



The Pakistan Credit Rating Agency Limited

## Rating Report

### Alfalsh CLSA Securities (Pvt.) Limited | BFR

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
06-Jun-2022	BFR 2+	Stable	Initial	-

### Rating Rationale

Factor	Comment
<b>Ownership</b>	Bank Alfalah Limited is the primary shareholder with ~61% of the ownership followed by CLSA Limited with ~25% of the stakes.
<b>Governance</b>	The board is comprised of six members including the CEO and Chairman. Three director represents Bank Alfalah while one of the directors represent CLSA.
<b>Management and Client Services</b>	ACLSA has a well designed organizational structure. Experienced management team provides sound client services.
<b>Internal Controls and Regulatory Compliance</b>	Comprehensive policies are in place; compliance department ensures implementation.
<b>Business Sustainability</b>	A major part of revenue emanates from equity brokerage. Corporate finance has showed some growth in CY21 to supplement the topline.
<b>Financial Sustainability</b>	At end Dec 21, the NCB and LCB stood at ~PKR 534mln and ~PKR 489mln respectively showing a significant growth compared to Dec 20.

### Key Rating Drivers

Alfalsh CLSA Securities (Pvt.) Limited (ACLSA or The Company) mainly provides equity brokerage service while corporate finance also provides support. ACLSA enjoys one of the largest share of the foreign clientele in Pakistan. ACLSA has established rigorous protocols regarding risk assessment with the implementation of comprehensive and well-defined policies. ACLSA has outsourced its internal audit department which strengthens the internal control framework. Formation of an independent risk management department would be a positive factor. The Company has a well-defined organizational structure with seasoned management, reporting directly to CEO. Clients have been provided with online trading, research and all other basis facilities. In line with the improving market volumes in CY21 the brokerage revenue depicted an increase of ~30% to stand at ~PKR 287mln (CY20: ~PKR 120mln). The bottom-line also surged by ~PKR 32mln to stand at ~PKR 61mln. The market risk is negligible as the Company does not invest in equity securities. The rating accounts for the association of ACLSA with Bank Alfalah Limited and CLSA Limited. 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. Association with CLSA is an integral component of the rating decision. Maintaining a strong financial profile and retention of key human resources remains important.

#### Disclosure

<b>Name of Rated Entity</b>	Alfalsh CLSA Securities (Pvt.) Limited   BFR
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Broker Fiduciary Rating (BFR)
<b>Applicable Criteria</b>	Methodology   Broker Fiduciary Rating(Jan-22)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jan-22)
<b>Rating Analysts</b>	Ayesha Qasim   ayesha.qasim@pacra.com   +92-42-35869504

## Profile

**Background:** Alfalah CLSA Securities (Pvt.) Limited ("Alfalah CLSA" or "The Company") is a Private Limited Company and holds the Trading Rights Entitlement Certificate (TREC) from Pakistan Stock Exchange. The Company is licensed by the Securities and Exchange Commission of Pakistan. Alfalah CLSA was incorporated on 23rd September 2003 under the Companies Ordinance, 1984, and commenced 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% of shares are vested with CLSA Limited. The Chairman, Mr. Aliuddin Ansari, holds ~11%, and the CEO, Mr. Atif Mohammad Khan holds the remaining ~2% of the stakes.

**Stability:** The primary sponsor "Bank Alfalah Limited" is 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 sponsors, Bank Alfalah Limited and CLSA are prominent institutions in the financial service sector. Bank Alfalah is a prominent bank, owned and managed by the Abu Dhabi group. CLSA is the leading investment group in East Asia. CLSA's global network of 21 offices spans Asia, Australia, 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 represent 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 the 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.

**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 and Client Services

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

**Management Team:** The management team is experienced and possesses the relevant skills and educational profile for efficient management of business operations. The foreign and local sales desks 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.

**Client Servicing:** The Company follows the prescribed regulatory requirements for account opening. A well-developed research department and strong client reporting

## Internal Controls and Regulatory Compliance

mechanism are in place, with account statements, and market and research reports communicated to the clients on regular basis.

**Complaint Management:** The Company has a defined policy for lodging complaints. Complaints can be made via email and phone calls. Complaints are recorded properly and customers are intimated about the complaint being received.

**Extent of Automation / Integration:** Alfalah CLSA is currently using the Back Connect application by Softech systems. All back-office systems are fully integrated and reports are generated on a real-time basis. The Company has formulated an extensive IT policy that addresses all the key issues including virus protection and control environment.

