



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
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

The Entity Ratings of Alfalah Securities (Pvt) Limited apprehend its emerging position in the country's brokerage industry. In the preceding year, Credit Lyonnais Securities Asia (CLSA) has acquired 24.9% stake in Alfalah Securities (Pvt.) Ltd, followed by Bank Alfalah Limited (~62%). The rating incorporates the company's ability to retain market share in lackluster equity market volumes. The company has sound governance framework and well developed organizational structure. The Internal control environment is considered effective with well-defined policies. Moreover, there will be a change in entity's name to leverage CLSA's strong brand. The rating continues to factor the company's sound risk and compliance function.

Improvement in profitability, continuous monitoring of risk related parameters and retention of key human resource will bode well for the company. Meanwhile, maintaining its competitive position in the industry through diversification and volume based enhancement in revenues is critical for ratings.

Disclosure

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



Profile

Legal Structure Alfalah Securities is a Private Limited Company and holds Trading Rights Entitlement Certificate from Pakistan Stock Exchange - PSX.

Background The Company was incorporated on 23rd September 2003 under the Companies Ordinance, 1984 and commenced its operations on 25th March 2004.

Operations The Company is engaged in the business of equity brokerage and research and investment advisory.

Ownership

Ownership Structure Alfalah Securities is a subsidiary of Bank Alfalah Limited. Bank Alfalah holds ~61.2% of the company. Bank Alfalah is a prominent bank, owned and managed by Abu Dhabi group. During CY18, Hong Kong Based investment group, Credit Lyonnais Securities Asia (CLSA) acquired ~24.9% stake in the company. The Chairman Mr. Aliuddin Ansari, holds ~10.6% stake in the company. The remaining stake is held by the CEO Mr. Atif M. Khan (~2%). The name of the company is expected to be changed to reflect CLSA's shareholding.

Stability The holding company "Bank Alfalah" is the fifth largest private bank in Pakistan, listed on PSX and has a widespread network of 478 conventional banking branches.

Business Acumen The company's sponsors, Bank Alfalah Limited and CLSA are prominent institutions of financial services sector. CLSA is the leading investment group of East Asia and received numerous industry awards for its independent and insightful research, high quality equity brokerage and corporate finance and capital markets services. Mr. Ali Ansari is a seasoned professional having over 30 years of experience in both local and international institutions. He is the former Chief Executive Officer of AKD Securities, Chief Operating Officer of (CLSA) and an Investment Manager at Bank of America in London.

Financial Strength Bank Alfalah has a long-term rating of AA+ and a short-term rating of A1+ and reported equity of ~PKR 77bln as at March-19.

Governance

Board Structure Alfalah Securities board of directors comprises seven members, including the CEO. Four board members represent Bank Alfalah and Mr. Donald William, recently joined the company's board as a non-executive director and representing 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. Asim Wajid Jawad and Mr. Anjum Hai have over twenty years of experience in the banking industry both locally and internationally.

Board Effectiveness The diversified experience of the board members provide useful insight in governance. The board meets on quarterly basis to review the performance of the company. Two board meetings were held in 1HFY19. All board members attended the meetings and the minutes reveal active participation of the board members.

Financial Transparency Alfalah Securities has outsourced the internal audit function to an independent audit firm. The internal auditors quarterly report their findings to the audit committee. The audit committee has properly defined TORs and comprises three members. Mr. Anjum Hai, a non-executive director chairs the audit committee. Ernst & Young are the external auditors of the company and are ranked in the 'A category' on the State Bank's list of approved auditors. They formed an unqualified opinion on the financial statements of year end CY18.

Management

Organizational Structure Alfalah Securities has a multi-tier functional organization structure, all departments are led by experienced professionals. A management committee is constituted to assist the CEO in multiple business matters. There may be changes in organizational structure and/or reporting lines to leverage CLSA's experience and established presence in many countries.

Management Team The company's seasoned management team includes nine members which reports directly to the CEO. Mr. Atif Muhammad Khan is the CEO of the company and has over two decades of experience in the capital markets. Mr. Imran Sherani is the head of investment banking and has vast experience in the relevant field.

