



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
17-May-2024	BFR 3+	Stable	Maintain	-
17-May-2023	BFR 3+	Stable	Maintain	-
13-Jun-2022	BFR 3+	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	Habib Metropolitan Bank Limited is the majority owner with ~99.99% stake in the Company. The ownership factor is considered strong.
Governance	The Board comprises three non-executive directors representing Habib Metropolitan Bank Limited. Independent oversight may be added to enhance governance framework.
Management and Client Services	HMFSL has an experienced management team to run its operations with a well-defined organizational structure in place. The Company has recently added an online sales department with a dedicated head of online sales to improve online client services.
Internal Controls and Regulatory Compliance	Internal controls framework is enhanced with the presence of an inhouse internal auditor. The compliance department ensures all regulatory compliances are adhered to. Requisite policies and procedures are available to which the Compliance department ensures compliance.
Business Sustainability	The Company has a limited client base, and earned a topline of ~PKR 34mln in CY23 (SPLY: ~PKR 32mln). Increased operating expenses resulted in HMFSL suffering from a loss of ~PKR 20mln during CY23 (SPLY: ~PKR 4mln). High investor interest and the addition of an Online Sales department bodes well for the sustainability of the Company.
Financial Sustainability	HMFSL has a zero-leveraged capital structure, with an equity base of ~PKR 309mln at end-Dec'23.

Key Rating Drivers

The brokerage industry exhibited a notable performance since October 2023 based on improved macroeconomic indicators resulting in renewed investor interest, reaching historic high levels during May 2024. Habib Metropolitan Financial Services Limited ('HMFS' or the 'Company') plans to continue its focus on institutional and HNWI and to enhance its retail clientele footprint by focusing on onboarding online customers. Moving forward, the materialization of planned customer enhancement translating to an improved topline is important for the rating. Maintenance and improvement of market share 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	Habib Metropolitan Financial Services 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)
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Profile

Background Metropolitan Financial Services Limited referred herein as HMFS or the Company was incorporated on 28 September 2007 as a public limited company. The Company commenced its operations on 06 March 2008. HMFS is a wholly owned subsidiary of Habib Metropolitan Bank Limited (HMBL) and the Ultimate holding vests with Habib Bank AG Zurich, which is based in Switzerland. The Company holds a Trading Rights Entitlement (TRE) Certificate from Pakistan Stock Exchange Limited.

Operations The Company's service offering includes Equity Brokerage and Research. The equity brokerage mainly comprises of services including dealing in securities on Ready and future counters. The clientele of HMFS is segmented into two categories i) Individuals/Retail and ii) Financial institution/Corporate.

Ownership

Ownership Structure Habib Metropolitan Financial Services Limited is a subsidiary of Habib Metropolitan Bank Limited. HMFSL was incorporated in 2007 as a public limited company under the Companies Ordinance, 1984 (Now Companies Act, 2017) and commenced its operations in 2008.

Stability Habib Metropolitan Bank Limited commenced its commercial-banking operations as Metropolitan Bank in October 1992, later on, the Bank merged with Habib Bank AG Zurich's Pakistan in Oct'06. The merged entity was named as 'Habib Metropolitan Bank Limited', referred to as HMBL currently operates through an omnipresent branch network of 521 branches in 207 cities across Pakistan at end-Dec'23

Business Acumen HMFSL enjoys close institutional relationship with Habib Metropolitan Bank Limited, owned and managed by Habib Family, have 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 an increasing quantum of operations. Habib Metropolitan Bank Limited enjoys a rating of AA+, assigned by PACRA. The equity of HMBL stood at ~PKR 98bln at end-Dec'23.

Governance

Board Structure The Company has three directors on the board. During CY23 Mr. Khurram Shehzad resigned as director of HMFSL as he has been appointed the CEO of HMBL. Mr. Syed Ather Ahmed replaced Mr. Khurram Shehzad as a non-executive director on the Board. All the directors represent Habib Metropolitan Bank Limited. The presence of independent insight would be an encouraging factor from the ratings perspective.

Members' Profile The board possess the 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 CY23, four 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, due to the size of the board, board-level committees have not been formed as per the industry best practice.

Financial The financial statements of the Company for the CY23 has been audited by KPMG Taseer Hadi and Company; 'A' category and a satisfactory QCR rated firm. The auditors have issued an unqualified opinion on the financial statements.

Management And Client Services

Organizational Structure The Company has a lean organizational structure to manage its operations and appropriate policies to protect the clients interest. HMFSL has made a significant addition to its organizational structure, with the launch of its online sales department to capture retail clients. The Company operates through the Head Office located in Karachi. All of the Departmental Heads reports to the CEO . However, the internal auditor reports directly to the Board.

