



The Pakistan Credit Rating Agency Limited

Rating Report

Alfalah CLSA Securities (Pvt.) Limited | BFR

Report Contents

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

Rating History

Table with 5 columns: Dissemination Date, Rating, Outlook, Action, Rating Watch. Rows show dates 28-Apr-2023 and 06-Jun-2022 with ratings BFR 2+ and outlook Stable.

Rating Rationale

Table with 2 columns: Factor, Comment. Rows include Ownership, Governance, Management and Client Services, Internal Controls and Regulatory Compliance, Business Sustainability, and Financial Sustainability.

Key Rating Drivers

Alfalah CLSA Securities (Pvt.) Limited ( ACLSA or the Company ) is primarily engaged in the provision of equity brokerage while the income from investment banking and research also aids the topline. The assigned rating incorporates the business acumen of the primary sponsors' Bank Alfalah Limited and CLSA. ACLSA enjoys a market share of ~4.8%.

Disclosure

Table with 2 columns: Name of Rated Entity, Type of Relationship, Purpose of the Rating, Applicable Criteria, Related Research, Rating Analysts. Provides details on the rating process and analysts.

## 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 - 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** Alfalah CLSA Securities (Private) Limited ("The Company" or "Alfalah CLSA") is a subsidiary of Bank Alfalah, which controls ~62% stake in Alfalah CLSA. Following a joint venture between Alfalah securities and CLSA, ~25% of the stake is taken over by CLSA. The remaining stake lies with Mr. Aliuddin Ansari, which holds ~9% while CEO Mr. Atif M. Khan holds ~2% stake in the Company.

**Stability** The holding Company "Bank Alfalah" is one of the largest private bank in Pakistan, it has a widespread network of 850 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 a Hong Kong based institutional brokerage and investment group, subsidiary of CITIC Securities, the largest securities company in China, 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.

**Financial Strength** Bank Alfalah has a long-term rating of AA+ and a short-term rating of A1+ and reported equity of ~PKR 100bln as at end-Dec'22.

## Governance

**Board Structure** The Company's board comprises of six board members, including the CEO out of which three board members represent Bank Alfalah. All the directors except CEO are non executive. Mr. Aasim Wajid Jawad 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. Aasim Wajid Jawad possess more than 2 decades of seasoned experience with renowned financial institutions both locally and internationally. Mr. Asim Wajid Jawad is FCA from Institute of Chartered Accountants in England & Wales.

**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.

**Financial** The Company has outsourced its audit function to BDO. A satisfactory QCR rated firm. The external auditors of the Company are Big 4 auditors, Ernst & Young. They are on category 'A' of SBP's approved auditor panel. The auditors have expressed unqualified opinion on the financial statement for the CY-22.

## Management And Client Services

**Organizational Structure** The Company has well-defined organization structure with a 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. Imtiaz Ahmed is the COO and has over 25 years of experience in the relevant field, Mr. Bilal Athar is the head of Equity and 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. Alfalah CLSA 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, market and research reports communicated to the clients on regular basis. The Company maintains comprehensive, robust and client friendly account opening practices.

**Complaint Management** The company has a well-defined complaint management system. The Company has defined policy for lodging complaints. Complaints can be made via email. Complaints are recorded by compliance manager. Customers are intimated about the complaint being received. Furthermore, SECP and PSX compliant link is displayed on the website of the company.

**Extent Of Automation / Integration** Alfalah CLSA is currently using "Vtrade" by VisionMax. All back-office systems are fully integrated and reports are generated on real time basis. The Company has formulated an extensive IT policy which addresses all the key issues including virus protection and control environment.

**Continuity Of Operations** To ensure business continuity, the company has a fully operational business continuity & disaster recovery locations, which provides a robust structure for resuming all the critical operations in the shortest possible time. Alfalah CLSA has policy of weekly back up of data to be stored at offsite. The Company also maintained a robust back-office management system for Clearing, Settlement, & Reporting and Trader Account Management System.

## Internal Controls And Regulatory Compliance

**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 department headed by a senior resource. He is a member of CIMA and is CA finalist with more than six years of professional experience. The department ensures that all the regulatory requirements are fulfilled on timely basis.

