

BROKER FIDUCIARY RATING REPORT

DJM Securities Limited

REPORT DATE:

January 27, 2023

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	January 27, 2023

COMPANY INFORMATION

Incorporated in 2002	External auditors: BDO Ebrahim and Co. 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

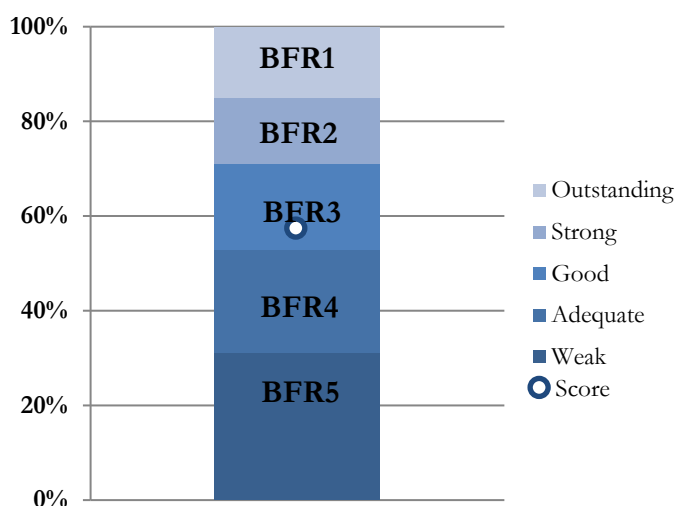
Applicable Rating Criteria: Broker Fiduciary Ratings 2021

<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 have been changed to BDO 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).

Business and Financial Sustainability Indicators

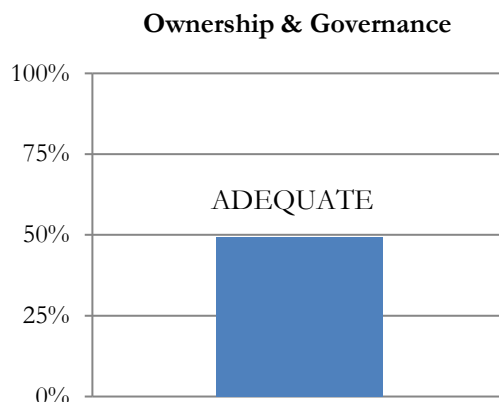
	FY22	FY21	FY20
Size of Net Worth (Rs. In Millions)	1,264.1m	2,090.0m	798.6m
Gearing x (total interest bearing debt/ total equity)	0.01x	0.44x	0.47x
Leverage x (total liabilities/ total equity)	0.05x	0.54x	0.54x
Liquid Assets/ Total Liabilities (x)	18.81x	2.65x	2.46x
Short term Investments/ Total Equity (%)	86%	139%	128%

DJM Securities Limited

Rating Indicators

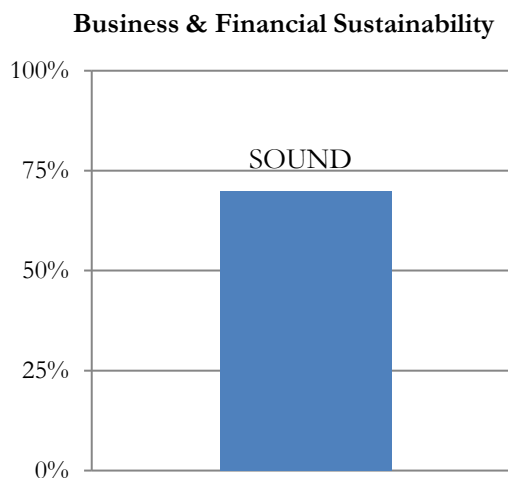
Ownership & Governance

- Board composition is considered adequate. Ownership and Governance framework may be strengthened through increasing the number of board members along with inclusion of independent directors.
- This may also facilitate establishment of independently headed board committees, which in turn will improve the governance structure of the Company.
- Inclusion of director’s report and CEO’s statement may enhance disclosure levels.



Business & Financial Sustainability

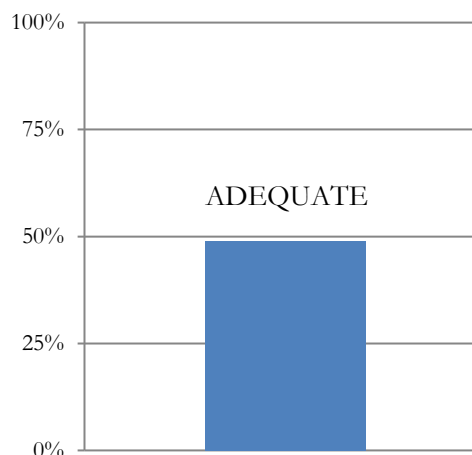
- During FY22, in tandem with decline in market volumes, brokerage revenue plummeted to Rs.52m (FY22: 93.5m). Company has reported a loss of Rs.825m (FY21: Rs.1, 291m) in FY22 on the back of realized and unrealized losses on investment portfolio.
- Improvement in market risk exposure was recorded with short-term investments reducing notably. Short-term investments to equity reported at 86% (FY21: 139%).
- Consequently, gearing and leverage indicators recorded improvement with gearing and leverage ratios at 0.01x and 0.05x (FY21: 0.44x and 0.54x) respectively.
- While equity base recorded erosion on account of losses, equity base of Rs.1.2b at end FY22 remained adequate.
- Liquidity profile strengthened significantly with liquid assets providing 18.81x coverage in relation to total liabilities.
- Going forward, augmentation and diversification of revenue streams, improvement in profitability metrics and maintenance of capitalization indicators will remain important.



Management & Client Services

- Client services are in line with industry standards, with SMS based complaint and trade execution system, however, availability of market research and equity reports, coupled with disclosing commission rates on website may improve client services.
- Company has an ERP system in place. However, having an independent risk management department may improve its organization structure.
- Business continuity framework is also established and in place, however, the same may be strengthened through increasing disaster recovery practices to more than once per year.
- Functioning of system as well as management services may be improved through formulating a separate IT policy.
- Some shortfalls were noted in contract execution; compliance of the same will remain important.

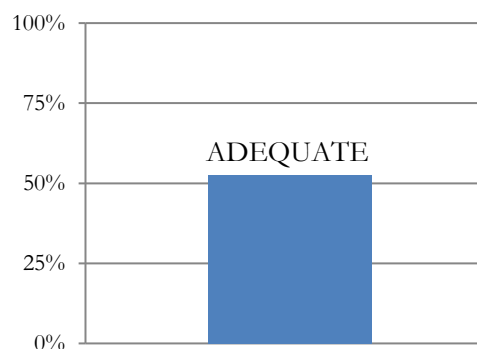
Management & Client Services



Internal Controls & Regulatory Compliance

- Company’s internal policy encompasses a portion regarding conflict of interest, albeit a separate conflict of interest may be considered in order to strengthen the framework
- No credit limits been extended to both retail and institutional customers. Trade review procedures are in place, albeit increasing the frequency of the same may strengthen the regulatory compliance.
- Regular internal audit may enhance internal control framework.

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			
	27/1/2023	BFR3	Stable	Reaffirmed
	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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