



The Pakistan Credit Rating Agency Limited

ALFALAH SECURITIES (PRIVATE) LIMITED

ENTITY RATING REPORT

	NEW [JUN-17]	PREVIOUS [JUN-16]
Long-Term	A-	BBB+
Short-Term	A1	A2
Outlook	Stable	Stable

JUNE 2017

Profile

- Incorporated in 2004, AFS is registered as a private limited entity
- AFS service offering includes Equity Brokerage, Online Trading, Research and Investment Banking
- Bank Alfalah Limited (BAFL) is the majority shareholder of AFS holding 97.9% of the shares.
- During CY16 the bank's board approved for divestment of its stake in AFS by 30% consequently, Mr. Aliuddin Ansari and Mr. Atif Mohammad Khan will jointly hold 30% of the shares after divestment.

Governance

- Board comprises five members including CEO. Four board members represent BAFL. Currently one committees exist.

Management

- AFS is headed by Mr. Atif Khan (CEO) since Jul'15. He has over two decades of experience in the brokerage industry.
- AFS has established an Investment banking department, which is headed by Mr. Imran Sherani.
- An independent Advisory board has been established to provide a unique advantage to the Investment Banking Department. Mr. Sarfaraz Ahmed is elected as FMCG and Consumer sector expert.
- Experienced and skilled management team with multi-tier organizational structure. Management committee deliberates the operation of the company.

Risk Management

- AFS has adequate risk management system. The Risk manager / Compliance Officer reports directly to the CEO and is overseen by the CFO on a daily basis.
- Alfalah Securities is not engaged in proprietary trading in stocks. The company exposure to credit risk is minimal by not offering any credit facilities to its customers; the risk manual has been approved by the board.
- Alfalah Securities would limit its total exposure to underwriting transaction to the size of its equity and exposure to single underwriting transaction will not exceed 50% of its equity. The Exposure can only be exceeded subject to Board approval.
- The company has outsourced its internal control to an audit firm.

Business Risk

- Brokerage income in 1QCY17 was PKR 38mln (CY16: PKR 81mln). This is mainly due to increasing market share, domestic and foreign, and higher volumes handled by company during the period.
- Meanwhile, operating and administration (1QCY17: PKR 37mln) kept the profitability of the company under pressure. The company was successful in achieving operational breakeven.
- Management plans to capture 4% market by focusing on local retail and foreign corporates.
- The company's current performance is improving and is in accordance to the approved budget. AFS expects sustainable revenue contribution from investment banking segment.
- AFS would has seven International Broker Dealers on board and the company is in talk with two more International Broker Dealers. This makes AFS second largest broker with international relationship.

Financial Risk

- AFS has a strong capitalization level with regulatory Net Capital Balance (NCB) stands at PKR 161mln at end Dec-15. This gives AFS the capacity to avail normal size orders.
- The company has reduced its share capital from 1,150 million to 250 million shares. Retiring capital structure has consequently reduce unappropriated losses from the financial statement.

Research

- The company's stock coverage comprises 43 stocks accounting for more than 75% of the KSE 100 market capitalization.
- The company has unique online software which provides fundamental and technical analysis for companies listed on PSX.

RATING RATIONALE

The ratings reflect Alfalah Securities association with Bank Alfalah Limited (BAFL). The Company is currently a majority owned subsidiary of Bank Alfalah. The company went through a re capitalization lately and now has a new management. The team, experienced in respective functions has prepared a comprehensive strategy. It has performed in line with the business plan approved by the board. The company has successfully improved its brokerage revenue to achieve operational breakeven. The operating revenue was further supported by progression in investment banking business. Market share of Alfalah Security has increased over time. The company has diversified the brokerage revenue by effectively placing itself in the international market. Currently, the company has several international brokers on its panel and plans to increase this. The company has a strong research department which is efficiently co-integrated with the online portal and provides technical and fundamental analysis of the listed companies. Ratings draw comfort from the company's policy not to undertake equity proprietary trading which reduces market risk and negligible credit risk due to transactions through ready cash only. The insignificant credit risk arises from transactions with corporate and foreign clients.

KEY RATING DRIVERS

The ratings are dependent on the company's ability to build a reasonable market share in the highly competitive brokerage industry. Sustainable and organic growth in revenue and maintaining operational breakeven is important. At the same time, retention of key human resources remains imperative.