Effectiveness The company has well developed research department, stock coverage comprises around 80% of the KSE-100 market capitalization. A strong client reporting mechanism is in place with account statements and market reports communicated to the clients on regular basis.

Control Environment Alfalah Securities has deployed a good information system. Multiple reports are generated for the key management personnel on regular basis. The ability of the company to produce information in report form helps in the decision-making process.

Risk Management Framework The company has a separate risk management department with a designated Risk Manager. The Risk Manager reports directly to the CEO. The company follows a risk management policy to provide trading services in ready and future markets through cash. The board is responsible for developing and monitoring the risk management policies of Alfalah Securities. To identify and monitor potential risks at operational level, management has established code of conduct and trading hall SOPs.

Business Risk

Industry Dynamics During first five months of CY19, KSE-100 posted a negative return of ~-3%. Trading activity remained low on the back of negative market sentiments due to uncertainty on market performance in the backdrop of an economic slowdown, rising interest rate environment and consistent drag on IMF front. Concerns on upcoming budgetary measures remained in limelight. The overall trading volumes in first five months of CY19 remained low, (5MCY19: 88mln, CY18: 97mln, CY17: 102mln) as compared to previous years. This has put pressure on income of all brokerage entities.

Relative Position The Company's market share was ~4-5% in CY18. On foreign front, company's market share is increasing on the back of CLSA acquisition. The company successfully captured ~20% of the market on account of its foreign business.

Revenue At end Dec-18, the equity brokerage income of Alfalah Securities stood at ~124mln, same as compared to CY17. Non-fee based income over CY18 declined to ~PKR 5mln (CY17: ~PKR 55mln).

Profitability During CY18, company made loss of ~27mln as compared to net income of ~PKR 17mln in CY17.

Sustainability The management is increasing focus on investment banking and investing resources to increase its foot prints.

Financial Risk

Credit Risk Checklist and KYC form is available to assess customer creditworthiness. Detailed AML & CFT policy is designed for client due diligence. The company provides MTS facility, SOP's on margin maintenance are fully defined. Risk management department closely monitors MTS open positions on daily basis.

Market Risk Alfalah securities is less exposed to market risk because the company is not running a proprietary book for investments. Client facilitation book exists but limited in size.

Liquidity Profile The liquidity risk for the company arises from the T+2 settlement framework. The Company's trade related assets are 1.1x of its trade related liabilities as at 31st December, 2018 as compared to 0.7x as at 31st December, 2017. The liquid assets were 0.4x of the trade related liabilities for CY18 (CY17: 0.3x).

Capitalization The company's Net Capital Balance stood at ~PKR 171mln at end March-19.



