RATING REPORT

Darson Securities Limited

REPORT DATE:
30th December 2022

RATING ANALYSTS:
Asfia Aziz
asfia.aziz@vis.com.pk

Sundus Qureshi
sundus.qureshi@vis.com.pk

RATING DETAILS

Rating Category	Latest Rating		Initial Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	BBB+	A-2	BBB+	A-2
Rating Outlook	Stable		Stable	
Outlook Date	*Dec 30'22*		*Dec 01'2021*	
Rating Action	*Reaffirmed*		*Initial*	

COMPANY INFORMATION

Incorporated on January 1998	**External auditors:** Muniff Ziauddin & Co. Chartered Accountants
Public Unlisted Company	**Chairperson:** Mr. Muhammad Anwar Dar
Key Shareholders (with stake 5% or more):	**Director:** Mr. Muhammad Farooq Dar
Mr. Muhammad Farooq Dar – 37.6% Mr. Muhammad Anwar Dar – 19.3% Mr. Muhammad Ayan Dar – 13.1% Mr. Muhammad Hassan Dar – 13.1%	**CEO:** Mr. Malik Dil Awayz Ahmed

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Securities Firms Rating (July 2020)
http://vis.com.pk/kc-meth.aspx

OVERVIEW OF THE INSTITUTION

Darson Securities Limited (DSL) is a public unlisted company which was incorporated in January 1998 under the Companies Ordinance 1984. DSL is a TREC holder of Pakistan Stock Exchange.

The financial statements of the Company were audited by Muniff Ziauddin & CO Chartered Accountants, which are classified in 'Category A' of SBP's Panel of Auditors.

Profile of Chairman

Mr. Muhammad Anwar Dar is the chairman of a progressive business conglomerate, The Credence Group. The Group has a diversified portfolio and operates in the areas of financial services, stock trading, education, poultry feed & medicine and real estate.

Profile of CEO

Mr. Malik Dil Awayz Ahmed, CFA is a seasoned professional with association of over seventeen years in securities and commodities business. Mr. Ahmed has done his Master in Commerce with majors in finance from Hailey College of Commerce.

RATING RATIONALE

Darson Securities Limited ('DSL' or 'the Company') is engaged in provision of equity brokerage services mainly to domestic retail and institutional clients. Shareholding of the company is primarily vested within the Dar family. The Company has 10 branches across Pakistan with its corporate office situated in Karachi.

Sector Update

- After a historic performance of PSX in terms of volumes in FY21, overall volumes of PSX registered a drop of 44% during FY22. (Average daily volume dropped to 291mn in FY22 from 527mn in FY21)
- The decrease in trading volumes was mainly due to weak macro-economic environment including high inflation & interest rates and rupee depreciation along with political turmoil in the country.
- Accordingly, in tandem with trading volumes, brokerage revenues declined across the industry. This has dented the profitability of brokerage companies, some of which has slipped into net losses.
- In our view, PSX is expected to remain uncertain with lack of investor interest and subdued volumes during FY23, while efficient management of operating expenses and diversifying revenue base by brokerage companies will be important to keep their bottom line positive.
- In order to enhance capital raising and provide facilitation to businesses, PSX has digitized the process of listing through an online portal called 'PRIDE' (Public Offerings Revolutionized through an Integrated and Digitized Experience). This online portal is designed to automate the listing process from end to end while the portal also provide delisting service to listed companies.
- PSX is innovating and launching new products with the aim to increase market capitalization and provide enhanced experience to market participants wherein PSX has launched its first dividend based index designed to track performance of top 20 dividend paying stock in order to provide ease and gather investor's interest.

Table 1: Industry Trading Metrics – Regular

	FY19	FY20	FY21	FY22	1Q23
Volume (In Billions)	37	49	131	73	13
Value (In PKR' Billions)	1,549	1,789	4,781	2,406	423

Rating Drivers

Rating incorporates improvement in market positioning because of comparatively lower decline in volumes as compared to the industry

DSL can be categorized as a small-sized brokerage company, accounting for ~5% of the market trade. Although trading volume for DSL reduced in the review period, the decline was lesser than the reduction in industry volumes, hence improvement in market share is seen during the review period.

