



The Pakistan Credit Rating Agency Limited

Rating Report

Alfalah CLSA Securities (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Apr-2022	A-	A1	Stable	Maintain	-
04-May-2021	A-	A1	Stable	Maintain	-
26-Jun-2020	A-	A1	Stable	Maintain	-
26-Dec-2019	A-	A1	Stable	Maintain	-
28-Jun-2019	A-	A1	Stable	Maintain	-
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

Alfalah CLSA Securities (Pvt.) Limited (“ACLSA” or “The Company”) mainly provides the services of equity brokerage while income from corporate finance also adds to the topline. With an average market share of ~6.5%, the clientele of the Company is fairly diversified between institutions/corporates and HNWI’s/Retail. In line with the improving market volumes in CY21 the brokerage revenue of ACLSA has also depicted an increase of ~30% to stand at ~PKR 287mln (CY20: ~PKR 120mln). ACLSA also posted some growth in its revenues from investment banking; nevertheless, the topline continues to feature significant reliance on brokerage commissions, and accordingly there remains room for improvement in the revenue diversification domain. The average traded volumes during CY21 registered an upward trajectory and improved by ~44% to ~474mln shares (CY20: ~330mln) depicting an increased participation in the equity market led by increasing investor confidence and the global COVID-19 vaccine rollout. Accordingly, the bottom-line also surged by ~PKR 32mln to stand at ~PKR 61mln (CY20: ~PKR 29mln). The market risk is negligible as the Company does not invest in equity securities. During CY21, utilization of short-term borrowing lines reduced to NIL, which shows company's low reliance on short term lines owing to better liquidity management. The Company has a well-defined organizational structure with most of the heads reporting directly to CEO. The rating incorporates seasoned management and adequate control framework which may be improved with the presence of a dedicated Risk Management Department. Moreover, the governance framework may be enhanced further with the induction of independent directors for an increased oversight. As part of the long-term plan the Company intends to capture retail clientele with the use of digital platforms.

The rating is dependent on the Company's ability to leverage its association with CLSA to attract foreign investors. Maintaining a strong financial profile and retention of key human resources remains important. Meanwhile, improving profitability and maintaining market share is critical.

Disclosure

Name of Rated Entity	Alfalah CLSA Securities (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Broker Entity Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Brokerage & Securities(Jan-22)
Rating Analysts	Ayesha Qasim ayesha.qasim@pacra.com +92-42-35869504



Profile

Background Alfalah CLSA Securities (Pvt.) Limited ("ACLSA" or "The Company") is a Private Limited Company and holds the Trading Rights Entitlement Certificate (TREC) from Pakistan Stock Exchange - PSX. The Company is licensed from Securities and Exchange Commission of Pakistan. The Company was incorporated on 23rd September 2003 under then Companies Ordinance, 1984 and commenced its operations on 25th March 2004.

Operations The Company is primarily engaged in the business of equity brokerage, investment banking/corporate finance and research.

Ownership

Ownership Structure Bank Alfalah Limited owns ~61% of the shares while ~25% shares are vested with CLSA Limited. The Chairman, Mr. Aliuddin Ansari, holds ~11% and the CEO, Mr. Atif Mohammad Khan holds remaining ~2% of the stakes.

Stability The holding Company "Bank Alfalah Limited" is the one of the largest private banks in Pakistan, listed on PSX and has a widespread network of ~750 branches in more than 200 cities in Pakistan and also has an international presence in Bangladesh, Bahrain & U.A.E. The Institutional ownership of CLSA also bodes well for stability.

Business Acumen The Company's sponsors, Bank Alfalah Limited and CLSA are prominent institutions of financial service sector. Bank Alfalah is a prominent bank, owned and managed by Abu Dhabi group. CLSA is the leading investment group of East Asia. CLSA's global network of 21 offices spans Asia, Australia, Europe and the United States. Over 30 years, CLSA's network spans across 14 markets in Asia, complemented by the global reach in Europe and the United States.

Financial Strength Bank Alfalah Limited has a long-term rating of AA+ and a short-term rating of A1+ and reported equity of ~PKR 100bln at end-Dec'21.

Governance

Board Structure The Company's board is comprised of six members, including the CEO. Three board members represents Bank Alfalah Limited while Mr. Edward Park, represents CLSA. All the directors except CEO are non-executive. Mr. Aliuddin Ansari is entrusted with the responsibility of Chairman of the board.

Members' Profile The Board members have strong educational background and diversified experience which provides seasoned guidance to the Company. Mr. Faisal Rabbani, Mr. Asim Wajid Jawad and Mr. Yahya Khan possess more than 2 decades of seasoned experience with renowned financial institutions both locally and internationally. Mr. Asim Wajid Jawad and Mr. Yahya both are FCA from Institute of Chartered Accountants in England & Wales.

Board Effectiveness The board meets on a regular basis to evaluate the performance of the Company. The diversified experience of the board members provides useful insight in governing the Company's affairs. The Company has formed an audit committee at board level for overseeing the significant risk areas assessed by management, Internal or external auditors.

Transparency The Company has appointed M/S EY Ford Rhodes Chartered Accountants as the external auditors. The auditors are ranked in the 'A category' of the State Bank of Pakistan's list of approved auditors. The auditors have formed an unqualified opinion on the financial statements for CY21.

