



The Pakistan Credit Rating Agency Limited

BROKER MANAGEMENT RATING

ALFALAH SECURITIES (PRIVATE) LIMITED

| BROKERAGE HOUSE | RATING (INITIAL) | DATE | DEFINITION | RATING SCALE | |
|--|------------------|--------|--|--------------|-------------|
| | | | | | |
| Alfalah Securities (Private) Limited | BMR2 | Jan-18 | Aims to facilitate users to differentiate between brokers on the basis of quality of management and services provided. | BMR1 | Very Strong |
| | | | | BMR2 | Strong |
| | | | | BMR3 | Good |
| | | | | BMR4 | Adequate |
| | | | | BMR5 | Weak |
| <small>(+) may be appended to a rating</small> | | | | | |

RATING RATIONALE

Broker Management Rating of Alfalah Securities (Private) Limited apprehend its emerging position in the country's brokerage industry. The rating reflects company's well-adopted approach to keep market risk low. This mainly emanates from prohibition to take proprietary exposure in the market. Currently the company has several foreign broker/dealers on its panel and management is consistently working to expand further. Growing market share on foreign front, experienced top management, adequate risk management procedures are the key traits of the company.

Company is subsidiary of Bank Alfalah Limited, four top management personnel of the bank are currently at the board of the company in capacity of non-executive directors. Furthermore, company has plan to increase synergy with the bank to further enhance its retail segment. Company's revenue stream is building up and lately reached its breakeven level. Sustainability of this trend is important.

Robust IT infrastructure installed, single ERP platform with full integration of modules. Company has well-developed research department which provides various market reports to its clients on daily basis. Furthermore, value added services including mobile app is available.

The rating entails on the company's ability to improve its revenues – volume and diversity – to strengthen its emerging positioning in the industry. Moreover, key team, though comprising seasoned professional, is relatively new to Alfalah securities; holding and delivering together is critical.

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| ALFALAH SECURITIES | |
|-----------------------------|---|
| Incorporated | 2003 |
| Major business lines | <ul style="list-style-type: none"> ▪ Brokerage – shares ▪ Securities research |
| Legal status | Private Limited |

| INDUSTRY SNAPSHOT |
|--|
| <ul style="list-style-type: none"> ▪ Fragmented industry with 305 brokers (SECP list of registered brokers as on Nov 30, 2016). ▪ Total number of registered UINs as on June 30, 2017 – 245,758. ▪ Total number of listed scrips - 529 as on June 30, 2017. ▪ Stringent regulatory framework governed by SECP, PSX, NCCPL and CDC. |

OWNERSHIP & GOVERNANCE **STRONG**

- **Profile** – Alfalah Securities is a subsidiary of Bank Alfalah Limited, where bank holds ~ 98% of the company. Bank Alfalah is a prominent bank, owned and managed by Abu Dhabi group. The company has limited synergy with the bank.
- **Board** – Company’s board constitute of five members including CEO Mr. Atif Mohammad Khan. All directors, other than CEO, are non-executive. Board meets every quarter to review the overall performance. Board has comprehensive discussion on strategy and business plan.
- **Audit Committee** – Audit committee is chaired by Mr. Haroon Khalid, a non-executive director. The committee meets every quarter for financial statements review and to deliberate internal audit findings.

MANAGEMENT QUALITY **STRONG**

- **Organization Structure** – Proper departmentalization pertains; all departments are led by experienced professionals. A management committee is constituted to assist the CEO in multiple business matters. The company has established comprehensive business plan.
- **Key Personnel** – Top management personnel are very well qualified. Mr. Atif Mohammad Khan (CEO) has over 20 years of experience at key management positions of brokerage companies. Key team, though comprising seasoned professionals, is relatively new to Alfalah Securities; holding and delivering together is critical.
- **Sales & Trading Staff** – During the year Mr. Bilal Athar and Mr. Faisal Bilwani joined as director sales and head of international sales. Both are very experienced and prominent professionals of brokerage industry.

