



The Pakistan Credit Rating Agency Limited

Rating Report

Alfalah Securities (Pvt) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Jun-2018	A-	A1	Stable	Maintain	-
23-Jun-2017	A-	A1	Stable	Upgrade	-
27-Jun-2016	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The Entity Rating of Alfalah Securities (Private) Limited captures its emerging position in the country’s brokerage industry. The company is a subsidiary of Bank Alfalah Limited and four senior management personnel of the bank are on the board of the company. This is underpinned by its adequate governance, good risk management framework, hierarchical organizational structure and strong control environment. The rating further draws comfort from the company’s policy for not taking market exposure for proprietary trades.

The Company has zero leveraged capital structure and adequate capitalization levels. The management team, experienced in respective functions has prepared a comprehensive business plan approved by the board. The company successfully improved its brokerage revenue in CY17. In addition to its brokerage business, the company enjoys distinct position in investment banking and advisory domain. The management has effectively integrated the investment banking function with an independent advisory board to provide competitive advantage. Enhancement in investment banking income would further add diversity and support to the brokerage business. The foreign market share has been enhancing due to the emplacement of foreign brokers on its board.

The rating is dependent on the ability of the company to sustain profits and strengthen its emerging position in the brokerage industry. Stability of the key human resource and consistent profits will bode well for the company.

Disclosure

<b>Name of Rated Entity</b>	Alfalah Securities (Pvt) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Securities Broker (Mar-17)
<b>Related Research</b>	Sector Study   Brokerage / Securities(Oct-17)
<b>Rating Analysts</b>	Shahzaib Khalid   shahzaib.khalid@pacra.com   +92-42-35869504

ALFALAH SECURITIES PRIVATE LIMITED PROFILE	
<b>Incorporated</b>	2004
<b>Major business lines</b>	<ul style="list-style-type: none"> <li>▪ Brokerage</li> <li>▪ Research</li> <li>▪ Investment Banking</li> </ul>
<b>Legal status</b>	Private Limited
<b>Number of branches</b>	1

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> <li>▪ Fragmented industry with 305 brokers (SECP list of registered brokers as on Nov 30, 2016).</li> <li>▪ Total number of registered UINs as on June 30, 2017 – 245,758.</li> <li>▪ Total number of listed scrips - 529 as on June 30, 2017.</li> <li>▪ Stringent regulatory framework governed by SECP, PSX, NCCP and CDC.</li> </ul>

OWNERSHIP
<ul style="list-style-type: none"> <li>▪ <b>Profile</b> – Alfalah Securities Private Limited was incorporated in 2004 as a private limited company.</li> <li>▪ <b>Ownership</b> - Alfalah Securities is ~98% owned by Bank Alfalah Limited and 2% owned by individuals. Bank Alfalah is majority owned and managed by the Abu Dhabi group. The company has limited synergies with the bank.</li> </ul>

GOVERNANCE
<ul style="list-style-type: none"> <li>▪ <b>Board Structure</b> - The board of directors comprise five experienced individuals including the CEO, Mr. Atif Mohammed Khan. Four board members represent Bank Alfalah. The board has no independent director.</li> <li>▪ <b>Board Committees</b> – The audit committee comprises three non-executive directors. It is chaired by Mr. Haroon Khalid.</li> <li>▪ <b>Board Effectiveness</b> - The board meetings are held every quarter to review the performance of the company.</li> <li>▪ <b>Financial Transparency</b> - KPMG Taseer Hadi &amp; Co are the external auditors and are ranked in the ‘A category’ in the State Bank’s list of approved auditors. The auditor has expressed an unqualified opinion on the financial statements for CY17.</li> </ul>

MANAGEMENT
<ul style="list-style-type: none"> <li>▪ <b>Organizational Structure</b> - Alfalah Securities has a well-designed, multi-tier organizational structure with the senior management of all departments reporting to the CEO. Management committees exist at the senior management level to streamline the operations of the company.</li> <li>▪ <b>Key Personnel</b> - The Company has an experienced and skilled management team with a mix of professionals from the banking industry. Mr Atif Mohammed is the CEO since June 2015. He carries over two decades of experience of the capital markets. The investment banking department is headed by Mr. Imran Sherani.</li> </ul>

