# RATING REPORT

# Dawood Equities Limited

**REPORT DATE:**
December 15, 2015

**RATING ANALYSTS:**
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## RATING DETAILS

| | Initial Rating | |
|---|---|---|
| **Rating Category** | **Long-term** | **Short-term** |
| **Entity** | BB+ | A-3 |
| **Rating Outlook** | Stable | |
| ***Rating Date*** | December 15, 2015 | |

## COMPANY INFORMATION

| | |
|---|---|
| **Incorporated in 2006** | **External auditors:** M/s Haroon Zakaria & Co. – Chartered Accountants |
| **Public Limited Company** | **Chairman of the Board:** Mr. Junaid Zakaria Dada |
| **Key Shareholders (with stake 5% or more):** | **Chief Executive Officer:** Mr. Abdul Aziz Habib |
| Bank of Khyber – 15.0% | |
| Mr. Ayaz Dawood – 14.6% | |
| B.R.R. Guardian Modaraba – 10.0% | |
| Mr. Muhammad Ayub – 9.9% | |

## APPLICABLE METHODOLOGY(IES)

**JCR-VIS Entity Rating Criteria Methodology – Securities Firms Rating (May 2015)**
***http://www.jcrvis.com.pk/Images/Securities%20methodology%201%20-2015.pdf***

## Dawood Equities Limited

### OVERVIEW OF THE INSTITUTION

*Dawood Equities Limited (DEL) is a listed public limited company. It is principally engaged in provision of equity brokerage services to domestic clients. The company commenced operations in 2006.*

### RATING RATIONALE

Dawood Equities Limited (DEL) is a brokerage firm engaged in the provision of equity trading services to domestic retail and institutional investors. Majority stake is held by First Dawood Group (FDG), a conglomerate having presence in the financial sector. FDG holds 25% stake in the company while remaining shareholding is represented by Bank of Khyber, various financial institutions and general public. The company operates through its head office and two branches in Karachi and Hyderabad, Sindh. Senior management comprises individuals having experience in the financial services industry.

The ratings also reflect limited underwriting capacity, low revenue stream and small equity base in relation to other industry players. DEL's revenue base largely comprises earnings from equity brokerage followed by capital gains on investments. Over the past half-decade, the company's top line more than doubled on the back of increase in brokerage commission; the same represented 76% of the earning base in FY15. Share of brokerage revenue largely emanated from retail clients with commission income from institutions remaining relatively low. Going forward, management seeks to grow market share through greater focus on High Net Worth (HNW) individuals.

The company has posted steady growth in year-on-year earnings over past three years leading to reduction in accumulated losses. DEL reported net profit of Rs. 46.6m (FY14: Rs. 10.9m); excluding deferred tax asset of Rs. 33.3m, adjusted earnings amounted to Rs. 13.3m. Given the lack of diversity in operations, profitability is likely to remain volatile. Going forward, management envisages diversifying business operations in order to improve stability of earnings. DEL plans to venture into debt market securities trading through KSE Bond Automated Trading System (BATS).

DEL holds an investment portfolio valued at Rs. 50.1 at end-1Q16 comprising exposure in listed equities including related parties. Proprietary book of DEL is diversified with major exposure in chemicals, financial services & banks and oil & gas sectors. Given higher exposure in related parties, total investments in relation to equity increased to 47.6% (FY15: 37.1%) by end-1Q16.

The company has a management level Underwriting Committee in place (comprising CFO, Head of Marketing, Head of Operations). Formal approval authority of all underwriting decisions lies with the CEO. Recently, the company implemented an internal underwriting policy. As per this policy, DEL is allowed to underwrite a maximum of Rs. 100m against its equity. Prudence of overall and individual underwriting risk exposures in relation to its equity will support risk profile of the company.

Given management's decision to operate on a debt-free basis, DEL has held no interest bearing debt since FY10. Consequently, debt leverage remained low at 0.16x (FY14: 0.23x; FY13: 0.14x) as at end-FY15. Over the past half-decade, the company has been unable to improve quality of its trade debts with about 83% of receivables outstanding for more than a year. Receivables are heavily concentrated among top 10 debtors indicating considerable credit risk.

| FINANCIAL SUMMARY (amounts in PKR millions) | | | Appendix I |
|---|---|---|---|
| **BALANCE SHEET** | **30-Jun-15** | **30-Jun-14** | **30-Jun-13** |
| Trade Debts | 75.7 | 63.4 | 56.0 |
| Investments | 69.7 | 92.9 | 86.2 |
| Cash and Bank balances | 6.1 | 3.1 | 1.8 |
| Total Assets | 258.7 | 216.8 | 182.9 |
| Trade and Other Payables | 36.0 | 41.0 | 21.8 |
| Short Term running finance | 0.0 | 0.0 | 0.0 |
| Net Worth | 222.7 | 175.8 | 161.1 |
| | | | |
| **INCOME STATEMENT** | **30-Jun-15** | **30-Jun-14** | **30-Jun-13** |
| Total Revenue | 20.1 | 14.0 | 11.9 |
| Brokerage and Commission Income | 13.9 | 10.9 | 6.4 |
| Administrative Expenses | 11.1 | 11.1 | 9.0 |
| Finance Costs | 0.0 | 0.0 | 0.0 |
| Profit Before Tax | 13.3 | 12.0 | 5.0 |
| Profit After Tax | 46.6 | 10.9 | 4.9 |
| | | | |
| **RATIO ANALYSIS** | **30-Jun-15** | **30-Jun-14** | **30-Jun-13** |
| Market Share (Share Turnover) (%) | 1.12% | 1.08% | - |
| Commission Income / Turnover (Paisa/Share) | 2.14 | 1.92 | 1.64 |
| Liquid Assets to Total Liabilities | 60.1% | 40.1% | 51.3% |
| Liquid Assets to Total Assets | 8.4% | 7.6% | 6.1% |
| Debt Leverage | 0.16 | 0.23 | 0.14 |
| Gearing | 0.00 | 0.00 | 0.00 |
| Efficiency (%) | 62.4% | 82.1% | 116.6% |
| ROAA (%) (annualized) | 19.6% | 5.5% | 2.7% |
| ROAE (%) (annualized) | 23.4% | 6.5% | 3.1% |

## ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

**Medium to Long-Term**

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

**Short-Term**

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

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**Rating Watch:** JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.jcrvis.com.pk/images/criteria_outlook.pdf

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

**(blr) Rating:** A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

**'SD' Rating:** An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

## REGULATORY DISCLOSURES — Appendix III

| | |
|---|---|
| **Name of Rated Entity** | Dawood Equities Limited |
| **Sector** | Brokerage |
| **Type of Relationship** | Solicited |
| **Purpose of Rating** | Entity Rating |
| **Rating History** | |

| Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
|---|---|---|---|---|
| **RATING TYPE: ENTITY** | | | | |
| 15-Dec-15 | BB+ | A-3 | Stable | Initial |

| | |
|---|---|
| **Instrument Structure** | N/A |
| **Statement by the Rating Team** | JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities. |
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