**Continuity of Operations:** To ensure business continuity, the Company has a fully operational BCP & disaster recovery location. Alfalah CLSA has a policy of weekly backup of data to be stored offsite. The Company also maintained a robust back-office management system for Clearing, Settlement, & Reporting and Trader Account Management System.

**Risk Management Framework:** A well-formulated risk management policy is in place, to provide trading services. Proper KYC/CDD is conducted by the risk department. High, medium, and low-risk levels are assigned to each customer. For high-risk customers, enhanced due diligence is also conducted.

**Regulatory Compliance:** The Company has established a compliance and risk management department headed by a senior resource — Mr. Aslam Memon who possesses a reasonable market experience. The compliance department ensures that all regulatory compliances are being met on a timely basis.

## Business Sustainability

**Operating Environment:** Pakistan’s economy during CY21 made a recovery, with the market volumes reaching historic high levels; however, during the first 10 months of FY22, the market volumes declined, leaving an impact on brokerage revenue. The MSCI rebalancing gives some hope; however, the recent political turmoil inside the country has further derailed the market conditions, making it difficult to ascertain the future of the market moving forward. The recent increase in interest rate may help moderate the demand to a more sustainable pace while keeping inflation expectations anchored and containing risks to external stability.

**Performance:** 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. A major part of the revenue is comprised of commission on equity brokerage while investment banking has also shown improvement.

**Strategy:** The Company has opened new branches for geographical diversification. Plans are in place to use technology for penetration in the retail segment.

## Financial Sustainability

**Credit Risk:** In addition to KYC, Customer Due Diligence (CDD) and Enhance Due Diligence (EDD) procedures are in place for the assessment of its client’s creditworthiness. The process is comprehensive and well documented, especially in the account opening and client risk assessment stages.

**Market Risk:** Alfalah CLSA 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-Dec’21, the current assets stood at ~PKR 920mln as compared to current liabilities of ~PKR 309mln.

**Capitalization:** The Company has an adequate capitalization level with Net Capital Balance (NCB) standing at PKR ~534mln as of Dec-21. ACLSA has acquired a long-term loan amounting to ~PKR 300mln to support capitalization and liquidity requirements.


**Alfalah CLSA Securities (Pvt.) Limited**
**Dec-21**
**Dec-20**
**Dec-19**
**12M**
**12M**
**12M**
**A BALANCE SHEET**

1 Finances	-	-	-
2 Investments	26	28	103
3 Other Earning Assets	347	167	192
4 Non-Earning Assets	613	421	494
5 Non-Performing Finances-net	-	-	-
<b>Total Assets</b>	<b>986</b>	<b>616</b>	<b>789</b>
6 Funding	313	95	292
7 Other Liabilities (Non-Interest Bearing)	338	244	259
<b>Total Liabilities</b>	<b>651</b>	<b>339</b>	<b>551</b>
<b>Equity</b>	<b>335</b>	<b>277</b>	<b>238</b>

**B INCOME STATEMENT**

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

**C RATIO ANALYSIS**
**1 Business Sustainability**

Pre Tax Margin	24.0%	18.3%	-23.4%
EBITDA/ Revenue	36.1%	32.6%	-1.0%
Profit / (Loss) Before Interest & Taxes / Total Assets	9.6%	9.7%	-2.2%

**2 Financial Sustainability**

Total Investments / Equity	7.8%	10.2%	43.4%
NCB / Equity	159.7%	57.0%	56.5%
LCB/ Total Equity	241.8%	77.4%	74.4%
( Cash & Cash Equivalents + Government Securities ) / Total Assets	87.1%	85.7%	78.2%
Total Debt / Equity	93.4%	34.4%	122.8%

### Broker Fiduciary Rating Scale & Definitions

An independent opinion on the quality of management and client services and sustainability of operations

Scale	Definition
<b>BFR 1</b>	<b>Very Strong.</b> Very Strong quality of management, client services and very high likelihood of sustaining operations.
<b>BFR 2++</b> <b>BFR 2+</b> <b>BFR 2</b>	<b>Strong.</b> Strong quality of management, client services and high likelihood of sustaining operations.
<b>BFR 3++</b> <b>BFR 3+</b> <b>BFR 3</b>	<b>Good.</b> Good quality of management, client services and above average likelihood of sustaining operations.
<b>BFR 4++</b> <b>BFR 4+</b> <b>BFR 4</b> <b>BFR 5</b>	<b>Adequate.</b> Adequate quality of management, client services and average likelihood of sustaining operations.
	<b>Weak.</b> Weak quality of management, client services and weak likelihood of sustaining operations.

**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) cessation of underlying entity, c) the rating remains suspended for six months, or/and d) 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.

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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.
- (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)
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- (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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