



The Pakistan Credit Rating Agency Limited

ALFALAH SECURITIES (PRIVATE) LIMITED

ENTITY RATING REPORT

**NEW
[JUN-16]**

Long-Term	BBB+
Short-Term	A2
Outlook	Stable

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JUNE 2016

Profile

- Incorporated in 2004, AFS is registered as a private limited entity
- AFS service offering includes Equity Brokerage, Online Trading, Research and Investment Banking
- Bank Alfalah Limited (BAFL) is the majority shareholder of AFS holding 97.9% of the shares. The board of BAFL has recently approved sell down of 30% shareholding to Mr. Aliuddin Ansari and Mr. Atif M. Khan. Currently the SPA has been executed and upon satisfaction of all the conditions, BAFL shareholding shall be reduced to 67.9%.

Governance

- Board comprises five members including CEO. Four board members represent BAFL. Currently no board committees exist, which needs attention.
- Post-acquisition of stake in AFS, Mr. Aliuddin Ansari shall be nominated chairman of the Board.

Management

- AFS is headed by Mr. Atif Khan (CEO) since Jul'15. He has over two decades of experience in the brokerage industry.
- AFS has established an Investment banking department, which is headed by Mr. Imran Sherani.
- An independent Advisory board has been established to provide a unique advantage to the Investment Banking Department. Mr. Ali Ansari is the chairman of the advisory board and Mr. Sarfaraz Ahmed is elected as FMCG and Consumer sector expert.
- Experienced and skilled management team with multi-tier organizational structure. Management committee deliberates the operation of the company.

Risk Management

- AFS has adequate risk management system. The Risk manager / Compliance Officer reports directly to the CEO and is overseen by the CFO on a daily basis.
- Alfalah Securities is not engaged in proprietary trading in stocks. The company exposure to credit risk is minimal by not offering any credit facilities to its customers; the risk manual is awaiting board's approval.
- Alfalah Securities would limit its total exposure to underwriting transaction to the size of its equity and exposure to single underwriting transaction will not exceed 50% of its equity. The Exposure can only be exceeded subject to Board approval.

Business Risk

- Brokerage income in 1QCY16 was PKR 8.3mln (CY15: PKR 6.2mln). This is mainly due to higher volumes handled by company during the period. Other income of PKR 1.3mln includes profit from bank deposits and Margin deposit.
- Meanwhile, operating and administration (1QCY16: PKR 31mln) kept the profitability of the company under pressure. Resultantly AFS bottom-line ended in red with a loss of PKR 21mln.
- Management prepared a detailed financial plan for five years with topline target of PKR 132mln for CY16 by capturing market share of 4%. Operating expenses are budgeted at PKR 99mln, HR cost share 66% chunk of Operating expenses.
- The company's current performance is improving and is in accordance to the approved budget. AFS expects major revenue in second half of CY16 with activation of international broker dealers and reclassification of Pakistan to MSCI Emerging Market Index.
- Going forward, AFS would have at least five International Broker Dealers on board. At the moment AFS have signed on four International broker dealers.

Financial Risk

- AFS has a strong capitalization level with regulatory Net Capital Balance (NCB) stands at PKR 161mln at end Dec-15 (June15: PKR 5.9mln). This gives AFS the capacity to avail big orders.
- During the year company injected PKR 300mln through right issue to beef up the size of net capital Balance. AFS equity stands at PKR 243mln as compared to PKR -24mln at Dec-14.
- AFS repaid its entire financial obligation from the proceeding of right issue. Currently the company has credit-line of PKR 400mln against exposure (approval in process) apart from the intraday line of PKR 300mln.

RATING RATIONALE

Alfalah Securities is currently a majority owned subsidiary of Bank Alfalah Limited (BAFL). BAFL has lately revamped the company; injecting fresh capital of PKR 300mln and engaging a team of experienced professionals. The business plan has been approved by the board. The plan seems to reflect challenging targets requiring concerted efforts and sustained progression to achieve. The targeted clientele of the company is skewed towards institutional clients; meanwhile, inclusion of foreign institutes remains the priority of the management. Additional revenue is investment banking, wherein a team of seasoned entrepreneurs/ professionals would tap the potential transactions. Comfort can be drawn from the company's policy not to undertake proprietary trading and negligible credit risk due to transactions through ready cash only. Meanwhile, company's policy allows limited exposure towards underwriting transactions.

KEY RATING DRIVERS

The ratings are dependent on the company's ability to build a position in the highly competitive brokerage industry. Meanwhile, approval of policies and procedure from board is important. Retention of key human resources remains imperative. At the same time, the operational profitability and building reasonable market share is crucial.



