



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
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

The ratings incorporate the Company's association with a renowned international brand, CLSA (~25% stake holder), the largest investment bank in China backed by CITIC Securities along with Bank Alfalah (~61% stake holder) the leading bank in Pakistan. The Company has sound governance framework, well experienced management team, and well established compliance protocols which bodes well for the rating. The Company has a distinct position in international brokerage income, constituting ~24% of its total brokerage revenue (CY19: ~35%) which illustrate competitive advantage over peers. The topline of the Company, commensurate with trading volumes of stock exchange index, reflected an upturn and rose by ~92% YoY. The average traded volumes during CY20 registered an upward trajectory and improved by ~95% to ~209mln shares (CY19: ~107mln) depicting an increased participation in the equity market led by increasing investor confidence in the country's economic rebound and the global COVID-19 vaccine rollout. The bottom-line of the Company also improved to ~PKR 29mln profit (CY19: ~PKR 34mln loss) and the Company maintained its market share at 3%. The Company's financial profile is characterized by strong risk absorption capacity owing to its strong liquidity profile. During CY20, utilization of short term borrowing lines significantly reduced to ~24% against 73% in CY19, which shows company's low reliance on short term lines owing to better working capital management and healthy cash flows. The Company does not have a proprietary trading portfolio, limiting its market risk exposure. The Company has adequate capitalization level with Net Capital Balance of ~PKR 137mln, whereas Net Equity as at Dec-20 stood at ~PKR 277mln (CY19: ~PKR 238mln). The Company's strong ownership remains a key rating factor.

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-20)
Related Research	Sector Study Brokerage & Securities(Jan-21)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504



Profile

Legal Structure Alfalah CLSA Securities (Private) Limited ("The Company" or "Alfalah CLSA") is a Private Limited Company, holds Trading Rights Entitlement Certificate from Pakistan Stock Exchange - PSX.

Background 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, research and investment banking.

Ownership

Ownership Structure Alfalah CLSA Securities (Private) Limited ("The Company" or "Alfalah CLSA") is a subsidiary of Bank Alfalah Limited. Bank Alfalah holds ~61% stake in the Company. CLSA Limited ("CLSA") acquired ~25% stake in the Company. The Chairman Mr. Aliuddin Ansari, holds ~11% and CEO Mr. Atif M. Khan holds remaining ~2% stake in the Company. The Company has changed its name from Alfalah Securities (Pvt.) Ltd to Alfalah CLSA Securities (Pvt.) Ltd.

Stability The holding Company "Bank Alfalah" is the fifth largest private bank in Pakistan, listed on PSX and has a widespread network of 650 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. Whereas, Mr. Aliuddin Ansari is a seasoned professional having more than 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 Financial Strength Bank Alfalah has a long-term rating of AA+ and a short-term rating of A1+ and reported equity of ~PKR 88bln as at end Dec'20.

Governance

Board Structure The Company's board comprises of seven board members, including the CEO. Four board members represent Bank Alfalah and Mr. Andrew Hartley, who recently joined the Company's board as a non-executive director, represents CLSA. All the directors except CEO are non-executive. Mr. Aliuddin Ansari is entrusted with the responsibility of chairman of the board. There is no independent representation on the board.

Members' Profile The Board members have strong educational background and diversified experience which provides seasoned guidance to the Company. Mr. Faisal Rabbani, Ms. Anjum Hai and Mr. Yahya Khan possess more than 2 decades of seasoned experience with renowned financial institutions both locally and internationally. Ms. Anjum Hai is FCA from ICAP and Mr. Yahya is FCA from ICAEW.

Board Effectiveness The board meets on quarterly basis to evaluate the performance of the Company. The diversified experience of the board members provide useful insight in governing Company's affairs. Four board meetings were held in CY19. All board members attended the meetings and the minutes reflects active participation of the board members.

Financial Transparency Alfalah CLSA has well established internal audit function in place. The internal auditors quarterly report their findings to the audit committee. The audit committee has properly defined TORs and comprises two members. The audit committee is chaired by Mr. Faisal Rabbani. 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 for CY20.

Management

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

Management Team The Company's experienced management team is directly reportable 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. Mr. Bilal Athar is the head of Equity and has over 22 years experience in securities brokerage and private wealth management.

Effectiveness Entity has a well built and well developed organizational structure as well as research function, stock coverage comprises around 80% of the KSE-100 market capitalization. A strong client reporting mechanism is in place with account statements, market and research reports communicated to clients on regular basis.

