

RATING REPORT

Darson Securities Limited

REPORT DATE:

August 30, 2024

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-2	BBB+	A-2
Rating Outlook/Rating Watch	Stable		Stable	
Outlook Date	August 30, 2024		December 30, 2022	
Rating Action	Reaffirmed		Reaffirmed	

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%	CEO: Mr. Malik Dil Awayz Ahmed
Mr. Muhammad Anwar Dar – 19.3%	
Mr. Muhammad Ayan Dar – 13.1%	
Mr. Muhammad Hassan Dar – 13.1%	

APPLICABLE METHODOLOGY(IES) & SCALE(S)

VIS Entity Rating Criteria Methodology – Securities Firms Ratings

<https://docs.vis.com.pk/docs/SecuritiesFirm202007.pdf>

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Darson Securities Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

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.

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 11 branches across Pakistan with its corporate office situated in Karachi.

Industry Overview:

Table 1: Industry Trading Metrics – Regular

	FY19	FY20	FY21	FY22	FY23	9MFY24
Volume (In Billions)	37	49	131	73	47	84
Value (In PKR’ Billions)	1,549	1,789	4,781	2,406	1,504	2,713

- At the beginning of 2023, Pakistan faced severe challenges, including the risk of debt default, high inflation, record-high government bill yields, and political instability. Consequently, the KSE-100 index remained largely stagnant, only rising slightly from 40,420 to 41,452.69 by late June.
- The situation improved dramatically after June 30, when Pakistan secured a \$3 billion, nine-month Stand-By Arrangement (SBA) with the IMF. This agreement averted the risk of default and bolstered investor confidence, driving the KSE-100 to 62,451.04 by year-end, a 51% increase.
- The smooth transition to an interim government in August further reduced political uncertainty. Measures taken by the interim government, such as structural reforms by the State Bank of Pakistan and actions against currency smugglers, stabilized the rupee and enhanced investor confidence. Notably, the energy sector, buoyed by gas price hikes, and improved performance in the banking sector, contributed significantly to the market's rise.

Key Rating Drivers

Rating incorporates market positioning of the Company:

Table 2: DSL Market Share (Ready Market)

	FY20	FY21	FY22	FY23	HFY24
Volume	3.3%	3.8%	4.4%	4.8%	3.4%
Value	3.1%	3.9%	4.3%	2.2%	1.6%

- During the year, the Company’s market share increased to 4.8% in terms of volume, however in terms of value, market share declined to 2.2%. End-HFY24, market share registered further decline in terms of both volume (2.2%) and value (1.6%) owing to decline in DSL’s overall trading volumes.
- During the year, DSL’s client base increased to 5,404 depicting an increase by 19% (FY22 4,552). Client base registered further growth end-HFY24 as well where total number of customers increased to 5,819. Over 94% of the Company’s clientele comprises of domestic retail clients, remaining 6% are foreign retail clients.
- DSL opened a new branch during FY23 in Islamabad making it a total of 11 operational branches nationwide. Going forward, the Company is also planning to open another branch in Peshawar to improve geographical diversity and client reach.

Brokerage income continues to dominate revenue mix albeit business risk remains low given that major portion of revenue emanates from domestic retail clientele:

Table 3: P&L Statement (Extract)

P&L Extract	FY21	FY22	FY23	HFY24
Operating revenue	243	148	131	109
Administration and distribution expenses	223	180	175	99
Financial charges	1	1	1	1
Other operating charges	-	-	-	-
Total operating expenses	224	181	175	100
Operating profit/(loss)	60	(86)	(61)	37
Other income	14	16	23	19
(Loss)/ Gain from quoted securities	-	-	-	-
Unrealized (loss)/ (gain) on re-measurement	41	(53)	(16)	28
Dividend Income	4	6	5	3
Profit before tax	74	(70)	(37)	57
Taxation	6	(7)	8	-
Profit after tax	69	(63)	(29)	57

- During the year, the Company's earning profile remained under stress owing to decrease in the company's recurring revenues. However, business risk profile of the Company is lowered by the fact that its brokerage revenues around (94%) are majorly re derived from domestic retail clientele.
- High dependence on brokerage segment on timeline basis is a constraint on the ratings as diversification in revenues is low, brokerage segment continued to dominate the revenue mix at 82% (FY22 87%) during the year. Remaining revenues emanate from dividend income and other income comprising largely of profit on bank deposits. End-HFY24, core brokerage revenues decreased to Rs. 106m (FY23 126m, FY22 143m) mainly attributable to decline in market volumes.
- Cost-to-income ratio of the Company continues to remain at a higher on timeline basis despite consistent decline in administrative expenses. However, end-HFY24, administrative expenses decreased to Rs. 100m (FY23, 176m, FY22 181m) slightly improving efficiency ratio to 78% (FY23 114%, FY22 110%)
- Profitability profile improved end-HFY24, the Company reported a PAT of Rs. 57m (FY23 -29m, FY22 -62m) owing to unrealized gain on re-measurement of investments. Going forward, augmentation of revenue base along with further curtailment of administrative expenses will remain important for the ratings.