	31-Mar-15	31-Dec-15	31-Dec-15	PKR mln 31-Dec-15
BALANCE SHEET	Unaudited	Audited	Audited	Audited
EARNING ASSETS				
Finances	-	-	-	-
Investments	40	64	40	40
	40	64	40	40
NON-EARNING ASSETS				
Cash and Bank Balances	31	42	1	7
Trade debts	37	59	5	7
Advances, Deposits and Other receivables	115	85	13	15
Others (including Fixed Assets)	26	24	5	7
TOTAL ASSETS	249	275	64	76
Equity	221	243	(24)	(4)
Borrowings	-	-	-	-
Other Liabilities (Non-Interest Bearing)				
Trade Creditors	23	28	17	15
Other Liabilities	4	5	71	65
TOTAL EQUITY & LIABILITIES	249	275	64	76
INCOME STATEMENT				
Fee-Based Income				
Fees	-	-	0	0
Commission	-	0	-	0
Brokerage	8	6	1	5
Others	1	2	0	0
Operating Expenses	(31)	(39)	(17)	(23)
Brokerage Income / (Loss)	(22)	(30)	(15)	(17)
Non Fee-Based Income	2	4	1	1
Total Operating Income / (Loss)	(20)	(26)	(14)	(16)
Financial Charges	(0)	(3)	(3)	(3)
Other Income / (Loss)	-	0	0	8
Profit / (Loss) Before Tax	(20)	(29)	(17)	(11)
RATIO ANALYSIS				
Performance				
Net Profit Margin	-218.0%	-348.9%	-1135.1%	-200.2%
Cost-to-Fee Income	283.2%	306.4%	682.9%	342.6%
Capital				
Overdue Accounts Receivable / Total Accounts Receivable	14.68	9.19	119.65	79.96
Overdue Accounts Receivable / (Short Term Borrowings + Accounts Payable)	23.44	19.65	32.18	35.95
Accounts Receivable / (Short Term Borrowings + Customer Advances + Accounts Payable)	1.60	2.14	0.27	0.45
Exposure				
Investments / Equity	19.3%	28.1%	-105.6%	-226.7%
Liquidity				
Trade Related Assets / Trade Related Liabilities	1.6	2.1	0.3	0.4
Liquid Assets / (Short term Borrowings + Advances from Customers + Accounts Payable)	1.4	2.4	0.0	0.4
Liquid Investments / Equity	0.2	0.3	(1.1)	(2.3)
Coverages				
EBITDA/Gross Interest	-898.6	-9.5	-2.4	-3.0
FCFO/Gross Interest	-934.2	-9.8	-2.5	-3.2
FCFO/Gross Interest+CMLTD+Uncovered Short Term Borrowings	-934.2	-9.8	-2.5	-3.2
Total Debt (excluding Covered Short Term Borrowings) / FCFO	0.0	0.0	-8.3	-6.3
Capital Adequacy				
Equity / Total Assets	83.3%	83.1%	-59.1%	-23.3%
Total Debt / Equity	0.0%	0.0%	-288.3%	-1692.2%



STANDARD RATING SCALES & DEFINITIONS

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.

LONG TERM RATINGS		SHORT TERM RATINGS
AAA	<p>Highest credit quality. Lowest expectation of credit risk.</p> <p>Indicate exceptionally strong capacity for timely payment of financial commitments.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+ AA AA-	<p>Very high credit quality. Very low expectation of credit risk.</p> <p>Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p>	
A+ A A-	<p>High credit quality. Low expectation of credit risk.</p> <p>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.</p>	
BBB+ BBB BBB-	<p>Good credit quality. Currently a low expectation of credit risk.</p> <p>The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.</p>	
BB+ BB BB-	<p>Moderate risk. Possibility of credit risk developing.</p> <p>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.</p>	
B+ B B-	<p>High credit risk.</p> <p>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.</p>	
CCC CC C	<p>Very high credit risk.</p> <p>“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.</p>	
D	<p>Obligations are currently in default.</p>	

Rating Watch

Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

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’.

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, a suspended rating should be considered withdrawn.

Withdrawn

A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

Disclaimer: PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.



Regulatory and Supplementary Disclosure

Name of Entity
Sector
Type of Relationship
Purpose of the Rating

Alfalalah Securities Private Limited
 Brokerage
 Solicited
 Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
27-Jun-16	BBB+	A2	Stable	Initial

Related Criteria and Research

Rating Methodology

Corporate Rating Methodology / Draft Brokerage Methodology

Rating Analyst

Usama Liaquat Rai Umar Zafar
usama.liaquat@pacra.com rai.umar@pacra.com
 (92-42-35869504) (92-42-35869504)

[Rating Team Statement](#)

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)

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PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer.

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so.

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

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[Probability of Default \(PD\)](#)

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