## Business Sustainability

**Operating Environment** Pakistan's economy is placed at a precarious point right now. The resumption of the IMF program is necessary to have access to much-needed foreign inflows to boost the critically low SBP forex reserves. Inflation has been consistently rising and is forecasted to rise further. The policy interest rates have increased to try and curb inflation, which has impacted the volumes for the brokerage industry as investors are opting for safer fixed-income returns instead of riskier equity investments. Moving forward, resolving the Letter of Credit (LC) issues remains imperative to allow manufacturers to resume their operations and restart the economic activity in the country.

**Performance** Alfalah CLSA earned operating revenue of PKR 376mln for CY22 (SPLY~PKR 286mln). The decline in market volumes during CY22 was ~13% , when compared with CY21 whereas the company's revenue increased by 31%.The total revenues elevated and clocked in at PKR 141mln in 1HFY22 against PKR 149mln in 1HFY21. Moreover, in CY22 there is a net profit of PKR 7.5mln.

**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 creditworthiness. The entire EDD process is comprehensive and well documented, especially in the account opening and client risk assessment stages. The documents gathered from this mined data is used for reporting suspicious activities, anti-money laundering policies and other irregular transactions.

**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 the end CY22, the current ratio of the company is 1.5 , that is considered adequate to account for current liabilities of the company.

**Capitalization** At end-Dec'22, the Liquid Capital Balance (LCB) of the Company stood at ~PKR 349mln . The Company has an equity base of ~PKR 340mln at end-Dec'22 as compared to the equity of ~PKR 334mln in CY21.

PKR mln

**Alfaluh CLSA Securities (Pvt.) Limited**

Dec-22	Dec-21	Dec-20
12M	12M	12M

**A BALANCE SHEET**

1 Finances	-	-	-
2 Investments	15	26	28
3 Other Earning Assets	201	520	268
4 Non-Earning Assets	1,659	440	320
5 Non-Performing Finances-net	-	-	-
<b>Total Assets</b>	<b>1,875</b>	<b>986</b>	<b>616</b>
6 Funding	471	313	95
7 Other Liabilities (Non-Interest Bearing)	1,064	338	244
<b>Total Liabilities</b>	<b>1,535</b>	<b>651</b>	<b>339</b>
<b>Equity</b>	<b>341</b>	<b>335</b>	<b>277</b>

**B INCOME STATEMENT**

1 Fee Based Income	405	309	230
2 Operating Expenses	(344)	(223)	(178)
3 Non Fee Based Income	56	9	8
<b>Total Operating Income/(Loss)</b>	<b>117</b>	<b>95</b>	<b>60</b>
4 Financial Charges	(129)	(22)	(18)
<b>Pre-Tax Profit</b>	<b>(12)</b>	<b>73</b>	<b>42</b>
5 Taxes	19	(13)	(14)
<b>Profit After Tax</b>	<b>7</b>	<b>60</b>	<b>29</b>

**C RATIO ANALYSIS**

**1 Business Sustainability**

Pre Tax Margin	-2.9%	24.0%	18.3%
EBITDA/ Revenue	35.2%	36.1%	32.6%
Profit / (Loss) Before Interest & Taxes / Total Assets	6.2%	9.6%	9.7%

**2 Financial Sustainability**

Total Investments / Equity	4.5%	7.8%	10.2%
NCB / Equity	0.0%	159.7%	57.0%
LCB/ Total Equity	100.0%	241.8%	77.4%
( Cash & Cash Equivalents + Government Securities ) / Total Assets	91.3%	87.1%	85.7%
Total Debt / Equity	138.1%	93.4%	34.4%

### Broker Fiduciary Rating Scale & Definitions

An independent opinion on a broker's 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 and 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 and 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 and client services, and above average likelihood of sustaining operations.
<b>BFR 4++</b> <b>BFR 4+</b> <b>BFR 4</b>	<b>Adequate.</b> Adequate quality of management and client services, and average likelihood of sustaining operations.
<b>BFR 5</b>	<b>Weak.</b> Weak quality of management and client services, and weak likelihood of sustaining operations.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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'.</p>	<p><b>Rating Watch</b> 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.</p>	<p><b>Suspension</b> 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.</p>	<p><b>Withdrawn</b> 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.</p>	<p><b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.</p>
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**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)
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### **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 | Clause 11-(A)(p).
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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)
- (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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