



## JAHANGIR SIDDIQUI & Co. LTD. (JSCL)

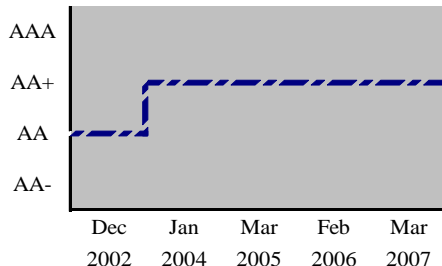
RATINGS (MARCH 2007)

### JAHANGIR SIDDIQUI & Co. LTD.

#### RATINGS

	New	Previous
<b>Entity</b>		
Short Term	A1+	A1+
Long Term	AA+	AA+
<b>TFCs - Listed</b>		
<i>Unsecured</i>		
1 <sup>st</sup> Issue (PKR 500mln)	AA+	AA+
2 <sup>nd</sup> Issue (PKR 500mln)	AA+	AA+
3 <sup>rd</sup> Issue (PKR 500mln)	AA+	AA+
<i>Secured</i>		
4 <sup>th</sup> Issue (PKR 1,100mln)	AA+	AA+

#### HISTORY – LT ENTITY RATING



#### SUMMARY DATA

(Amounts in PKR mln)

	30-Jun-06	30-Jun-05
Total Assets	11,508.9	7,258.7
Equity <sup>^</sup>	5,381.7	3,664.3
Net Income	1,070.8	905.1
ROA (%)	11.41	15.44
ROE (%)	33.70	40.06

<sup>^</sup> Including revaluation surplus

#### ANALYSTS

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#### BACKGROUND

- Jahangir Siddiqui & Co. Limited, a listed company, was established in 1991. 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. With its considerably expanded equity and asset base, 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.
- The CEO of the company, Mr. Munaf Ibrahim, is a qualified and experienced professional and has been with the company since 1993. Mr. Ali Jehangir Siddiqui is the single largest shareholder in JSCL and is actively involved in decision-making in his capacity as a member of the Executive Committee.

#### RATING RATIONALE

##### ASSESSMENT

- The ratings reflect the very strong risk absorption capacity of the company emanating from a sound capital structure and the highly liquid profile of assets. Although due to sizeable exposure in the stock market, the vulnerability of company's earnings to market volatility remains relatively high, the management has put in place strong controls to manage the associated risks. Meanwhile, the improving performance of the company's subsidiaries and associates, mainly in the financial sector, and the management's focus on identifying new strategic investment opportunities is expected to lead to an increasing stability and diversification in the earning stream, going forward.
- During FY06, the company continued its healthy performance on the back of sizeable gains on trading in equities and higher dividend income from subsidiaries. However, the ROE registered a moderate YoY decline, owing mainly to rise in financial cost. This was attributable to increase in borrowings to fund the new strategic investments, and the increasing interest rate environment, as major portion of JSCL's borrowings are on floating interest rate arrangements. The vulnerability of the company's earnings to adverse movements in the stock market was apparent during 1HFY07, when due to overall weak performance of the market, the level of trading gains was adversely impacted. This together with rising level of financial charges, led to a loss of PKR 192mln during the period. Although due to relatively range bound activity of the market, the trading gains are not likely to be maintained at levels recorded in previous years, the realization of sizeable revaluation surplus on a few long-term investments could materially augment the overall profitability of the company.
- The company's more established ventures in the financial sector, mainly asset management business (JS ABAMCO), and brokerage and advisory services (JS Global Capital Limited) have shown notable improvement in profitability. The newly established commercial banking subsidiary, JS Bank Limited is fully operational following the merger of Jahangir Siddiqui Investment Bank Limited and Pakistan branches of American Express Bank with and into the bank at end-Dec06. The entry of the merged entity into the intensively competitive sector of commercial banking could undermine profitability in the short run. This together with the probable need to inject further capital to meet SBP's minimum capital requirements could have an impact on JSCL's return on investment in the initial phase. Nevertheless, these strategic investments, which are either listed or in the final process of being listed, and a few other long-term investments, represent considerable potential upside, also reflected by a substantial amount of revaluation surplus on these investments.
- To further strengthen its profile and explore new avenues, the management invested in various new strategic initiatives during FY06. These include establishment of a wholly owned subsidiary – JS International Limited – mainly for marketing of JS ABAMCO and other group companies products to non-resident Pakistanis, and providing support to overseas investors in exploring investment possibilities in Pakistan. JSCL has also acquired 20% stake in Azgard Nine Limited – a textile composite unit that has recently acquired a major fertilizer plant on privatization. The company has entered into Islamic banking sector through investing in Bank Islami Pakistan Limited (19% holding). JSCL's other initiatives, relatively modest in terms of amount of investment, include a micro finance bank, a media company, and factoring services. However, as these new ventures are in an early phase, it will take time for the benefits to flow to JSCL.
- JSCL has implemented well-conceived investment policies alongwith effective risk management systems. At the same time, the company continues to maintain strong liquidity through predominantly readily marketable investments.
- JSCL, recognizing its focus on businesses requiring reasonable gestation period, is concentrating on long-term funding sources, mainly through TFCs. The company, with strong profitability in recent years supplemented by a conservative dividend distribution policy, maintains a very strong capital structure. The capital structure has been further strengthened through a recent issue of preference shares amounting to PKR 700mln.

#### KEY RATING DRIVERS

- These ratings are dependent on the extent of success and the related timeframe of the management's strategic initiatives, which are likely to result in greater stability in the earning stream. Meanwhile, during this expansionary phase, when the incidence of financial charges is high, any prolonged downturn in the stock market adversely impacting the company's profitability, could have negative implications for ratings.

#### TFC ISSUES

- JSCL issued its first unsecured TFC in Apr03 for a tenor of five years at a floating rate of 5-year PIB yield plus 150bps payable semi-annually with a floor and cap of 7.5% and 13.0% per annum (p.a.). The principal redemption, to be made in four equal semi-annual installments, has begun from Oct06. The second unsecured TFC was issued during Dec04 for a tenor of 5 years carrying fixed profit of 8.29% payable semi-annually. The major portion of principal would be paid in two semi-annual installments beginning 54<sup>th</sup> month after the issue. The third unsecured TFC was issued in Sep05 for a tenor of 5 years. The instrument carries profit at the rate of 6-month KIBOR plus 175bps payable semi-annually with a floor of 6% and a ceiling 16%. Although the principal redemption would start from 36<sup>th</sup> month after the issue, the major portion (75%) would be redeemed at the time of maturity. The company issued its fourth secured TFC in Nov06, carrying profit at the rate of 6-month KIBOR plus 250bps payable semi-annually with a floor of 6% and a cap of 16% p.a. The principal redemption will be made in two equal installments beginning 60<sup>th</sup> month after the issue. The instrument is secured by way of first ranking floating charge with 25% margin on all present and future movable assets of the company, with certain exclusions. All the TFCs have *Call Options* exercisable at different periods from the corresponding dates of issue.