

BROKER FIDUCIARY RATING REPORT

DJM Securities Limited

REPORT DATE:

24 September, 2021

RATING ANALYSTS:

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RATING DETAILS

Broker Fiduciary Rating	BFR3 <i>Good Fiduciary Standards</i>
Rating Rationale	The rating signifies sound business and financial sustainability. Ownership and governance, client services, internal controls and compliance are adequate.
Rating Date	24 September, 2021

COMPANY INFORMATION

Incorporated in 2002	External auditors: Baker Tilly Mehmood Idrees Qamar Chartered Accountants
Public Unlisted Company	CEO/Board Chairman: Mr. Abdul Samad Dawood
Key Shareholders (with stake 5% or more):	
<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>	

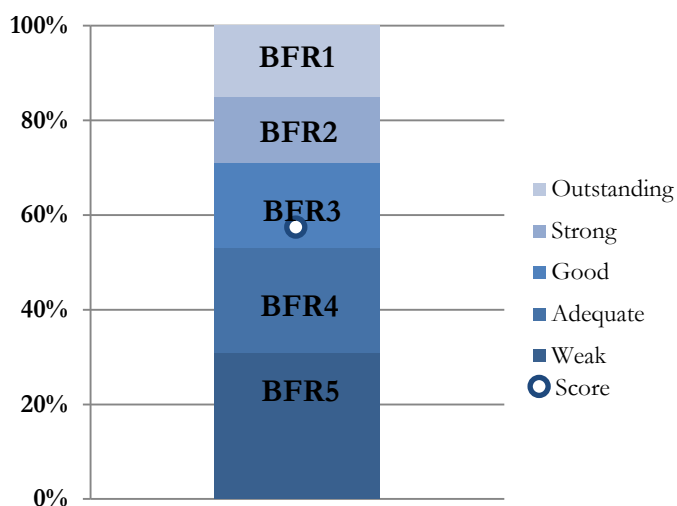
APPLICABLE METHODOLOGY

Applicable Rating Criteria: Broker Fiduciary Ratings 2021
<https://docs.vis.com.pk/docs/BrokerFiduciary012021.pdf>

DJM Securities Limited

CORPORATE PROFILE **OVERALL GRADING**

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 are Baker Tilly Mehmood Idrees Qamar Chartered Accountants. External auditors belong to category ‘A’ on the approved list of auditors published by the State Bank of Pakistan (SBP).

Business and Financial Sustainability Indicators

	1HFY21*	FY20	FY19
Size of Net Worth (Rs. In Millions)	1,656	798.6	654.8
Gearing x (total interest bearing debt/ total equity)	0.5x	0.5x	0.8x
Leverage x (total liabilities/ total equity)	0.6x	0.5x	0.8x
Liquid Assets/ Total Liabilities (x)	2.1x	2.4x	1.9x
Short term Investments/ Total Equity (%)	138%	128%	157%
Market Share (%)	0.03%	0.02%	0.01%
Efficiency (%)	51%	70%	53%

*Unaudited Accounts

Rating Indicators

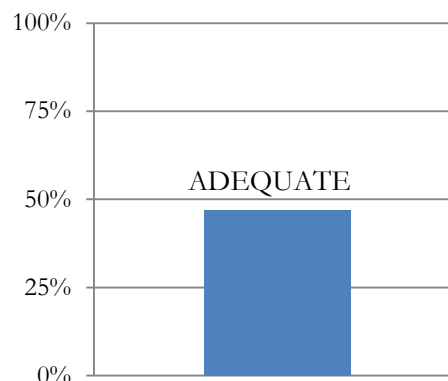
Ownership & Governance

- Ownership & Governance framework is considered adequate. Increasing the Board size in line with best practices with independent representation may enhance the governance framework. It will also assist in formation of independently represented Board level committees including Audit committee, improving overall governance levels.
- Disclosure levels may be enhanced through addition of director’s report and CEO statement in financial statements.