Table 2: DSL Market Share (Ready Market)

	FY20	FY21	FY22	1Q23
Volume	3.3%	3.8%	4.4%	5.2%
Value	3.1%	3.9%	4.3%	4.7%

Client base grew by 30% with domestic retail clientele which contributes 93% of the total client base depicted an uptick of 33% during the outgoing year. A slight decline was noted in the domestic institutional category during the same period. Once equity market stabilizes, DSL also plans to develop a foreign desk in order to provide services to foreign corporates and individuals over the medium-term.

Table 3: P&L Statement (Extract)

P&L Extract	FY21	FY22	1Q23
Operating revenue	**243**	**148**	**37**
Administration and distribution expenses	223	180	47
Financial charges	1	1	-
Other operating charges	-	-	-
Total operating expenses	224	181	47
Operating profit	**60**	**(86)**	**(10)**
Other income	14	16	11
(Loss)/ Gain from quoted securities	-	-	-
Unrealized (loss)/ (gain) on re-measurement	41	(53)	-
Dividend Income	4	6	1
Profit before tax	**74**	**(70)**	**1**
Taxation	6	(7)	-
Profit after tax	**69**	**(63)**	**1**

Diversification in revenue is low as equity brokerage income contributed greater than 95% of the operating revenues of the Company on a timeline basis, with the remaining income mainly emanating from dividends on proprietary book. In absolute terms, brokerage income was reported at Rs. 142.7m (FY21: Rs. 239.5m) and dividend income was stated at Rs. 5.8m (FY21: Rs. 3.5m) in FY22. The decline in brokerage income was majorly due to drop in market volumes. The Company also generates 'Other Income' (OI) emanating largely from profit on bank deposits. As per management, the Company plans to enhance revenue base by increasing the number of branches with internal finances over the rating horizon which is dependent on stabilization of market performance.

Business risk profile of the Company is lowered by the fact that its brokerage revenues are majorly derived from domestic retail clientele (93%). Concentration, in terms of volumes traded, has also depicted consistent improvement on a timeline basis. In FY22, 80 (FY21: 79, FY20: 31) clients accounted for two-thirds of the Company's brokerage volume.

The company reported loss to the tune of Rs. 63m in FY22 attributable to lower revenue base, higher operating expenses in relation to recurring revenue and revaluation loss on investments. The Company's efficiency ratio increased significantly to 110% (FY21: 87%; FY20: 98%) during FY22 which warrants improvement. Profitability levels for 1QFY23 also remained lower as compared to corresponding period last year due to lackluster volumes in the equity market. Going forward, efforts to improve revenue diversification are on the anvil, with DSL recently acquiring an 'Offer to Consultant' license and developing a separate Corporate & Investment Banking function.

Financial risk profile remains manageable

Liquidity Risk & Credit Risk

Liquid assets were reported lower at Rs. 277.4m (FY22: Rs. 294.8m; FY21: 388.0m) at end-1Q23 largely due to reduction in the value of proprietary book and lower quantum of margin deposits. Consequently, liquid assets in relation to total assets decreased to 52.7% as at end-Sept'22 (FY22: 55.3%; FY21: 56.5%). Coverage of liquid assets against total liabilities is considered sufficient at 152.3% (FY22: 158.5%, FY21:

141.9%) at end-Sep'22. Further in view of the current ratio standing at 2.1x as at September'22, liquidity profile is considered satisfactory.

Trade receivables stood at Rs. 52.9m as at Sept'22, which comprises 14% of the total current assets. At end-June'22, 77% (FY21: 94%) of the trade receivables being outstanding for less than 14 days depicts stable credit risk profile. Further, high concentration of domestic retail client base also supports liquidity risk profile of the company.

Market Risk

The Company's proprietary book has decreased in the outgoing and ongoing year, in proportion to equity, and stood at 26.0% of the equity as of Sept'22 (FY22: 26.6%; FY21: 29.9%). The short-term investments stood at Rs. 85.4m as at Sept'22 (FY22: Rs. 88.9m, FY21: Rs. 118.8m), fully vested in listed equity securities. At end-June'22, around 42% of the portfolio is invested in three scrips (PSX, Telecard Limited, and TPL Properties Limited), which is indicative of a considerable level of concentration and market risk exposure. In view of the same, proprietary operations, although limited, warrant a strictly defined investment policy, with narrower thresholds.

