



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
28-Apr-2023	A-	A1	Stable	Maintain	-
29-Apr-2022	A-	A1	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

Alfalah CLSA Securities (Pvt.) Limited (“ACLSA” or “the Company”) has the backing of Asia’s leading brokerage and investment group “CLSA”. The group has a presence spanning four continents across the globe. ACLSA is primarily engaged in the provision of equity brokerage while the income from investment banking and research also aids the topline. ACLSA enjoys a good market share of ~4.8% whereas the clientele is fairly diversified between institutions/corporates, HNWIs/Retail and foreign. The business model of equity brokers is inherently prone to market volatility. Rising interest rates, political uncertainty, and increasing inflationary pressure during CY22 have impeded investors' sentiments, adversely impacting volumetric activity at PSX. To address the volumetric decline ACLSA shifted its focus towards retail clients and it is worth mentioning that ACLSA has experienced a significant increase of ~56% in its retail client base compared to Dec’21. During CY22, the market volumes reduced by 51% however ACLSA volumes declined only by 13% indicating a better performance compared to the overall market. Moreover, ACLSA’s revenue grew by 31% to ~ PKR 405mln (SPLY: ~PKR 309mln). The PAT has declined when compared with CY21 to stand at ~ PKR 7mln mainly due to increased operating expenses (~PKR 344mln) and finance cost (~PKR 128mln). The Company had a short-term borrowing of ~ PKR 170mln to enhance its exposure margin, which resulted in a significant increase in finance cost. Additionally, due to the geographical diversification operating expenses increases. The Company has an adequate equity base of ~PKR 340mln at end-Dec’22 (SPLY: ~PKR 334mln). The market risk is negligible as the Company does not invest in equity securities. ACLSA has a well-developed organizational structure, with most department heads reporting directly to the CEO. The management is experienced, and the control framework is satisfactory, but the Company could benefit from the addition of a dedicated risk management department. Furthermore, the governance framework could be further improved by appointing independent directors to enhance oversight. As a part of long-term strategic plans, ACLSA has already established a money market and forex department in CY22, which will aid the Company’s topline going forward, and the establishment of facilitation desks in multiple cities. The improvement of the technological platform by integrating with the Bank Alfalah app and geographical diversification is also under consideration.

Going forward, improvement in core income, management’s ability to retain its market share and enhance the volumes and diversity of revenue to improve its competitive position in the brokerage industry. Meanwhile, upholding sound internal controls, retention of key management personnel and diligent monitoring of risks is important.

Disclosure

Name of Rated Entity	Alfalah CLSA Securities (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22),Methodology Broker Entity Rating(Jun-22)
Related Research	Sector Study Brokerage & Securities(Jan-23)
Rating Analysts	Afnan Iqbal afnan.iqbal@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% 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 100bn 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. Asim 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.

Transparency 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

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 Mr. Bilal Athar is the head of Equity and has over 22 years of experience in securities brokerage and private wealth management

Management Effectiveness The Company has implemented technology driven front and back office system acquired from approved vendor of SECP. Both of the front and back office software are integrated and generates real time based MIS reports for management use.

Control Environment The Company has outsourced its internal audit function to BDO Ebrahim & Company Chartered Accountants. Compliance Department ensures regular monitoring of controls and systems, which ensures all functions are in-line with the applicable policies and procedures.

Business Risk

Industry Dynamics 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.

Relative Position The average market share of the Company on value traded basis stood at ~4.8% for CY22.

Revenues 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. Major part of the revenue is comprised of commission on equity brokerage while the investment banking has also shown improvement.

Cost Structure The Company reported profit after tax of ~PKR 7.5mln in CY22 compared to a profit of ~PKR 61mln in CY21. Operating expenses also followed the uptrend and increased by ~54% to ~PKR 344mln in CY22 (CY21: ~PKR 223mln), mainly due to increase in salaries, legal and professional charges and brokerage expenses.

Sustainability Going forward, the Company plans to benefit from the MSCI reclassification where a good foreign inflow is expected due to the re-balancing of MSCI indices.

Financial Risk

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.

Capital Structure 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.



Alfalah CLSA Securities (Pvt.) Limited
Private Limited

PKR mln

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	-	-	-
Total Assets	1,875	986	616
6 Funding	471	313	95
7 Other Liabilities (Non-Interest Bearing)	1,064	338	244
Total Liabilities	1,535	651	339
Equity	341	335	277

B INCOME STATEMENT

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

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income(Loss)	110.0%	23.0%	29.4%
Return on Equity (ROE)	3.3%	22.8%	9.4%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	18.2%	34.0%	44.9%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)	103.6%	446.1%	385.8%

3 Liquidity

Liquid Assets / Total Assets (D+E+F)	79.4%	35.7%	44.1%
Liquid Assets / Trade Related Liabilities	209.9%	166.6%	145.5%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers	98.1%	135.8%	73.1%
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+	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	
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):
 a) Broker Entity Rating
 b) Corporate Rating
 c) Debt Instrument Rating
 d) Financial Institution Rating
 e) Holding Company Rating
 f) Independent Power Producer Rating
 g) Microfinance Institution Rating
 h) Non-Banking Finance Companies Rating

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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 | Clause 11-(A)(p).

(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)

Independence & Conflict of interest

(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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