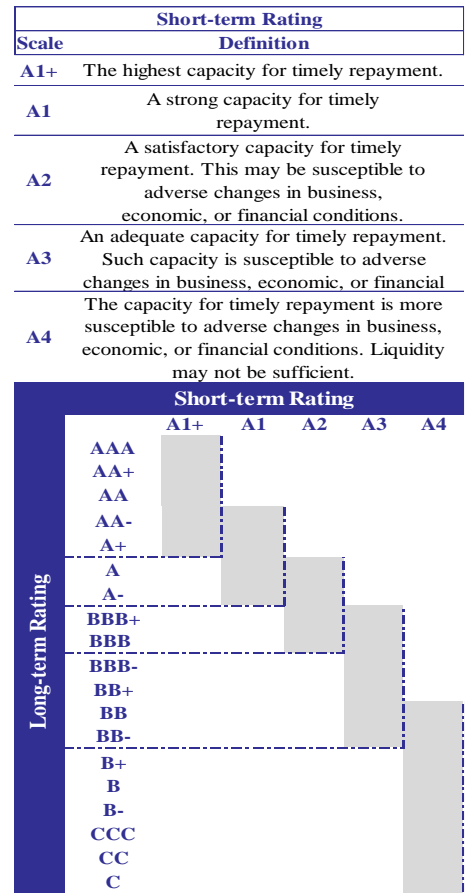
3 Liquidity

Liquid Assets / Total Assets (D+E+F)	55.7%	60.4%	62.4%	64.0%
Liquid Assets / Trade Related Liabilities	197.8%	807.9%	839.1%	510.8%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to C	115.0%	197.6%	218.8%	299.3%
Equity Instruments / Investments	94.5%	91.6%	94.3%	94.1%

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	Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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	
AA-	
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	
A-	
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	
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+	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	
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.



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

<p>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'.</p>	<p>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.</p>	<p>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.</p>	<p>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 surveill the opinion due to lack of requisite information.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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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	e) Holding Company Rating
b) Corporate Rating	f) Independent Power Producer Rating
c) Debt Instrument Rating	g) Microfinance Institution Rating
d) Financial Institution Rating	h) Non-Banking Finance Companies Rating

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2) Conflict of Interest

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- 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

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- (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)
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- (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)

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- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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