



The Pakistan Credit Rating Agency Limited

Rating Report

Alfalah CLSA Securities (Pvt.) Limited | BFR

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Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
23-Apr-2024	BFR 2+	Stable	Maintain	Yes
28-Apr-2023	BFR 2+	Stable	Maintain	-
06-Jun-2022	BFR 2+	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	The Company is primarily owned by Bank Alfalah Limited; a prominent financial institution, with the ownership stake of ~62%, followed by CLSA Limited with ~25% of the stakes.
Governance	The Board is comprised of six members, out of which four represents BAFL. CEO is also the part of the Board.
Management and Client Services	ACLSA has a well developed organizational structure with an experienced management team for efficient operational functions and sound client services. Recently Mr. Mohammad Atif has been replaced. as BAFL has appointed Mr. Syed Akbar Ali as the CEO of the Company.
Internal Controls and Regulatory Compliance	The Company is in the process of improving its internal controls to enhance their effectiveness.
Business Sustainability	ACLSA's topline is concentrated to equity brokerage; however, there is diversity present in the form of investment banking and research. During 9MCY23, the Company earned ~PKR 461mln (SPY: ~PKR 322mln) as brokerage revenue, with a net loss of ~PKR 10mln (SPY: ~PKR 7mln).
Financial Sustainability	A low-leveraged capital structure provides support to the rating. ACLSA has an adequate equity base of ~PKR 331mln at end-Sep'23. The sponsors have injected an equity of ~PKR 1.2bln in ACLSA.

Key Rating Drivers

The brokerage industry exhibited a notable performance during 2QFY24 based on renewed investor interest. A material equity injection of ~PKR 1.2bln by the primary sponsor shall mitigate the financial effect of the provisions of ~PKR 1.1bln created by the Company during Dec'23. This provision indicates a significant risk regarding the likelihood of collecting outstanding debts owed to the Company. This concerns a need for the creation of the provision vis-a-vis the control environment of the business, hence Rating Watch. To address these concerns, ACLSA has taken steps to enhance its internal controls framework. Moving forward, the materialization of planned revenue and geographical diversification is important for the rating. Maintenance and improvement of market share, and sustainability and growth in revenue and profitability remain vital. Meanwhile, it is imperative to uphold, robust internal controls, retention of key management personnel and diligently monitor risks.

Disclosure

Name of Rated Entity	Alfalah CLSA Securities (Pvt.) Limited BFR
Type of Relationship	Solicited
Purpose of the Rating	Broker Fiduciary Rating (BFR)
Applicable Criteria	Assessment Framework Broker Fiduciary Rating(Jan-24)
Related Research	Sector Study Brokerage & Securities(Jan-24)
Rating Analysts	Hassan Ahmad Hassan.Ahmad@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 - 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% stake in the Company. The planned equity injection of ~PKR 1.2bln by BAFL shall increase its ownership stake in the Company to ~91%.

Stability The holding Company "Bank Alfalah" is one of the largest private bank in Pakistan, it has a widespread network of 957 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 119bln as at end-Sep/23.

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 has resigned from its position. Mr. Syed Akbar Ali has been appointed as the CEO of the Company. Prior to this role, he served as the Head of Capital Markets and Investor Relations at Bank Alfalah Limited. He has over 16 years of experience in the capital markets. Mr. Imtiaz Ahmed is the COO and has over 25 years of experience in the relevant field.

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 The brokerage industry faced extremely low years during FY22 and FY23 due to limited investor interest. High interest rates and crippling inflation resulted in investors opting for safer fixed income returns instead of the riskier equities markets. The trend continued during 1QFY24; however, 2QFY24 experienced a surge in investor's interest, pushing the KSE-100 index to a historic high. The second half continued with the same momentum with KSE-100 reaching 75k, the market may experience another surge subject to political and economic stability. As the forward looking market pe ration still considered at the lower level. On the other hand, political sentiments play a key role and the focus remains on the Government after recent elections to provide answers to economic stability. Moreover, continued support from the IMF remain critical.

Performance Company has earned brokerage revenue of ~PKR 406mln during 9MCY23 (SPLY: ~PKR 259mln). The Company reported net loss of PKR ~10mln in 9MCY23 compared to a loss of ~PKR 7mln in 9MCY22. The reduced profits are on account of elevated finance cost and operating expenses

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-Sep'23, the current assets of the Company are ~PKR 1,326 mln (Sep'22: ~PKR 1,774mln) against current liability of ~PKR 730mln (Sep'22: ~PKR 1,176mln). It is considered adequate to account for current liabilities of the Company.

Capitalization At end-Sep'23, the Liquid Capital Balance (LCB) of the Company stood at ~PKR 294mln. The Company has an equity base of ~PKR 331mln at end-Sep'23 as compared to the equity of ~PKR 341mln in Sep'22. The sponsors have injected an equity of ~PKR 1.2bn in ACLSA.

PKR mln

Alfalah CLSA Securities (Pvt.) Limited	Sep-23	Dec-22	Dec-21	Dec-20
	9M	12M	12M	12M

A BALANCE SHEET

1 Finances	5	-	-	-
2 Investments	15	15	26	28
3 Other Earning Assets	52	183	327	149
4 Non-Earning Assets	1,342	1,677	633	439
5 Non-Performing Finances-net	-	-	-	-
Total Assets	1,414	1,875	986	616
6 Funding	686	471	313	95
7 Other Liabilities (Non-Interest Bearing)	398	1,064	338	244
Total Liabilities	1,084	1,535	651	339
Equity	331	341	335	277

B INCOME STATEMENT

1 Fee Based Income	408	405	309	230
2 Operating Expenses	(324)	(344)	(223)	(178)
3 Non Fee Based Income	53	56	9	8
Total Operating Income/(Loss)	137	117	95	60
4 Financial Charges	(138)	(129)	(21)	(18)
Pre-Tax Profit	(1)	(12)	74	42
5 Taxes	(9)	19	(13)	(14)
Profit After Tax	(10)	7	61	29

C RATIO ANALYSIS

1 Business Sustainability

Pre Tax Margin	-0.3%	-2.9%	24.0%	18.3%
EBITDA/ Revenue	33.5%	35.2%	36.1%	32.6%
Profit / (Loss) Before Interest & Taxes / Total Assets	9.7%	6.2%	9.6%	9.7%

2 Financial Sustainability

Total Investments / Equity	4.5%	4.5%	7.8%	10.2%
NCB / Equity	0.0%	0.0%	159.7%	57.0%
LCB/ Total Equity	88.4%	100.0%	241.8%	77.4%
(Cash & Cash Equivalents + Government Securities) / Total Assets	88.5%	91.3%	87.1%	85.7%
Total Debt / Equity	207.5%	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
BFR 1	Very Strong. Very Strong quality of management and client services, and very high likelihood of sustaining operations.
BFR 2++ BFR 2+ BFR 2	Strong. Strong quality of management and client services, and high likelihood of sustaining operations.
BFR 3++ BFR 3+ BFR 3	Good. Good quality of management and client services, and above average likelihood of sustaining operations.
BFR 4++ BFR 4+ BFR 4	Adequate. Adequate quality of management and client services, and average likelihood of sustaining operations.
BFR 5	Weak. Weak quality of management and client services, and weak likelihood of sustaining operations.

<p>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'.</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</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)
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- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(d)

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