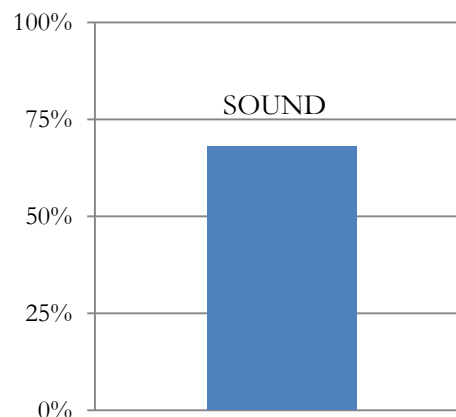
Business & Financial Sustainability

- During FY20, in line with the market, company overturned a loss of PKR 621.6m into profit of PKR 143m, largely supported by gain on revaluation of investments. While the company has been incurring capital losses over the last two years, half year financials reflect a sizeable gain which together with revaluation gains has boosted profitability of the company to Rs. 858m.
- Liquidity profile is strong with liquid assets providing 2.1x coverage to total liabilities in 1HFY21 (FY20: 2.4x, FY19: 1.8x).
- Market risk, however, is elevated given sizeable propriety book of Rs. 2.2b at Dec 2020 end.
- Despite increase in borrowings, capitalization indicators remained at manageable levels on account of increase in equity. Gearing and leverage was recorded at 0.5x and 0.6x at end H1’21.
- With a small revenue base, containment of operating expenses will be important for maintaining operational efficiency.
- Increasing market share and revenue streams will be important. Overall, business and financial sustainability is considered sound.

Ownership & Governance



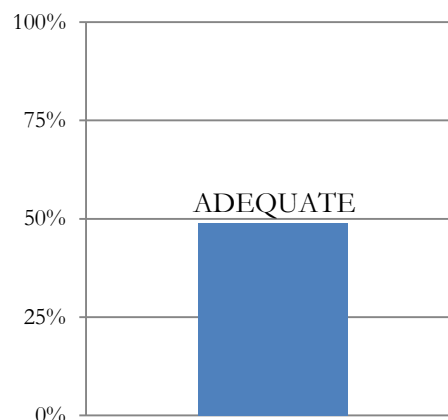
Business & Financial Sustainability



Management & Client Services

- Client services are considered adequate with SMS-based complaint handling and trade alert systems in place along with mobile application for trading.
- However, enhancement of client services through market research, increased periodic reporting to clients, disclosure of commission rates on website and geographical diversification may support business growth.
- Company’s organizational structure is well defined. However, segregating audit and compliance as separate functions may be considered.
- Disaster recovery measures are in place, although, increasing the frequency of disaster recovery exercise may further strengthen the same.
- Having a separate documented IT policy may improve functioning of systems and enhance management services.

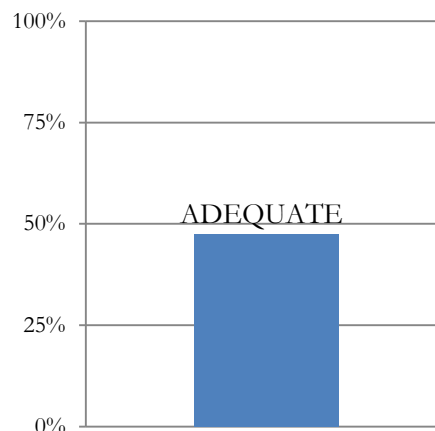
Management & Client Services



Internal Controls & Regulatory Compliance

- Overall, internal control and regulatory framework is considered adequate.
- Having a separate conflict of interest policy may be considered.
- The company also does not allocate any credit limits to customers reflecting its conservative policy.
- Increasing the frequency of review of trade procedures may strengthen regulatory compliance.
- Regular review of internal controls conducted by independent internal audit department may further strengthen internal controls.
- SECP noted certain KYC/AML compliance shortfalls which have been since complied.

Internal Controls & Regulatory Compliance



Broker Fiduciary Rating Explained

In Securities Broker Fiduciary Rating (SBF), the strength of fiduciary role of the securities brokers is captured through the relative financial strength of the securities broker firm and its sponsors along with depth of internal control and governance framework, which are key rating ingredients. Responsiveness of the risk and internal control structure, quality of HR and soundness of the business infrastructure determine the strength of management and level of service quality of a stock broker. VIS Credit Rating Co. Ltd. (VIS) has developed a rating system that evaluates brokerage firms on the basis of such practices and the systems instituted to safeguard investor interests are at the forefront

FIDUCIARY RATING SCALE & DEFINITIONS

Appendix I

RATING SCALE & DEFINITIONS: SECURITIES BROKER FIDUCIARY RATING**BFR1**

Outstanding fiduciary standards

BFR4++, BFR4+, BFR4

Adequate fiduciary standards

BFR2++, BFR2+, BFR2

Strong fiduciary standards

BFR5++, BFR5+, BFR5

Weak fiduciary standards

BFR3++, BFR3+, BFR3

Good fiduciary standards

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

DJM Securities Limited

REGULATORY DISCLOSURES		Appendix II			
Name of Rated Entity	DJM Securities Limited				
Sector	Brokerage				
Type of Relationship	Solicited				
Purpose of Rating	Broker Fiduciary Rating (BFR)				
Rating History	Rating Date	Rating	Rating Outlook	Rating Action	
	RATING TYPE: BFR				
	24/9/2021	BFR3	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.				
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