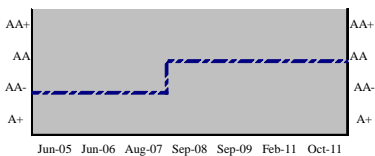


RATINGS (OCTOBER 2011)

JS GLOBAL CAPITAL LIMITED (JSGCL)

LONG TERM RATING HISTORY

| | NEW | PREVIOUS |
|------------|-----|----------|
| ENTITY | | |
| Long-term | AA | AA |
| Short-term | A1+ | A1+ |



FINANCIAL DATA

PKR (mln)

| | 30-Jun-11 | 30-Jun-10 | 30-Jun-09 |
|-------------------|-----------|-----------|-----------|
| Total Assets | 2,856 | 3,078 | 3,705 |
| Equity | 2,595 | 2,760 | 3,299 |
| Net Income | 89 | (77) | 206 |
| ROE (%) | 3.3 | (2.7) | 6.3 |
| ROA (%) | 3.0 | (2.0) | 4.4 |
| Equity/Assets (%) | 90.9 | 90.0 | 58.2 |

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RATING RATIONALE AND KEY DRIVERS

- The ratings reflect strong financial profile of JSGCL as indicated by its sound capital structure. In addition, JSGCL enjoys a strong position in the equity broking business emanating from its healthy market share and established brand. The ratings recognize JSGCL's association with the JS Group, carrying extensive experience in the local capital markets. The change in shareholding structure of the company, whereby JS Bank has become the majority shareholder, has added an additional tier of vigilance. Furthermore, the company, while maintaining a sizeable liquid investment book, yielding a stable income stream, carries a low risk profile owing to its policy of not engaging in proprietary stock trading.
- The ratings would remain dependant on the company's ability to manage its business risk, mainly emanating from low stock market volumes. Furthermore, strengthening of the internal control framework and formulation of a dividend policy, thus bringing clarity towards capitalization of the company, would remain imperative. Any material erosion in equity, impacting the risk absorption capacity of the company, may trigger a negative rating action.

ASSESSMENT

- Pakistan's brokerage industry is featured by a challenging business environment as reflected by low volumes at the country's stock bourses. This has further intensified the competition, limiting the room for price increase. The value traded in the ready market declined during FY11 with a daily average of PKR 3,700mln (FY10: PKR 6,700mln). Bleak investor confidence has further translated into lower volumes at KSE – 41% decline on YoY basis. Initially it was anticipated that introduction of the Margin Trading System would positively impact trading volumes. However, market activity remained dull. Going forward, the performance of brokerage firms will be largely dependent on the volumes generated at the stock exchanges.
- JSGCL's income avenues include brokerage (including stocks, commodities and money market) and return on its investment operations. Lately, it is also building advisory services. Within the brokerage segment, local retail clients contributed ~ 37% to the revenue followed by local institutional clients – ~34%, foreign institutional clients – 27%, and foreign retail clients – ~2%. Despite low volumes at KSE, JSGCL managed to earn profits in the brokerage business. The company's commodities' trading has grown since its initiation in FY10. It mainly offers services for contracts of Gold, Silver and Crude Oil. Market share constitutes ~7% of the volume on PMEX to stand amongst the top three in the business. However, the overall revenue mix of JSGCL, in the absence of targeted volumes in the brokerage business, remained tilted towards interest and other income which contributed 56% of the total operating revenue during FY11. An impairment loss of PKR 87mln on investment in preference shares of Azgard Nine exerted further downward pressure on the bottom-line. Consequently, although the company has curtailed its operating expenses, its profit after tax (adjusted for provisioning) declined to PKR 96mln in FY11 from PKR 289mln in FY10.
- Given the current circumstances, the company's core profitability is expected to remain weak relative to the previous periods. Lately, the company has taken steps to rationalize its cost structure which are expected to help it achieve considerable savings in operational expenses. In addition, JSGCL plans on tapping foreign investors from Sweden, Singapore, Hong Kong and, The Middle East. It also aims to integrate its research and sales functions to be able to capitalize on a more coherent structure. These initiatives, when materialized, would help the company to enhance its brokerage revenues. Furthermore, business integration with JS Bank is expected to generate synergies in the future.
- The Mubasher platform, introduced for online trading in FY09, has recently been terminated. Online trading is now conducted via the new trading platform – Softech.
- JSGCL has adequate risk management systems in place. The company recently conducted a gap analysis, whereby it identified certain areas for improvement. This has led the company to work on improving its internal control framework. It has recently revised to a stricter Code of Conduct for employees. In addition, per client intra-day trading limits have been assigned. Going forward, effective management of risk framework to counter both operational and credit risk will remain vital.
- The company maintains a sizeable investment book which mainly comprises liquid, Government securities and listed TFCs. This has provided a continuous stream of income to the company over the years. JSGCL, as a policy, does not engage in proprietary stock investments, thus limiting the impact of market risk.
- JSGCL has a strong capitalization level with regulatory net capital balance standing at PKR 1,900mln and equity at PKR 2,600mln at end-Jun11. The company is in the process of developing a dividend policy which is expected to be approved by the board during FY12.
- JSGCL has no interest bearing debt obligations, thereby enjoying a debt-free capital structure. Going forward, the company, while aiming to maintain its gearing at low levels, continues to draw comfort from stand-by lines of credit available from various financial institutions (endFY11:PKR 400mln) for liquidity management.

PROFILE

- JSGCL started its commercial operations in this form in May 2003, but it carries the legacy of stock brokerage business started in the early seventies by Mr. Jahangir Siddiqui. The company has been listed on Karachi and Islamabad Stock Exchanges since February 2005. Jahangir Siddiqui & Co. Limited (JSCL) and Global Investment House (GIH) are the major shareholders of the company, each holding around 44% stake in JSGCL. JSCL is financially sound and is the investment holding company of JS Group entities. It has been assigned entity ratings of "AA/ A1+" by PACRA. The financial profile of GIH continues to remain under stress.
- In recent developments, the shareholding of the company is undergoing a change whereby JS Bank Limited (a majority owned subsidiary of JSCL) is to acquire the shares of JSGCL from JSCL and other shareholders. Post transaction, JS Bank will become the majority shareholder of JSGCL with 51% of the shares. The management is expecting the whole process to be completed by end 2011.
- The BOD of JSGCL comprises eight members including the CEO. Both JSCL and GIH have equal representation on the board. The board members are well-qualified and have diversified local and international business exposure. However, the contribution of GIH in terms of bringing business synergies among the two companies has remained limited. Mr. Kamran Nasir, the current CEO, took up this position in January 2011. He carries around 10 years of diversified experience. He is assisted by a team of young but qualified professionals.