Sound capitalization indicators with low debt on balance sheet

Equity (excluding revaluation surplus) of the Company stood at Rs. 329m (FY22: Rs. 335m, FY21: Rs. 397m) as of end-1Q23, contributing 65% of the Company's asset base. In absolute terms, the Company's equity base stands on the lower side vis-à-vis peer median. Nevertheless, given size of the asset book and leveraging of less than 1, capitalization level is considered adequate at present. Given plans to grow business volumes post market stabilization and low level of internal capital generation capacity, external support from sponsors may be warranted over the medium term horizon. The Company's capitalization profile is supported by lack of debt on the balance sheet, wherein gearing has historically remained at negligible levels, as indicated by an almost insignificant quantum of finance cost YoY. Going forward, VIS will continue to track the growth in equity in tandem with business volumes, which is considered important from ratings purview.

Table 4: Balance Sheet (Extract)

	FY21	FY22	1Q23
Total Equity (Ex. Revaluation Surplus)	397	335	329
- Paid-up Capital	200	200	200
- Accumulated Profit	197	135	129
- Surplus on Revaluation	16	13	16
Gearing (x)	0.01	0.01	0.01
Leverage (x)	0.69	0.56	0.55

Corporate Governance (CG) depicts room for improvement

No changes took place at the Board level (4 members) during the review period. In contrast to CG best practices, Board composition leaves room for improvement, given lack of independent representation and gender diversification on the Board. Board sub-committees include an Audit Committee (AC), which includes 2 directors and an independent director. The Company's organizational structure includes 4 support/operation functions (Research, Marketing, Finance, 2 business functions (Sales, & Corporate Sales) and a control function i.e. Internal Audit & Compliance.

FINANCIAL SUMMARY (amounts in PKR millions)	Appendix I			
BALANCE SHEET	**FY20**	**FY21**	**FY22**	**1Q23**
Trade Debts	60	106	40	53
Long Term Investments	20	20	16	20
Short term Investments	68	119	89	85
Cash and Bank balances	86	75	101	112
Total Assets	465	686	533	526
Trade and Other Payables	121	269	183	179
Paid Up Capital	200	200	200	200
Net Worth (excluding revaluation surplus)	329	397	335	328
INCOME STATEMENT	**FY20**	**FY21**	**FY22**	**1Q23**
Net Revenue	77	284	95	37
Brokerage Income	80	239	143	36
Dividend Income	3	3	6	1
Administrative Expenses	89	223	180	47
Finance Costs	0	1	1	0
Profit Before Tax	(0)	74	(70)	1
Profit After Tax	(2)	69	(63)	1
RATIO ANALYSIS	**FY20**	**FY21**	**FY22**	**1Q23**
Liquid Assets to Total Liabilities	172.8%	141.9%	158.5%	152.3%
Liquid Assets to Total Assets	44.9%	56.5%	55.3%	52.7%
Leverage	0.37	0.69	0.56	0.55
Gearing	-	0.01	0.01	0.01
Current Ratio (x)	2.68	1.99	2.07	2.11
Efficiency (%)	97.9%	87.2%	110.1%	98.7%
ROAA (%)	-0.5%	11.9%	-10.3%	0.5%
ROAE (%)	-0.6%	18.9%	-17.1%	0.7%

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.

Rating Watch: 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.vis.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.vis.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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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	Darson Securities Limited
Sector	Brokerage
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see below

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
30-December-2022	BBB+	A-2	Stable	Reaffirmed
01-December 2021	BBB+	A-2	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	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.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2022 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.
Due Diligence Meetings Conducted	see below

	Name	Designation	Meeting Date
1	Mr. Umair Ahmed	GM - Operations	December 01, 2022
2	Mr. Salman	Head of Finance	December 01, 2022
3	Mr. Salman Saba	Head of Compliance	December 01, 2022
4	Mr. Yousuf Saeed	Head of Research	December 01, 2022