Management

Organizational Structure The Company has well defined organizational structure with proper chain of command and departmentalization. All departments are led by experienced professionals.

Management Team The management team is experienced and possess the relevant skills and educational profile for efficient management of business operations. The foreign and local sales desk are being led by two different individuals. The CEO, Mr. Atif Muhammad Khan has over 24 years of experience in Equity Brokerage and Capital Markets with reputable institutions. The Executive Director - Equities, Mr. Bilal Ather has over 22 years of experience in securities brokerage and private wealth management.

Management Effectiveness The Company has implemented technology driven front and back office system acquired from approved vendor of SECP. Both of the front and back office software are integrated and generates real time based MIS reports for management use.

Control Environment The Company has outsourced its internal audit function to BDO Ebrahim & Company Chartered Accountants. Compliance Department ensures regular monitoring of controls and systems, which ensures all functions are in-line with the applicable policies and procedures.

Business Risk

Industry Dynamics During CY21, the stock market remained range bound and posted a 1.9% return, bottoming at 42,780 points in March and peaking at 48,726 points in mid of June. For CY22, the economic recovery continues to gain momentum, as reflected in most high-frequency indicators such as automobile sales, POL sales, and electricity generation etc. However, the main concern is the challenge in the form of elevated Current Account Deficit and inflationary pressure due to commodity upcycle and volatile global economic scenarios. The channeling of liquidity in response to MSCI rebalancing in May and June 2022 may materialize this year, resulting in possible improvement of market volumes. The ongoing geopolitical tensions amid the Ukraine-Russia war are further added onto the domestic political tensions of Pakistan, forecasting turbulent few months ahead with unexpected effects for the capital market.

Relative Position The average market share of the Company on the basis of volume traded stood at ~6.9% in CY21.

Revenues The Company has earned revenue of ~PKR 309mln from equity brokerage and investment banking for the period of CY21. The revenue has witnessed a growth of ~34% when compared with last year on the back of improved market volumes in CY21. Major part of the revenue is comprised of commission on equity brokerage while the investment banking has also shown improvement.

Cost Structure The Company reported profit after tax of ~PKR 62mln in CY21 compared to a profit of ~PKR 29mln in CY20. Operating expenses also followed the uptrend and increased by ~25% to ~PKR 223mln in CY21 (CY20: ~PKR 178mln), mainly due to increase in salaries, legal and professional charges and brokerage expenses.

Sustainability Going forward, the Company has planned to increase its footprint in the retail segment with the use of technology. For this purpose relevant human resources have also been hired. The Company is also enhancing its geographical diversification and customer outreach.

Financial Risk

Credit Risk To manage the credit risk, ACLSA has adopted different procedures for different category of clients. ACLSA has clearly defined the exposure limits in its Risk Management Policy. For all categories except foreign and institution clients 30% cash or security margin must be available to execute trades except online retail clients.

Market Risk ACLSA as a policy, does not engage in proprietary investments, thus limiting the impact of market risk. The Company as a policy keeps its customers cash in a segregated account and reconciles the account at the day end.

Liquidity Risk At end-CY21, the current assets of the Company stood at ~PKR 920mln (SPLY: ~PKR 571mln) against current liabilities of ~PKR 309mln (SPLY: ~PKR 317mln).

Capital Structure The Company has an adequate capitalization level with Net Capital Balance (NCB) standing at PKR ~534mln as at Dec-21. The equity stands at ~PKR 335mln at end-Dec'21 (Dec'20: ~PKR 277mln).



**Alfalah CLSA Securities (Pvt.) Limited
Private Limited**

Dec-21	Dec-20	Dec-19
12M	12M	12M

A BALANCE SHEET

1 Finances	-	-	1
2 Investments	26	28	103
3 Other Earning Assets	386	205	255
4 Non-Earning Assets	574	383	430
5 Non-Performing Finances-net	-	-	-
Total Assets	986	616	789
6 Funding	315	95	292
7 Other Liabilities (Non-Interest Bearing)	336	244	259
Total Liabilities	651	339	551
Equity	335	277	238

B INCOME STATEMENT

1 Fee Based Income	309	230	120
2 Operating Expenses	(223)	(178)	(152)
3 Non Fee Based Income	9	8	14
Total Operating Income/(Loss)	95	60	(17)
4 Financial Charges	(21)	(18)	(11)
Pre-Tax Profit	74	42	(28)
5 Taxes	(13)	(14)	(6)
Profit After Tax	61	29	(34)

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)

22.0%	29.4%	-62.3%
23.2%	9.4%	-16.0%

Return on Equity (ROE)

2 Capital Adequacy

Equity / Total Assets (D+E+F)

34.0%	44.9%	30.1%
426.3%	387.2%	-155.2%

Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)

3 Liquidity

Liquid Assets / Total Assets (D+E+F)

49.3%	50.5%	55.1%
183.7%	166.8%	254.5%

Liquid Assets / Trade Related Liabilities

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers

108.5%	73.1%	41.3%
100.0%	100.0%	100.0%

Equity Instruments / Investments

Credit Rating

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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(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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- (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.
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- (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)
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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)

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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