

## BROKER MANAGEMENT RATING REPORT

### DJM Securities Limited

**REPORT DATE:**

January 27, 2023

**RATING ANALYSTS:**

Shaheryar Khan Mangan

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**APPLICABLE**
**METHODOLOGY:**

Broker Management Ratings 2020:

<https://docs.vis.com.pk/docs/BMR2020>
[07.pdf](#)

| Rating Category                 | Latest Rating  |
|---------------------------------|--|
| <b>Broker Management Rating</b> | <b>BMR3+</b>   |
| <b>Rating Rationale</b>         | The rating signifies sound external controls. Regulatory framework, client relationships, HR, compliance, internal control and financial management are considered adequate. |
| <b>Rating Date</b>              | January 27, 2023   |

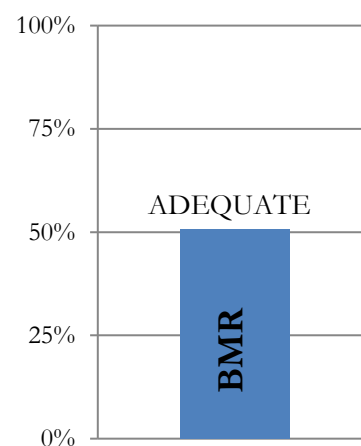
### COMPANY INFORMATION

|  |   |
|--|---|
| <b>Incorporated in 2002</b>                      | <b>External auditors:</b> BDO Ebrahim and Co. Chartered Accountants |
| <b>Public Unlisted Company</b>                   | <b>CEO/Board Chairman:</b> Mr. Abdul Samad Dawood                   |
| <b>Key Shareholders (with stake 5% or more):</b> |   |
| <i>Mr. Muhammad Yaqoob ~ 31.52%</i>              |   |
| <i>Mrs. Sumya Abdul Qadir ~ 21.60%</i>           |   |
| <i>Miss. Mariam Dawood ~ 21.60%</i>              |   |
| <i>Mr. Abdul Samad Dawood ~ 21.92%</i>           |   |

### Corporate Profile

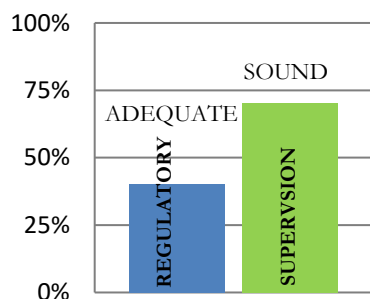
DJM Securities Limited is a public unlisted company incorporated in 2002, providing equity brokerage services to institutional as well as individual clients, in both local and international equity and future markets. Major shareholding of the company is vested with four individuals including the CEO. The company operates from Karachi and provides both online and assisted trading services to its clients.

DJMSL is a public unlisted company holding Trading Rights Entitlement Certificate (TREC) granted by Pakistan Stock Exchange Limited (PSX), and is registered with SECP to provide Trading & Self Clearing Services. External auditors of the company have been changed to Ebrahim and Co. Chartered Accountants. External auditors belong to category 'A' on the approved list of auditors published by the State Bank of Pakistan (SBP).



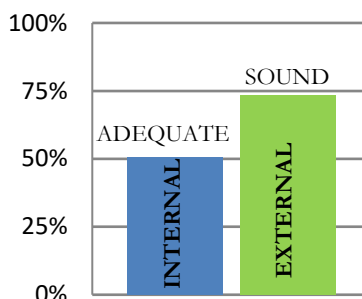
**Rating Factors Scores**

**Regulatory Requirements & Supervision**



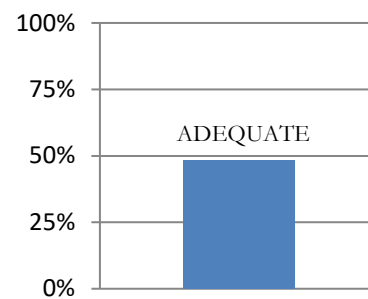
- At present, the Board is represented by 3 directors. Addition of directors coupled with inclusion of independent directors may strengthen its governance framework.
- Company's regulatory structure may be aligned with best practices by establishing independently led board committees.
- Acquisition of additional licenses may bolster revenue growth of the Company.