RISK MANAGEMENT
<ul style="list-style-type: none"> <li>▪ <b>Risk</b> - The Company’s risk manual has been approved by the board. The designated Risk Manager reports directly to the board and is overseen by the CFO on daily basis.</li> <li>▪ <b>Internal Audit</b> - The Company has outsourced its internal audit function to an independent firm. The audit committee holds regular meetings to discuss the observations reported in the internal audit reports.</li> <li>▪ <b>Credit Risk</b> - To keep the credit risk low, company does not provide credit to its clients unless the need arise to provide credit. Credit limits are established based on the counter parties’ financial situation.</li> <li>▪ <b>Market Risk</b> - The Company, as a policy, does not engage in proprietary trading which ensures minimal market risk.</li> <li>▪ <b>Operational Risk</b>- The specified margins and inbuilt restrictions in the trading software mitigate the risk of breach of margin limits. A business continuity plan exists to ensure smooth operations in times of disaster.</li> </ul>

BUSINESS RISK
<ul style="list-style-type: none"> <li>▪ The strategic importance of the Company has been increasing due to its market share (4.2% at 31<sup>st</sup> December, 2017). The company attracts foreign business through its alliance with foreign brokers/dealers.</li> <li>▪ For CY17, brokerage revenue was PKR 136 million as compared to PKR 82 million in CY16. This is mainly due to rising market share, domestic and foreign. Higher volumes have been handled by the company during the year.</li> <li>▪ The company reported profit after tax of ~PKR 20 million compared to a loss of ~PKR 37 million in CY16. The gain of PKR 44 million on sale of PSX shares provided one-off support to the bottom line.</li> <li>▪ An independent advisory board, chaired by Mr. Shahzad Ashfaq, is in place to provide unique advantage to the investment banking department.</li> <li>▪ Going forward, the company intends to enhance its foreign market share and attract foreign institutional and advisory clients.</li> </ul>

FINANCIAL RISK
<ul style="list-style-type: none"> <li>▪ The company has an adequate capitalization level with the regulatory Net Capital Balance standing of PKR 143 million at end Sep-17. As per regulations, exposure up to 25 times (PKR 3.6 billion) can be taken which gives modest capacity to avail orders.</li> <li>▪ The loan of PKR 50 million has been repaid in March 2017. Currently, the company has no long-term loan facility on its balance sheet.</li> <li>▪ The equity base of PKR 230 million along with zero leveraged capital structure provides cushion to the risk absorption capacity of the Company.</li> <li>▪ The liquid assets were 2.4x of the trade related liabilities as at 31<sup>st</sup> December 2017 (2.3x at 31<sup>st</sup> December 2016).</li> </ul>

RESEARCH
<ul style="list-style-type: none"> <li>▪ The research department is being headed by Mr. Fahad Irfan. The research team consists of six analysts and two support staff.</li> <li>▪ An advanced research portal exists which provides fundamental and technical analysis along with company financials of various stocks.</li> <li>▪ The company’ stock coverage comprises 40 stocks which account for more than 80% of the KSE-100 market capitalization.</li> </ul>



**BALANCE SHEET**

	31-Dec-17	31-Dec-16	31-Dec-15
	Audited	Audited	Audited
<b>EARNING ASSETS</b>			
1 Finances	-	-	-
2 Investments	43	69	64
	<b>43</b>	<b>69</b>	<b>64</b>
<b>NON-EARNING ASSETS</b>			
3 Cash and Bank Balances	245	144	42
4 Trade debts	233	466	59
5 Advances, Deposits and Other receivables	386	445	85
6 Others (including Fixed Assets)	23	26	24
<b>TOTAL ASSETS</b>	<b>929</b>	<b>1,151</b>	<b>275</b>
7 Equity	232	228	243
8 Borrowings	343	450	-
Other Liabilities (Non-Interest Bearing)			
9 Trade Creditors	336	450	28
10 Other Liabilities	18	23	5
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>929</b>	<b>1,151</b>	<b>275</b>