Control Environment Alfalah CLSA 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 A well formulated risk management policy is implemented throughout the Company, to provide trading services in ready and future markets through cash. The Company has a separate risk management department with a designated Risk Manager who reports directly to the CEO. The board is responsible for developing and monitoring the risk management policies of Alfalah CLSA. Management has established code of conduct and trading hall SOPs, to identify and monitor potential risks at operational level.

Business Risk

Industry Dynamics The pandemic had triggered the deepest global downturn in decades but Pakistan's stock market shown considerable immunity to this economic turbulence. CY21 started with marginal gains, ameliorated Investors' confidence and improved external front on the back of well-crafted fiscal and monetary actions by regulatory authorities including ease of doing business and debt moratorium policies. The index started from 44,435 points and touched the highest point of 46,934 on February 3, 2021 and currently clocked in at 45,059 points posting a positive return of ~1%. Foreigners continued to be net sellers. Since start of CY21 the foreigners remained net seller by ~USD 13mln while they offloaded ~USD 574mln worth of stocks in CY20. Going forward, after the global sell off in equities due to the pandemic, it is expected that the foreigners will rebuild their long positions in the months ahead.

Relative Position The market share of the Company remained at ~3% in CY20. On the back of CLSA acquisition, the Company successfully captured ~20% of the market, on account of its foreign business.

Revenue Topline of the company is divided into three segments. Brokerage income contributes ~97% to the total revenues of the Company. Company revenue stream is underpinned by consultancy fee that contributes ~4% in the total income, while research fee income is nominal. Brokerage income of the Company registered significant growth by ~92% and clocked in at ~PKR 221mln (CY19: ~PKR 118mln).

Profitability The Company reported net profit of PKR ~29mln in CY20 compared to a loss of ~PKR 34mln in CY19.

Sustainability The average traded volumes during CY21 shown upward trajectory depicting increased participation in the equity market led by increasing investor confidence in the country's economic rebound and the global COVID-19 vaccine rollout.

Financial Risk

Credit Risk The Company has devised and implemented, detailed KYC/AML and client due diligence policies, to assess customer creditworthiness and due diligence. The Company provides MTS facility, SOP's on margin maintenance are fully defined. Further, exposure limits are properly assigned. An automated risk management system is in place that halts transactions for a particular client if margin falls below the allocated level.

Market Risk Alfalah CLSA securities exposure to market risk is relatively less as the Company is not maintaining proprietary investment portfolio, therefore no conflict of interest arises within organisation.

Liquidity Profile At the end CY20, liquid assets in relation to total assets stood at ~19% against ~30% in CY19. While liquid assets against trade related liabilities and short term borrowings remained ~37% at Dec20 against ~34% at Dec-19, decreased trade related liabilities.

Capitalization The Company has adequate capitalization level with Net Capital Balance of ~PKR 137mln, whereas Net Equity as at Dec-20 stood at ~PKR 277mln (CY19: ~PKR 238mln).



Alfalah CLSA Securities (Pvt.) Ltd.
Private Limited

Dec-20	Dec-19	Dec-18
12M	12M	12M

A BALANCE SHEET

1 Finances	-	-	-
2 Investments	24	20	22
3 Other Earning Assets	-	-	-
4 Non-Earning Assets	592	769	543
5 Non-Performing Finances-net	-	-	-
Total Assets	616	789	565
6 Funding	314	529	407
7 Other Liabilities (Non-Interest Bearing)	26	22	24
Total Liabilities	339	551	430
Equity	277	238	134

B INCOME STATEMENT

1 Fee Based Income	230	120	126
2 Operating Expenses	(178)	(152)	(184)
3 Non Fee Based Income	8	14	5
Total Operating Income/(Loss)	60	(17)	(53)
4 Financial Charges	(18)	(11)	(8)
Pre-Tax Profit	42	(28)	(61)
5 Taxes	(14)	(6)	(13)
Profit After Tax	29	(33)	(74)

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)	29.4%	-63.9%	-14.9%
Return on Equity (ROE)	9.4%	-18.3%	-57.6%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	44.9%	30.2%	23.8%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current	-612.0%	370.2%	870.1%

3 Liquidity

Liquid Assets / Total Assets (D+E+F)	62.6%	55.4%	42.3%
Liquid Assets / Trade Related Liabilities	182.0%	189.5%	187.7%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customer	67.0%	36.6%	33.0%
Equity Instruments / Investments	100.0%	100.0%	100.0%

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	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.
CC	
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

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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