**Internal & External Control Framework**



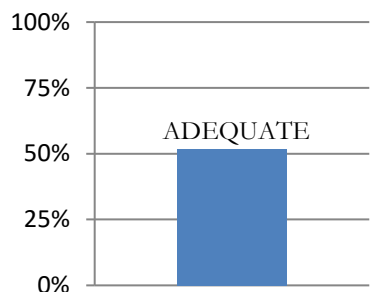
- Room for improvement exists in internal policy framework through enhancement in scope of policies including drafting a separate conflict of interest Policy.
- Regular internal audits and more frequent trade process reviews may also enhance the internal control framework.
- Inclusion of director's report and CEO's statement in financial statements may improve external control framework.

**Client Relationship & Fairplay**



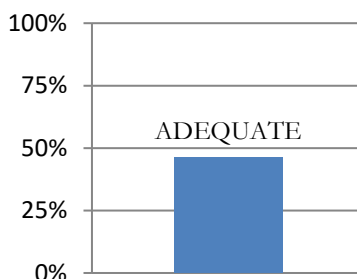
- Client services and relationship remain adequate. While customer services including SMS based complaint and trade execution system is available, facilitation through availability of market research and equity reports on website and other client facilitation tools may be considered. Company has not undertaken advertisements, doing so may improve visibility and customer retention.
- Increased geographical footprint may augment the client base and expand its revenue stream.

**HR & Infrastructure**



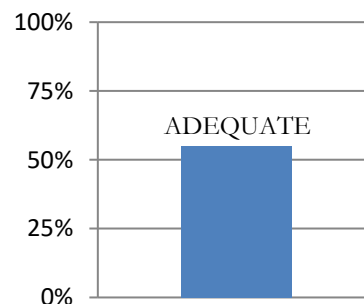
- Company has fully integrated ERP system in place.
- Availability of offsite backups at a third party may further enhance its contingency measure.
- Business continuity framework may be strengthened through increasing disaster recovery practices to more than once per year.

**Compliance & Risk Management**



- Current organizational structure is constrained, with absence of audit function and appointment of Chief Financial Officer.
- No credit limits are extended to retail and institutional customers by the Company.
- Trade review procedures are in place.
- Having an independent risk management may be considered in order to improve its organizational structure.

**Financial Management**



- After posting profits in FY21, profitability has taken a toll, with loss recorded at Rs.825.9m in FY22 (FY21: Rs.1, 291.1m). This was due to lower market activity which not only impacted brokerage revenues but also resulted in capital loss on investments.
- The Company had been maintaining a sizeable propriety book. However, in FY22, portfolio was rationalized, thereby reducing market risk as well as resulting in lower gearing.
- Liquidity profile of the Company remains strong with liquid assets providing 18.8x coverage to total liabilities (FY21: 2.65x).
- Gearing and leverage indicators have improved significantly on account of low debt drawdowns.
- Going forward, augmentation and diversification of revenue streams, improvement in profitability metrics and maintenance of low capitalization indicators will bode well for maintaining sound financial metrics.

## VIS Credit Rating Company Limited

### RATING SCALE & DEFINITIONS: BROKER MANAGEMENT RATING

#### **BMR1A**

Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.

#### **BMR3++, BMR3+, BMR3**

Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.

#### **BMR1++, BMR1+, BMR1**

Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.

#### **BMR4++, BMR4+, BMR4**

Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.

#### **BMR2++, BMR2+, BMR2**

Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.

#### **BMR5**

Weak regulatory compliance and business practices

#### **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](http://www.vis.com.pk/images/criteria_outlook.pdf)

| REGULATORY DISCLOSURES              |   | Appendix II   |                       |                      |
|-------------------------------------|---|---------------|-----------------------|----------------------|
| <b>Name of Rated Entity</b>         | DJM Securities Limited  |               |                       |                      |
| <b>Sector</b>                       | Brokerage   |               |                       |                      |
| <b>Type of Relationship</b>         | Solicited   |               |                       |                      |
| <b>Purpose of Rating</b>            | Broker Management Rating (BMR)  |               |                       |                      |
| <b>Rating History</b>               | <b>Rating Date</b>  | <b>Rating</b> | <b>Rating Outlook</b> | <b>Rating Action</b> |
|                                     | <b>RATING TYPE: BMR</b>   |               |                       |                      |
|                                     | 27/01/2023  | BMR3+         | Stable                | Reaffirmed           |
|                                     | 24/ 09/ 2021  | BMR3+         | Stable                | Initial              |
| <b>Instrument Structure</b>         | N/A   |               |                       |                      |
| <b>Statement by the Rating Team</b> | 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.  |               |                       |                      |
| <b>Probability of Default</b>       | 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.  |               |                       |                      |
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