

JS BANK LIMITED

RATINGS (APRIL 2007)

JS BANK LIMITED (JSBL)

ENTITY	NEW
Long Term	A-
Short Term	A2

FINANCIAL DATA

PKR (mln)

	31-Dec-06
Total Assets	12,545.5
Equity	3,003.8
Net Income	(0.4)
Equity / Total Assets %	23.94
Net NPLs / Equity %	0.00

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ASSESSMENT

- The ratings reflect the sound banking platform inherited by JS Bank Limited (JSBL) from American Express Bank (AEBL) and its association with a strong diversified group. At the same time, the ratings recognize constraints likely to be faced by the bank in the early stages of its operations in an increasingly competitive banking environment. Although the management has designed a comprehensive business strategy, it is not much different from other peer banks. However, in the initial period, the bank is expected to benefit from established relationships and expertise of JS group, particularly for fee-based avenues and capital market related operations.
- JSBL, currently operating with four branches, plans to gradually open 80 new branches by end-09. The initial emphasis would be on provincial capitals and other metropolitan cities. After covering the major cities of the country, the expansion process will move to 2nd tier cities. This would help the bank to target larger number of depositors. For deposit mobilization, initially, the target market will be the middle class with monthly income level of PKR 30,000 or above. To manage the cost of funds, the management intends to gradually increase the proportion of current and saving deposits, as against term deposits, in its total deposit mix. Currently, the finances-to-deposit ratio is very low. However, JSBL expects this ratio to grow at a higher rate in future. To achieve the targeted credit expansion, the management has identified SMEs and consumer banking as drivers for long-term growth and sustainability. However, in the near-term, it will target multinational and local corporates by leveraging AEBL's existing relationships and exploring new corporate clients by using JS group's platform. Given that the bank has to offer relatively higher return to attract depositors, while settling for relatively lower return on its lending to achieve credit expansion, JSBL's spreads are likely to remain at the lower end of the sector till the bank achieves a reasonable size.
- In addition to low spreads, given the bank's aggressive network expansion plans with high cost of related infrastructure and human resources, JSBL's overall profitability is expected to remain subdued in the initial period. The bank has filled most of the key management positions and is in the process of hiring middle management and branch banking personnel. However, given the relative scarcity of quality human resource and JSBL's limited franchise value in the commercial banking industry, the bank would have to offer somewhat higher remuneration levels, resulting in relatively higher personnel cost. In the meantime, the management intends to support revenues through capital market operations – CFS financing, ready-future spread transactions, and proprietary investments generating capital gains and dividend income. Moreover, given JS group's established position in investment advisory services, the management is hopeful of building a solid investment banking business in a relatively short span of time. Nevertheless, given the presence of established players in an increasingly competitive banking sector, JSBL faces an uphill task in implementing its overall strategy and the timing and extent of its success remains to be seen.
- The bank, with limited size of advances portfolio, has very good asset quality. According to agreement with AEBL, JSBL has access to risk management framework of AEBL for a specified period of time. Meanwhile, the bank is developing in house risk management tools, largely following AEBL parameters, which are expected to be implemented by end-07. The bank is also developing an obligor risk rating model, which is targeted to be in place prior to start of large-scale lending operations.
- The bank, mainly due to unutilized resources, has one of the highest levels of capitalization both in terms of proportion of equity in total assets (24%) and CAR (39%) at end-06. However, with restricted internal revenue generation, the bank would remain dependent on its sponsors' support for meeting increasing capital requirements as prescribed by SBP. The sponsors, mainly JS group, have the capacity and the propensity to provide such resources.

KEY RATING DRIVERS

- The ratings are dependent on the bank's ability to fully implement its business strategy, thereby improving its relative positioning in the banking sector. At the same time, stability and cohesiveness of the core management team would also be critical. The inability of the bank to overcome its inherent constraints of limited size, outreach, franchise value, revenue streams, and human resource in a timely manner would have negative implications for ratings.

PROFILE

- JS Bank Limited, listed on the Karachi Stock Exchange, commenced its operations on December 30, 2006. The bank was formed as a result of merger of Jahangir Siddiqui Investment Bank Limited and American Express Bank, Pakistan operations, with and into JSBL. The bank is a subsidiary (51% owned) of Jahangir Siddiqui & Co. Limited (JSCL). Other important shareholders include NIT (8%), AEBL (6%), and State Life Insurance Corporation (6%). Starting as a traditional securities firm, JSCL has now acquired the status of a holding company for Jahangir Siddiqui Group, mainly for its stakes in the financial sector. Rated AA+ by PACRA, the company is embarked upon new initiatives with a dynamic approach in identifying new growth opportunities and a proven ability to take quick but prudent investment decisions.
- Mr. Jahangir Siddiqui, the founder of JS group, chairs the seven-member BOD of the bank. Mr. Naveed Qazi, the CEO of the bank, has over 21 years of banking experience. His last assignment was with AEBL, as COO of Pakistan operations.