Financial risk profile remains manageable

Liquidity Risk & Credit Risk

- During FY23, liquid assets declined to Rs. 220m (FY22: Rs. 294.8m; FY21: 388.0m) however, end-HFY24, total liquid assets increased to Rs. 479.7m due to increase in exposure margin deposits held with NCCPL for ready and future trading.
- The Company's liquidity profile continues to remain sufficient, albeit end-HFY24, total liquid asset coverage to total liabilities decreased to 1.4x given increase in total liabilities, (FY23 1.8x, FY22 1.6x)
- Satisfactory liquidity profile is also supported by current ratio of 2.36x during FY23, the same witnessed deterioration to 1.6x owing to increase in trade and other payables end-HFY24.
- Ageing profile of the Company continues to remain satisfactory.

Market Risk

- The Company's market risk continues to remain manageable on account of low participation in proprietary trading. During FY23, short-term investments decreased to Rs. 79.9m (FY22 88.9m).

End-HFY24 total short-term investments amounted to Rs. 88.7m fully vested in listed equity securities.

- Quantum of short-term investments in relation to equity was 26% during FY23 and 24% end-HFY23 respectively. Moreover level of concentration and market risk has reduced given that over 36% of the investment portfolio is invested in five scrips during FY23 (42% concentration in three scrips)

Capitalization indicators continue to remain sound

- During FY23, equity base (excluding revaluation surplus) of the Company stood at Rs. 308m (FY22: Rs. 335m, FY21: Rs. 397m). Albeit, end-HFY24 total equity amounted to at Rs. 365m, increase in equity base is attributable to improvement in profitability during the period.
- The Company's capitalization profile continues to be supported by lack of debt on the balance sheet, wherein gearing continues to remain nil on timeline basis, albeit increase in trade and other payables led to deterioration of leverage indicator. End-HFY24, trade and other payables increased to Rs.329.5m (FY23 121.6m) consequently increasing leverage to 0.91x, (FY23 0.4x, FY22 0.56x).

Corporate Governance (CG) depicts room for improvement

- No major changes at board level took place during the review period. At present, the Company's board comprises of three members. Three board level committees have also been formulated namely, audit, HR & risk. Increasing the board size along with inclusion of independent directors as well as certified members may be considered to avoid repetition of common members and overall strengthening of the governance framework.
- 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	
<u>BALANCE SHEET</u>	FY20	FY21	FY22	FY23	HFY24
Trade Debts	60	106	40	16	22
Long Term Investments	20	20	16	-	-
Short term Investments	68	119	89	80	89
Cash and Bank balances	86	75	101	69	52
Total Assets	465	686	533	432	697
Trade and Other Payables	121	269	183	122	330
Paid Up Capital	200	200	200	200	200
Net Worth (excluding revaluation surplus)	329	397	335	308	365
<u>INCOME STATEMENT</u>	FY20	FY21	FY22	FY23	HFY24
Net Revenue	77	284	95	115	137
Brokerage Income	80	239	143	126	106
Dividend Income	3	3	6	5	3
Administrative Expenses	89	223	180	175	99
Finance Costs	0	1	1	1	1
Profit Before Tax	(0)	74	(70)	(37)	57
Profit After Tax	(2)	69	(63)	(29)	57
<u>RATIO ANALYSIS</u>	FY20	FY21	FY22	FY23	HFY24
Liquid Assets to Total Liabilities	172.8%	141.9%	158.5%	177.9%	144.7%
Liquid Assets to Total Assets	44.9%	56.5%	55.3%	51.0%	68.9%
Leverage	0.37	0.69	0.56	0.40	0.91
Gearing	-	0.01	0.01	0.01	0.01
Current Ratio (x)	2.68	1.99	2.07	2.36	1.67
Efficiency (%)	97.9%	87.2%	110.1%	113.9%	77.9%
ROAA (%)	-0.5%	11.9%	-10.3%	-6.1%	10.0%
ROAE (%)	-0.6%	18.9%	-17.1%	-9.1%	16.8%

REGULATORY DISCLOSURES						Appendix II
Name of Rated Entity	Darson Securities 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					
	30-August-2024	BBB+	A-2	Stable	Reaffirmed	
	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	N/A					
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Due Diligence Meetings Conducted		Name	Designation	Meeting Date		
	1	Mr. Umair Ahmed	GM - Operations	July 08, 2024		
	2	Mr. Salman	Head of Finance	July 08, 2024		
	3	Mr. Yousuf Saeed	Head of Research	July 08, 2024		