



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
31-Dec-2018	A-	A1	Developing	Maintain	YES
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

Entity Ratings of Alfalah Securities (Private) limited apprehend its emerging position in the country's brokerage industry. During the year, Credit Lyonnais Securities Asia (CLSA) has acquired 24.9% stake in Alfalah Securities (Pvt.) Ltd. This is expected to bring changes on the board and strategy of the company and impact its overall standing in the industry. Moreover, there will be a change in entity's name to leverage CLSA's strong brand. Considering these developments, PACRA has placed the Entity Ratings of Alfalah Securities (Pvt.) Ltd on Rating Watch-Developing. The ratings will be reviewed after completion of this transition, regulatory approvals and all relevant activities.

Disclosure

Name of Rated Entity	Alfalah Securities (Pvt) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Security Broker(Jun-18)
Related Research	Sector Study Brokerage & Security(Nov-18)
Rating Analysts	Shahzaib Khalid shahzaib.khalid@pacra.com +92-42-35869504

ALFALAH SECURITIES PRIVATE LIMITED PROFILE	
Incorporated	2003
Major business lines	<ul style="list-style-type: none"> ▪ Brokerage ▪ Research ▪ Investment Banking
Legal status	Private Limited
Number of branches	1

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> ▪ Fragmented industry with 234 brokers (as at June 30th, 2018). ▪ Total number of registered UINs as on June 30th, 2018 – 238,763. ▪ Total number of listed scrips - 558 as on June 30, 2018. ▪ Stringent regulatory framework governed by SECP, PSX, NCCP and CDC.

PROFILE AND OWNERSHIP

- **Profile and Ownership** – Alfalah Securities is a subsidiary of Bank Alfalah Limited, where bank holds ~61.2% of the company. Bank Alfalah is a prominent bank, owned and managed by Abu Dhabi group. During the year, Hong Kong Based investment group, Credit Lyonnais Securities Asia (CLSA) acquired ~24.9% stake in the company. The Chairman Mr. Aliuddin Ansari, a seasoned professional holds ~10.6% stake in the company. The remaining stake is held by the CEO Mr. Atif M. Khan (~2%). There may be change in name to reflect CLSA's shareholding.

GOVERNANCE

- **Board Structure** – The company's board is expecting changes in result of CLSA acquiring shareholding in Alfalah Securities. Currently there are five directors on the board, with Mr. Aliuddin Ansari as its Chairman.
- **Financial Transparency** - KPMG Taseer Hadi & Co are the external auditors and are ranked in the 'A category' in the State Bank's list of approved auditors.

MANAGEMENT

- **Organizational Structure** - 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. There may be changes in organizational structure and reporting lines to leverage established CLSA's experience and presence in many countries.
- **Key Personnel** - 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.

RISK MANAGEMENT

- **Risk** - 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.
- **Internal Audit** - The company has outsourced its internal audit function to BDO Ebrahim & Co and is ranked in the 'A category' of the State Bank's list of approved auditors.
- **Credit Risk** - 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.
- **Market Risk** - The company, as a policy, does not engage in proprietary trading which ensures minimal market risk.
- **Operational Risk**- 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.

BUSINESS RISK

- **Market Share** - The strategic importance of the company has been increasing due to its market share (~3%). The company attracts foreign business through its alliance with foreign brokers/dealers.
- **Revenue** - During 9MCY18, company's brokerage revenue declined by ~13% to ~PKR 85mln, as compared to same period last year. The drop was mainly due to lower brokerage income from retail clientele and overall dynamics of the sector as volumes remained depressed in stock market.
- **Profitability** - The company suffered loss of ~62mln in 9MCY18, as compared to profit after tax of ~PKR 34mln in the same period last year. This was a function of lower revenues and increasing expenses. However, the company remains well positioned to benefit from a revival in stock market.

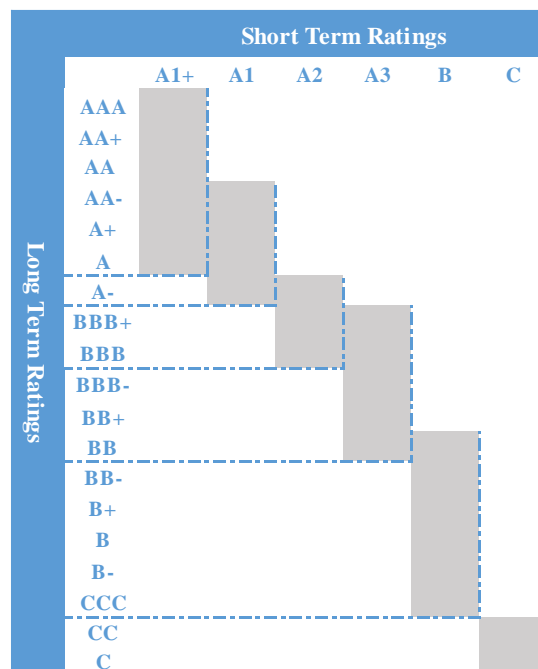
FINANCIAL RISK

- **Capitalization** - 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 25x times can be taken which gives modest capacity to avail orders.
- **Equity** - The equity base of the company stood at ~PKR 158mln at end Sep-18.

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	A1+	The highest capacity for timely repayment.
AA+ AA AA-	Very high credit quality. 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.	A1	A strong capacity for timely repayment.
A+ A A-	High credit quality. 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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB BBB-	Good credit quality. Currently a low expectation of credit risk. 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB BB-	Moderate risk. 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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B B-	High credit risk. 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.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit risk. Substantial credit risk “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.		
D	Obligations are currently in default.		



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’.

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.

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.

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.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/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

Restrictions

- (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)

Independence & Conflict of interest

- (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)

Monitoring and review

- (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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