	31-Mar-19 1QCY19	31-Dec-18 CY18	31-Dec-17 CY17	31-Dec-16 CY16
	Audited	Audited	Audited	Audited
A. EARNING ASSETS				
a. Finances				
1. Margin Trading System	0	0	0	0
2. Ready Futures	0	0	0	0
	0	0	0	0
b. Investments				
1. Cash at Banks - S A/c - Own Funds	0	22	19	0
2. Cash at Banks - S A/c - Client's Funds	164	35	215	79
3. Govt. Securities and Money Market Fund	0	0	0	0
4. Debt Securities & Income Funds	0	0	0	0
Other Investments	0	0	0	0
i) Related Party	0	0	0	0
ii) Listed Equity Investments	0	0	0	0
iii) Others	0	0	0	0
iv) Unlisted	26	22	36	24
	191	57	251	103
Total Earning Assets	191	79	270	103
B. NON-EARNING ASSETS				
1. Cash In hand	0	0	0	0
2. Cash at Banks - C A/c - Own Funds	4	25	10	32
3. Cash at Banks - C A/c - Client's Funds	0	0	0	33
4. Accounts Receivable	85	134	233	466
5. Advances, Deposits and Other receivables	297	307	392	445
6. Fixed Assets	18	19	23	71
	403	486	659	1,047
Non-Earning Assets	403	486	659	1,047
C. TOTAL ASSETS	594	565	929	1,151
D. Funding				
1. Commercial				
i) Advances from Customers	0	0	0	0
ii) Payables to Customers	232	127	341	450
	232	127	341	450
2. FIs				
i) Short-term Borrowings	78	279	343	400
ii) Current Maturity of Long Term Debt	0	0	0	0
iii) Long-term Borrowings	0	0	0	50
	78	279	343	450
	310	407	685	900
E. Other Liabilities				
1. Due to Associates	0	0	0	0
2. Other Liabilities (staff gratuity, Accrued mark-up)	23	24	13	16
3. Provision for Taxation	0	0	0	6
	23	24	13	23
Other Liabilities	23	24	13	23
F. EQUITY				
1. Share Capital	383	250	250	1,150
2. Reserves:				
i. Statutory Reserve	0	0	0	0
ii. Capital Reserve	0	0	0	0
iii. Reserve for Bonus Shares	0	0	0	0
iv. Revenue Reserve	0	0	0	0
v. Unappropriated Profit	(134)	(122)	(43)	(958)
	(134)	(122)	(43)	(958)
Pure Equity	249	128	207	192
3. Surplus/(Deficit) on Revaluation of Investments	12	6	25	36
	260	134	232	228
Total Equity	260	134	232	228
G. TOTAL LIABILITIES & EQUITY	594	565	929	1,151
H. CONTINGENT LIABILITIES	0	0	0	0

Alfalah Securities (Pvt.) Limited
INCOME STATEMENT

For the period ended

	31-Mar-19 1QCY19 Audited	31-Dec-18 CY18 Audited	31-Dec-17 CY17 Audited	31-Dec-16 CY16 Audited
1. Fee-Based Income				
a. Advisory Fees	0	1	12	0
b. Commission / Underwriting	0	0	2	0
c. Brokerage	29	124	124	81
d. Others	3	6	11	9
	31	131	148	91
2. Operating Expenses				
a. Personnel Expenses	(22)	(97)	(75)	(69)
b. Other Non-interest/Mark Up Expenses	(20)	(88)	(75)	(55)
	(42)	(185)	(150)	(124)
3. Brokerage Income / (Loss)	(11)	(54)	(1)	(33)
4. Non Fee-Based Income				
a. Placements (including Reverse REPO/COI/CFS)	0	0	0	0
b. Bank Deposits and others	0	0	0	0
c. Dividend Income	0	0	1	1
d. Gain on Sale of Investments	0	0	0	1
e. Surplus/(Deficit) on Revaluation of Investments	1	(1)	44	0
f. Share of profit of subsidiaries/associates	0	0	0	0
g. Others	0	0	0	0
	1	(0)	44	2
5. Total Operating Income / (Loss)	(10)	(54)	43	(32)
6. Financial Charges	(2)	(8)	(12)	(4)
7. Other Income / (Loss)	0	0	0	0
8. Profit / (Loss) Before Tax	(11)	(62)	31	(36)
9. Taxes	(1)	(13)	(12)	(1)
10. Net Income	(12)	(76)	20	(37)
12. Unappropriated Profit / (Loss) Brought Forward	0	0	0	0
12. Adjustments	0	0	0	0
Available for Appropriations	(12)	(76)	20	(37)
13. Appropriations				
a. Statutory Reserve	0	0	0	0
b. Capital Reserve	0	0	0	0
c. Cash Dividend	0	0	0	0
d. Bonus Dividend	0	0	0	0
14. Unappropriated Profit/(Loss) Carried Forward	(12)	(76)	20	(37)



