



The Pakistan Credit Rating Agency Limited

Rating Report

Habib Metropolitan Financial Services Limited | BFR

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Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
13-Jun-2022	BFR 3+	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	The Company is a wholly owned subsidiary of Habib Metropolitan Bank Limited, a prominent financial institution.
Governance	The board of directors is comprised of three members all representing the parent company.
Management and Client Services	The Company has a lean organisational structure which commensurate with the quantum of the business.
Internal Controls and Regulatory Compliance	Well defined policies are in place pertaining to key risk areas compliance and internal audit department ensures implementation.
Business Sustainability	Primary source of revenue emanates from equity brokerage which leaves room for product diversification.
Financial Sustainability	At end-Dec21, the NCB and LCB stood at ~PKR 254mln and ~PKR 296mln respectively, while the equity stood at ~PKR 338mln.

Key Rating Drivers

Habib Metropolitan Financial Services Limited ("HMFS" or the "Company") is a public unlisted company principally engaged in securities brokerage of both: ready and futures market. The assigned rating incorporates a qualified and experienced management team and a client services platform with the facility of online trading and quality research available to customers. The rating incorporates adequate internal control structure supported by an independent compliance department while the presence of internal auditor is well noted. The Company has established rigorous protocols regarding risk assessment by implementing KYC, CDD, AML, CFT, and whistle blowing policies. The IT infrastructure allows full integration of the front and back-office functions, allowing timely availability of MIS. The Company has no proprietary trading book hence, less exposed to market risk. The rating reflects the Company's association with a growing bank which has a dominant presence in trade finance. The governance framework is considered adequate. Formation of board level audit and risk management committee's and the inclusion of independent director with relevant experience would strengthen corporate governance. The Company has sustained its revenue from equity brokerage for CY21 when compared with CY20. The profitability has reduced on the back of a decline in other income. The rating takes comfort from a low leveraged capital structure. The rating is dependent on the management's ability to sustain and increase its revenue and market share. Retention of key personnel and adherence to regulatory requirements is important.

Disclosure

Name of Rated Entity	Habib Metropolitan Financial Services Limited BFR
Type of Relationship	Solicited
Purpose of the Rating	Broker Fiduciary Rating (BFR)
Applicable Criteria	Methodology Broker Fiduciary Rating(Jan-22)
Related Research	Sector Study Brokerage & Securities(Jan-22)
Rating Analysts	Ayesha Qasim ayesha.qasim@pacra.com +92-42-35869504

Profile

Background: Incorporated in 2007, Habib Metro Financial Services Limited referred herein as (“HMFS” or the “Company”) commenced its operations in 2008. The Company is a TREC holder of Pakistan Stock Exchange (PSX).

Operations: HMFS primarily offers the services of Equity Brokerage and Research. Further, the Company operates through the Head Office located in Karachi.

Ownership

Ownership Structure: HMFS is a wholly-owned subsidiary of Habib Metropolitan Bank Limited.

Stability: Habib Metropolitan Bank Limited (HMBL) commenced its commercial banking operations in 1992. HMBL is a subsidiary of Habib Bank AG Zurich which is incorporated in Switzerland. HMBL currently operates with an expanding nationwide network of over 459 branches (2020: 406 branches) across Pakistan.

Business Acumen: HMFS enjoys a close institutional relationship with Habib Metropolitan Bank Limited. Habib family, having been involved in banking for over 75 years, is considered pioneers of introducing banking in Pakistan.

Financial Strength: The sponsors have sizeable net worth and may provide support to the Company with increasing quantum of operations. Habib Metropolitan Bank Limited, being a prestigious name, has been assigned a rating of AA+ by PACRA. The equity of HMBL stood at ~PKR 63bln at end-Mar’22.

Governance

Board Structure: The Company has three directors on the board including the Chairman. All the directors are non-executive directors and represent HMBL. Presence of independent insight and a female representation would be a positive factor from the ratings perspective.

Members’ Profile: The board of directors possesses necessary skills and experience required for capital markets. The board members, on-average, possess more than ~20 years of experience in the field of finance and capital markets.

Board Effectiveness: During CY21, three board meetings were conducted and attended by majority of the board members. The board is always provided with MIS pack prior to the meeting and the meeting discussions are properly documented in the form of minutes. However, board level committees have not been formed as per the industry’s best practice.

Transparency: The financial statements of the Company for the period ended Dec-21 have been audited by KPMG Taseer Hadi and Company which is an ‘A’ category auditor by SBP. The auditors have issued unqualified opinion on the financial statements.

Management and Client Services

Organizational Structure: HMFS’s organizational structure and lines of authority have been adequately defined. The Heads of Compliance, Sales, Finance, and Research reports to the Company’s CEO. The functions of the Company are segregated as follows: i) Equity Operations ii) Finance iii) Sales iv) Compliance v) Internal Audit vi) IT vii) Research.

Management Team: The management of HMFS possesses the necessary experience and qualifications to manage the Company’s operations efficiently. The CEO — Mr. Manzar Mushtaq has resigned in May’22 who is being replaced by serving Head of Research, Mr. Ather Husain Medina.

Client Servicing: HMFS regularly provide the clients with reports on market strategy, economy, daily news, and market updates. The Company has provided direct links to relevant institutions and departments on their website. Moreover, various channels, including a mobile app and online trading platforms, are available to execute and monitor the transactions.

Complaint Management: An adequate complaint management system is in place. Complaints can be made via e-mail, SMS, calls and speaking in person to CFO/Company secretary. Contact number and designated email is provided to lodge the complaints.