CUSTOMER RELATIONSHIP **STRONG**

- **Client Servicing** – Company has well developed research department, stock coverage comprises around 80% of the KSE-100 market capitalization.
- **Reporting** – Adequate client reporting mechanism emplaced, though various reports sent to clients on quarterly, monthly and daily basis.
- **Trading Facilities** – Online trading terminal available with updated tools and features. Company provides also mobile app for trading and information.
- **Complaints Management** – Complaint management function needs strengthening – mainly resource allocation and options available to clients to reach to company. Company has adequate complaint management system. Grievances can be made via phone and e-mail. CEO monthly review the complaint log.

IT INFRASTRUCTURE ADEQUACY **GOOD**

- **Integration** – Single ERP platform installed with full integration of trading, accounting, operations and client service module.
- **Network Stability** – Two network lines are emplaced to ensure stability. To avoid overlapping, each local and foreign desk has two designated links available.
- **Operational Continuity** – Detailed business continuity and disaster recovery plan has developed. Communication channels monitored on monthly basis.

RISK MANAGEMENT **STRONG**

- **Operational Risk** – To identify and monitor potential risks at operational level, management has established code of conduct and trading hall SOPs. To improve risk profile, more comprehensive policies and procedures needs to develop particularly in focus towards confidentiality and conflict of interest. HR allocation should be improved as the company expands.
- **Credit Risk** – Checklist and KYC form available to assess customer creditworthiness. Detailed AML & CFT policy designed for client due diligence. Company provides MTS facility, SOP’s on margin maintenance are fully defined. Risk management department closely monitors MTS open positions on daily basis.
- **Market Risk** – Alfalah securities is less exposed to market risk because company is not running a proprietary book for investments. Client facilitation book exists but limited in size.

REGULATORY COMPLIANCE**STRONG**

- **Internal Audit & Compliance** – To ensure better system and control testing, company outsourced its internal audit department that properly report its observations.
- **System Audit & Regulatory Filing** – All observations raised in last system audit were rectified. No matters were raised by the regulator during the last year.

BUSINESS AND FINANCIAL STABILITY**GOOD**

- **Business Risk** – Growing player in equity broking and strong alliance with foreign broker/dealers. Company's market share is growing (currently ~ 4%) while company has single revenue stream and lately reached its breakeven point. During 9M, company also booked one time gain from PSX divestment. Retail penetration needs attention. The company intends to build investment banking/advisory services. In this regard, Mr. Aliuddin Ansari, a seasoned professional, is expected to play important role.
- **Financial Risk** – Company's Net Capital Balance stood at 143.43mln on 30 Sep 2017. No borrowing, or only to match clients position.