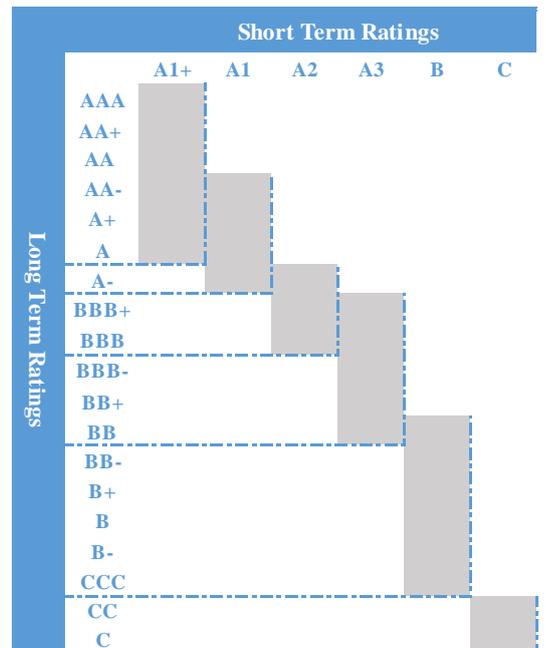
RATIO ANALYSIS

	31-Mar-19	31-Dec-18	31-Dec-17	31-Dec-16
	1QCY19	CY18	CY17	CY16
	Audited	Audited	Audited	Audited
A. PERFORMANCE				
1. ROE	(4.7%)	(56.1%)	11.0%	(16.4%)
a Net Profit Margin	(37.6%)	(57.6%)	13.2%	(40.6%)
b Asset Turnover	5.5%	23.2%	20.8%	8.0%
c Financial Leverage	227.9%	420.2%	401.0%	504.4%
2. ROA	(2.0%)	(10.1%)	1.9%	(5.2%)
3. Personnel Expenses-to-Total Operating Income	N/A	N/A	N/A	N/A
4. Personnel Expenses-to-Fee Income	70.9%	73.8%	50.7%	76.5%
5. Cost-to-Fee Income	129.3%	141.5%	77.7%	134.3%
6. Cost-to-Total Operating Income	N/A	N/A	N/A	N/A
7. Taxes / Pre-Tax Profit	(4.6%)	(21.6%)	37.1%	(2.6%)
8. Net Non-Earning Assets / Assets net of Non-Interest Liabilities	66.5%	85.4%	70.5%	90.9%
B. WORKING CAPITAL				
1. Accounts Receivable / (Short Term Borrowings + Customer Advances + Accou	27.4%	33.0%	34.0%	54.8%
C. FINANCIAL EXPOSURE				
1. Investments / Equity	76.7%	44.4%	121.4%	53.8%
2. Equities / Total Capital	10.6%	17.0%	17.3%	12.5%
3. Fixed Income / Total Capital	-	-	-	-
D. LIQUIDITY				
1. Trade Related Assets / Trade Related Liabilities	0.37	1.05	0.68	1.03
2. Liquid Assets / Total Assets	0.32	0.10	0.27	0.09
3. Liquid Assets / Trade Related Liabilities	0.71	0.28	0.63	0.18
4. Liquid Assets / (Short term Borrowings + Advances from Customers + Accounts	0.53	0.09	0.31	0.09
5. Adjusted Liquid Assets / (Short term Borrowings + Advances from Customers +	0.62	0.14	0.37	0.12
6. Liquid Investments / Equity	0.77	0.44	1.21	0.54
7. Accounts Receivable / (Short Term Borrowings + Customer Advances + Accoun	0.27	0.33	0.34	0.55
E. CAPITAL ADEQUACY				
1. Equity / Total Assets	41.9%	22.7%	22.3%	16.7%
2. Total Equity (including surplus on revaluation) / Total Assets	43.9%	23.8%	24.9%	19.8%
3. Total Debt / Equity	30.0%	208.0%	148.2%	197.1%
4. Dividend Payout Ratio	-	-	-	-
F. GROWTH				
1. Total Assets	5.1%	(39.2%)	(19.3%)	318.4%
2. Equity	94.2%	(38.1%)	8.0%	(16.3%)
3. Brokerage Revenue	(76.9%)	(0.3%)	52.9%	1,172.2%
4. Asset Yield	0.8%	(0.2%)	23.8%	2.6%

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)

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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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