Extent of Automation / Integration: HMFS has acquired a technology driven trading platform that allows seamless and secure trading. It facilitates the market participants to connect from across the globe and trade virtually. The Company is using same software for front and back office; Vtrade, a software by SECP Approved Vendor — VisionMax.

Internal Controls and Regulatory Compliance

Continuity of Operations: HMFS has established a recovery plan for all essential infrastructure elements, systems, networks, and key business activities. The business continuity plan provides a framework for business departments if a major incident occurs, causing disruption to pre-defined critical services.

Risk Management Framework: The Company has an in-house internal audit department, which monitors the implementation of policies and procedures of HMFS. Presence of an Audit Committee would have been helpful for an effective control environment and compliance with reporting standards. The Company has developed detailed policies to manage the risk arising from staff trading, KYC/AML and a trade review policy is also in place.

Regulatory Compliance: Mr. Mushtaq Ahmed — the head of compliance department has over 20 years of experience in the financial industry. He has one resource in his department as well. The compliance department ensures regular monitoring of controls and systems, additionally Mr. Mushtaq observe/check the compliances as per the approved scope and the findings are presented to the BoD. Research analyst policy has also been formulated.

Business Sustainability

Operating Environment: Pakistan’s economy during CY21 made a recovery, with the market volumes reaching historic high levels. However, during the first 10 months of FY22, market volumes have decreased resulting in increased pressure on brokerage revenue. The rebalancing of MSCI gives an indication to a hopefully better upcoming quarter with expectations of greater international investment; however, the escalating tension and supply chain constraints due to the Russia and Ukraine war have destabilized capital markets, creating an uncertain future for the market. The recent political turmoil inside the country has further derailed the market conditions, making it difficult to ascertain the future of the market moving forward. Going forward, the recent increase in interest rate should help moderate the demand to more sustainable pace while keeping inflation expectations anchored and containing risks to external stability. During 3QFY22, the traded volumes of the market reduced due to the political turmoil and low investor confidence in the stock market.

Performance: The Company has earned revenue of ~PKR 49mln in CY21 (SPLY: ~PKR 51mln) which is mainly concentrated in equity brokerage. The Company reported a net profit of PKR ~4.4mln in CY21 compared to a profit of ~PKR 9.5mln in CY20. The reduced profits are on account of condensed traded volume in the last quarter of CY21 and a decline in other income.

Strategy: Going forward, the strategic planning of the Company is to focus on institutional and knowledgeable HNWI clients,

Financial Sustainability

Credit Risk: HMFS follows a very careful approach toward client onboarding. The controls put in place provide stringent surveillance hence limiting the credit risk. At end-CY21, trade debts stood at ~PKR 46mln (CY20: ~PKR 60mln).

Market Risk: HMFS does not operate any proprietary book hence it has protected itself from the risk arising from volatility in the equity markets. The Company has no plans to initiate proprietary trading in the near future.

Liquidity Risk: The Company has reported current assets of ~PKR 477mln in CY21 as compared to current liabilities of ~PKR 165mln which shows an adequate liquidity profile.

Capitalization: At end-Dec’21, the Net Capital Balance (NCB) of the Company stood at ~PKR 254mln (CY20: ~PKR 247mln). The Company has an equity base of ~PKR 338mln at end-Dec’21.

Habib Metropolitan Financial Services Limited
Dec-21
Dec-20
Dec-19
12M
12M
12M
A BALANCE SHEET

1 Finances	-	-	-
2 Investments	121	122	118
3 Other Earning Assets	174	159	163
4 Non-Earning Assets	216	208	182
5 Non-Performing Finances-net	-	-	-
Total Assets	511	490	464
6 Funding	7	4	6
7 Other Liabilities (Non-Interest Bearing)	165	150	136
Total Liabilities	172	154	141
Equity	338	336	323

B INCOME STATEMENT

1 Fee Based Income	49	51	30
2 Operating Expenses	(56)	(56)	(54)
3 Non Fee Based Income	16	20	26
Total Operating Income/(Loss)	9	15	2
4 Financial Charges	(1)	(1)	(1)
Pre-Tax Profit	8	14	0
5 Taxes	(4)	(4)	4
Profit After Tax	4	9	4

C RATIO ANALYSIS
1 Business Sustainability

Pre Tax Margin	16.6%	27.5%	0.7%
EBITDA/ Revenue	23.9%	32.0%	10.1%
Profit / (Loss) Before Interest & Taxes / Total Assets	1.8%	3.0%	0.4%

2 Financial Sustainability

Total Investments / Equity	35.6%	36.4%	36.7%
NCB / Equity	74.9%	73.6%	67.5%
LCB/ Total Equity	87.6%	86.9%	79.0%
(Cash & Cash Equivalents + Government Securities) / Total Assets	87.3%	87.3%	87.4%
Total Debt / Equity	2.2%	1.2%	1.7%

Broker Fiduciary Rating Scale & Definitions

An independent opinion on the quality of management and client services and sustainability of operations

Scale	Definition
BFR 1	Very Strong. Very Strong quality of management, client services and very high likelihood of sustaining operations.
BFR 2++ BFR 2+ BFR 2	Strong. Strong quality of management, client services and high likelihood of sustaining operations.
BFR 3++ BFR 3+ BFR 3	Good. Good quality of management, client services and above average likelihood of sustaining operations.
BFR 4++ BFR 4+ BFR 4 BFR 5	Adequate. Adequate quality of management, client services and average likelihood of sustaining operations.
	Weak. Weak quality of management, client services and weak likelihood of sustaining operations.

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) 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.

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.

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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.
- (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)

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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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