| | 30-Sep-17 Management Accounts | 31-Dec-16 Audited | 31-Dec-15 Audited | 31-Dec-14 Audited |
|---|-------------------------------------|----------------------|----------------------|----------------------|
| <i>PKR mln</i> | | | | |
| BALANCE SHEET | | | | |
| EARNING ASSETS | | | | |
| 1 Finances | - | - | - | - |
| 2 Investments | 58 | 69 | 64 | 40 |
| | 58 | 69 | 64 | 40 |
| NON-EARNING ASSETS | | | | |
| 3 Cash and Bank Balances | 186 | 144 | 42 | 1 |
| 4 Trade debts | 73 | 466 | 59 | 5 |
| 5 Advances, Deposits and Other receivables | 85 | 445 | 85 | 13 |
| 6 Others (including Fixed Assets) | 24 | 26 | 24 | 5 |
| TOTAL ASSETS | 425 | 1,151 | 275 | 64 |
| 7 Equity | 258 | 228 | 243 | (24) |
| 8 Borrowings | - | 450 | - | - |
| Other Liabilities (Non-Interest Bearing) | | | | |
| 9 Trade Creditors | 155 | 450 | 28 | 17 |
| 10 Other Liabilities | 12 | 23 | 5 | 71 |
| TOTAL EQUITY & LIABILITIES | 425 | 1,151 | 275 | 64 |
| INCOME STATEMENT | | | | |
| Fee Based Revenue | | | | |
| 11 Fees | - | - | - | - |
| 12 Brokerage | 98 | 81 | 6 | 2 |
| Operating Expenses | | | | |
| 13 Personnel Expenses | (60) | (69) | (18) | (4) |
| 14 Administrative Expenses | (47) | (55) | (21) | (13) |
| Fee Based Income / (Loss) | (9) | (43) | (32) | (15) |
| Non Fee-Based Income | | | | |
| 15 Bank Deposits and others | - | 2 | 1 | - |
| 16 Gain on Sale of Investments | 43 | 1 | - | - |
| 17 Others | 21 | 7 | 5 | 0 |
| Total Operating Income / (Loss) | 55 | (32) | (26) | (15) |
| 18 Financial Charges | (10) | (4) | (3) | (3) |
| Profit / (Loss) Before Tax | 45 | (37) | (29) | (18) |
| 19 Taxes | (11) | (1) | (0) | (1) |
| Net Income | 34 | (38) | (29) | (19) |
| RATIO ANALYSIS | | | | |
| CREDIT RISK | | | | |
| 20 Accounts Receivable / Avg. Daily Value Traded | 0.1% | 0.6% | 1.3% | 0.4% |
| 21 Overdue (> 14 days) Accounts Receivable / Total Accounts Receivable | 6.2% | 100.0% | 100.0% | 100.0% |
| 22 Accounts Receivable / (Short Term Borrowings + Customer Advances + Accounts Payable) | 47.0% | 54.8% | 213.7% | 26.9% |
| LIQUIDITY RISK | | | | |
| 23 Trade Receivables / Trade Payables | 0.47 | 1.03 | 2.14 | 0.27 |
| 24 Liquid Assets / Trade Related Liabilities | 1.57 | 0.37 | 3.84 | 2.43 |
| 25 Liquid Assets / (Short term Borrowings + Advances from Customers + Accounts Payable) | 1.57 | 0.20 | 3.84 | 2.43 |
| BUSINESS RISK | | | | |
| 26 Net Profit (before tax) Margin | 46.2% | -44.1% | -339.6% | -1003.8% |
| 27 Fee Based Income to Total Income | 60.4% | 88.7% | 50.8% | 79.0% |
| 28 Operating Cost-to-Total Income | 66.2% | 135.3% | 306.4% | 835.3% |
| 29 Net Fee based Income to Net Profit before Tax | -21.0% | 116.9% | 111.9% | 83.9% |
| 30 Net Profit (before tax) to Total Income | 27.6% | -39.9% | -228.5% | -901.2% |
| 31 Net Non-Earning Assets / Equity | 138.0% | 467.1% | 84.9% | -91.1% |
| FINANCIAL RISK | | | | |
| 32 Borrowings / Equity | 0.0% | 197.1% | 0.0% | 0.0% |
| 33 NCB / Equity | 55.6% | 72.1% | 66.6% | -11.5% |

| | | | |
|-----------------------|---|---------------------------|---------------|
| Name of Rated Entity | Alfalsh Securities (Private) Limited. | | |
| Sector | Brokerage | | |
| Type of Relationship | Solicited | | |
| Purpose of the Rating | Brokerage Management Rating | | |
| Applicable Criteria | Broker Management Rating Methodology (Sep 2017) | | |
| Sector Study | Securities Brokers (Oct 2017) | | |
| Rating Analyst | Shahzaib Khalid | Shahzaib.khalid@pacra.com | 042-3586 9504 |

Regulatory and Supplementary Disclosure

Rating Team Statements

(1) Broker Management Rating is an opinion on the quality of management and services provided by the broker 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 |

(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 does not monitor BMR on continuous basis. Any potential change therein due to any event associated with the entity is incorporated in next review; | **Chapter III | 18-(a)**

(19) PACRA reviews all outstanding ratings on semi-annual basis | **Chapter III | 18-(b)**

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