Management Team The management of HMFSL possess necessary experience and qualifications to manage the Company's operations efficiently. Mr. Ather Husain Medina, the CEO, is a qualified professional with extensive work experience of over 29 years in the financial sector and has worked with BIPL Securities Ltd., Alfalah GHP Investment Management Ltd., Invest Capital Investment Bank Ltd. and Atlas Asset Management Ltd., among other reputed Financial Institutions. Moreover, HMFSL has appointed a new Head of Online Sales Department.

Client Servicing HMFSL regularly publishes reports on market strategy, economy, daily news and market updates. HMFSL has provided direct links to relevant institutions and departments on their website. Moreover, various channels, including a mobile app and online trading platform, are available to execute and monitor the transactions.

Complaint Management HMFSL has established Customer Complaint Policy to provide guidance to both customers and staff on the manner in which HMFSL receives and manages complaint. Customers can lodge complaint via call or email.

Extent Of Automation / Integration HMFSL has comprehensive and effective IT arrangement to deal with dynamic technological environment prevailing in the capital markets arena. HMFSL is transitioning from relying on the PSX online system to developing its own platform

Continuity Of Operations HMFSL 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.

Internal Controls And Regulatory Compliance

Risk Management Framework The Company has an in-house internal audit department, which monitors implementation of the policies and procedures of HMFSL. 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 Compliance Department ensures regular monitoring of controls and systems, which ensures all functions are in-line with the applicable policies and procedures. Research analyst policy has also been formulated.

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 1HFY23; however, 2HFY23 experienced a surge in investor interest, pushing the KSE-100 index to a historic high. The 1HFY24 is expected to stabilize in terms of market volumes and the index trading between the 60k and 70k point range, with expectations of another surge as the market P/E ratio is still hovering around the low 5.5x mark. 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 remains critical.

Performance The Company has earned brokerage revenue of ~PKR 34mln in CY23 (SPLY: ~PKR 32mln). The Company reported a net loss of PKR ~20mln in CY23 compared to a net loss of ~PKR 4mln in CY22. The increase in reported loss can be attributable to substantial increase of ~53% in administrative expenses.

Strategy Going forward, the strategic planning of the Company is to focus on institutional and knowledgeable HNWI clients and diversify into the retail/ online segment.

Financial Sustainability

Credit Risk For the assessment of client's creditworthiness, the Company has formulated detailed KYC/CDD policies. Limits have been defined, which are strictly monitored. The exposure limits as a whole and on individual basis are monitored and any shortfalls are immediately reported to senior management for prompt action.

Market Risk HMFSL does not operate any proprietary book hence, it has protected itself from the risk arising from volatility in the equity markets. The Company does not plan to trade proprietary book in the near future.

Liquidity Risk The liquidity profile of HMFS is adequate. The Company has reported current assets of ~PKR 465mln in CY23 as compared to current liabilities of ~PKR 193mln.

Capitalization At end-Dec'23, the Liquid Capital Balance (LCB) of the Company stood at ~PKR 193mln. The Company has an equity base of ~PKR 308mln at end-Dec'23 as compared to the equity of ~PKR 326mln in Dec'22.

PKR mln

Habib Metropolitan Financial Services Limited

Dec-23	Dec-22	Dec-21
12M	12M	12M

A BALANCE SHEET

1 Finances	-	-	-
2 Investments	112	112	121
3 Other Earning Assets	80	159	174
4 Non-Earning Assets	314	217	216
5 Non-Performing Finances-net	-	-	-
Total Assets	506	487	511
6 Funding	3	5	7
7 Other Liabilities (Non-Interest Bearing)	194	156	165
Total Liabilities	197	162	172
Equity	308	326	338

B INCOME STATEMENT

1 Fee Based Income	34	32	49
2 Operating Expenses	(97)	(64)	(56)
3 Non Fee Based Income	47	32	16
Total Operating Income/(Loss)	(16)	0	9
4 Financial Charges	(1)	(1)	(1)
Pre-Tax Profit	(17)	(0)	8
5 Taxes	(3)	(3)	(4)
Profit After Tax	(20)	(4)	4

C RATIO ANALYSIS

1 Business Sustainability

Pre Tax Margin	-49.0%	-1.1%	16.6%
EBITDA/ Revenue	-30.5%	9.4%	23.9%
Profit / (Loss) Before Interest & Taxes / Total Assets	-3.1%	0.1%	1.8%

2 Financial Sustainability

Total Investments / Equity	36.2%	34.4%	35.6%
NCB / Equity	0.0%	73.5%	74.9%
LCB/ Total Equity	62.3%	85.3%	87.5%
(Cash & Cash Equivalents + Government Securities) / Total Assets	83.8%	88.2%	87.3%
Total Debt / Equity	1.1%	1.6%	2.2%

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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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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- 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

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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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(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 | 14-3(f)(vii)

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