	<i>PKR mln</i>			
	31-Mar-17 <i>Management Accounts</i>	31-Dec-16 <i>Audited</i>	31-Dec-15 <i>Audited</i>	31-Dec-14 <i>Audited</i>
BALANCE SHEET				
EARNING ASSETS				
Finances	-	-	-	-
Investments	24	69	64	40
	24	69	64	40
NON-EARNING ASSETS				
Cash and Bank Balances	204	144	42	1
Trade debts	230	466	59	5
Advances, Deposits and Other receivables	163	445	85	13
Others (including Fixed Assets)	26	26	24	5
TOTAL ASSETS	647	1,151	275	64
Equity	231	228	243	(24)
Borrowings	90	450	-	-
Other Liabilities (Non-Interest Bearing)				
Trade Creditors	311	450	28	17
Other Liabilities	15	23	5	71
TOTAL EQUITY & LIABILITIES	647	1,151	275	64
INCOME STATEMENT				
Fee-Based Income				
Fees	5	-	-	0
Commission	-	-	0	-
Brokerage	38	81	6	1
Others	3	-	2	0
Operating Expenses	(37)	(124)	(39)	(17)
Brokerage Income / (Loss)	8	(43)	(30)	(15)
Non Fee-Based Income	34	4	4	1
Total Operating Income / (Loss)	42	(39)	(26)	(14)
Financial Charges	(4)	(4)	(3)	(3)
Other Income / (Loss)	-	7	0	0
Profit / (Loss) Before Tax	39	(36)	(29)	(17)
RATIO ANALYSIS				
Performance				
Net Profit Margin	66.0%	-45.3%	-348.9%	-1135.1%
Cost-to-Fee Income	46.9%	146.0%	306.4%	682.9%
Capital				
Overdue Accounts Receivable / Total Accounts Receivable	2.36	1.17	9.19	119.65
Overdue Accounts Receivable / (Short Term Borrowings + Accounts Payable)	1.35	0.64	19.65	32.18
Accounts Receivable / (Short Term Borrowings + Customer Advances + Accounts Payable)	0.57	0.55	2.14	0.27
Exposure				
Investments / Equity	10.8%	35.9%	28.1%	-105.6%
Liquidity				
Trade Related Assets / Trade Related Liabilities	0.7	1.0	2.1	0.3
Liquid Assets / (Short term Borrowings + Advances from Customers + Accounts Payable)	0.5	0.2	2.4	0.0
Liquid Investments / Equity	0.1	0.4	0.3	(1.1)
Coverages				
EBITDA/Gross Interest	12.1	-7.7	-9.5	-2.4
FCFO/Gross Interest	9.5	-10.9	-9.8	-2.5
FCFO/Gross Interest+CMLTD+Uncovered Short Term Borrowings	9.5	-10.9	-9.8	-2.5
Total Debt (excluding Covered Short Term Borrowings) / FCFO	2.6	-9.8	0.0	-8.3
Capital Adequacy				
Equity / Total Assets	34.3%	16.7%	83.1%	-59.1%
Total Debt / Equity	39.2%	197.1%	0.0%	-288.3%

CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

LONG TERM RATINGS		SHORT TERM RATINGS
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+	Very high credit quality. Very low expectation of credit risk.	
AA	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
AA-		
A+	High credit quality. Low expectation of credit risk.	
A	The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	
A-		
BBB+	Good credit quality. Currently a low expectation of credit risk.	
BBB	The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	
BBB-		
BB+	Moderate risk. Possibility of credit risk developing.	
BB	There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	
BB-		
B+	High credit risk.	
B	A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	
B-		
CCC	Very high credit risk. Substantial credit risk	
CC	“CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.	
C		
D	Obligations are currently in default.	

<p>Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.</p>	<p>Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.</p>	<p>Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.</p>	<p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information</p>
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Name of Entity
Sector
Type of Relationship

Alfalah Securities Private Limited
Brokerage
Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
23-Jun-17	A-	A1	Stable	Upgrade
27-Jun-16	BBB+	A2	Stable	Initial

Related Criteria and Research

Rating Methodology
Sector Study

Securities Brokers Entity Rating Methodology
Brokerage Industry - Viewpoint | Nov-16

Rating Analyst

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[Rating Team Statement](#)

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)

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PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

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[Probability of Default \(PD\)](#)

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