**INCOME STATEMENT**

	31-Dec-17	31-Dec-16	31-Dec-15
	Audited	Audited	Audited
<b>Fee Based Revenue</b>			
11 Fees	-	-	-
12 Brokerage	136	81	6
<b>Operating Expenses</b>			
13 Personnel Expenses	(75)	(69)	(18)
14 Administrative Expenses	(75)	(55)	(21)
<b>Fee Based Income / (Loss)</b>	<b>(14)</b>	<b>(43)</b>	<b>(32)</b>
<b>Non Fee-Based Income</b>			
15 Bank Deposits and others	4	2	1
16 Gain on Sale of Investments	44	1	-
17 Others	8	7	5
<b>Total Operating Income / (Loss)</b>	<b>42</b>	<b>(32)</b>	<b>(26)</b>
18 Financial Charges	(12)	(4)	(3)
<b>Profit / (Loss) Before Tax</b>	<b>30</b>	<b>(37)</b>	<b>(29)</b>
19 Taxes	(12)	(1)	(0)
<b>Net Income</b>	<b>19</b>	<b>(38)</b>	<b>(29)</b>

**RATIO ANALYSIS**

	31-Dec-17	31-Dec-16	31-Dec-15
	Audited	Audited	Audited
<b>CREDIT RISK</b>			
20 Accounts Receivable / Avg. Daily Value Traded	0.1%	0.6%	1.3%
21 Overdue (> 14 days) Accounts Receivable / Total Accounts Receivable	0.0%	100.0%	100.0%
22 Accounts Receivable / (Short Term Borrowings + Customer Advances + Accounts Payable)	34.3%	54.8%	213.7%
<b>LIQUIDITY RISK</b>			
23 Trade Receivables / Trade Payables	0.69	1.03	2.14
24 Liquid Assets / Trade Related Liabilities	0.75	0.37	3.84
25 Liquid Assets / (Short term Borrowings + Advances from Customers + Accounts Payable)	0.37	0.20	3.84
<b>BUSINESS RISK</b>			
26 Net Profit (before tax) Margin	22.8%	(44.1%)	(339.6%)
27 Fee Based Income to Total Income	71.0%	88.7%	50.8%
28 Operating Cost-to-Total Income	78.0%	135.3%	306.4%
29 Net Fee based Income to Net Profit before Tax	(44.7%)	116.9%	111.9%
30 Net Profit (before tax) to Total Income	15.7%	(39.9%)	(228.5%)
31 Net Non-Earning Assets / Equity	374.9%	467.1%	84.9%
<b>FINANCIAL RISK</b>			
32 Borrowings / Equity	148.2%	197.1%	0.0%
33 NCB / Equity	61.9%	72.1%	66.6%



## ENTITY CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.			
<b>LONG TERM RATINGS</b>		<b>SHORT TERM RATINGS</b>	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<b>A1+:</b> The highest capacity for timely repayment.  <b>A1:</b> A strong capacity for timely repayment.  <b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.  <b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.  <b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.  <b>C:</b> An inadequate capacity to ensure timely repayment.	
<b>AA+</b>	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.		
<b>AA</b>	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.		
<b>AA-</b>			
<b>A+</b>	<b>High credit quality.</b> Low expectation of credit risk. 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.		
<b>A</b>			
<b>A-</b>			
<b>BBB+</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.		
<b>BBB</b>			
<b>BBB-</b>			
<b>BB+</b>	<b>Moderate risk.</b> Possibility of credit risk developing. 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.		
<b>BB</b>			
<b>BB-</b>			
<b>B+</b>	<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>B</b>			
<b>B-</b>			
<b>CCC</b>	<b>Very high credit risk.</b> "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.		
<b>CC</b>			
<b>C</b>			
<b>D</b>	Obligations are currently in default.		
<b>Rating Watch</b> 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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.	<b>Outlook (Stable, Positive, Negative, Developing)</b> Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business or 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'.	<b>Suspension</b> 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, a suspended rating should be considered withdrawn.	<b>Withdrawn</b> 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, or e) the entity/issuer defaults.
<b>Disclaimer:</b> PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.			

### **Rating Team Statements**

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

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- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

### **Conduct of Business**

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

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- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

### **Probability of Default**

(22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

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