

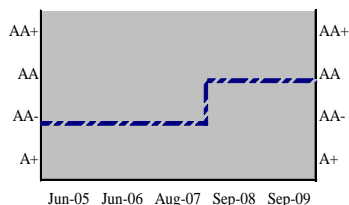


RATINGS (SEPTEMBER 2009)

JS GLOBAL CAPITAL LIMITED (JSGC)

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

LONG TERM RATING HISTORY



FINANCIAL DATA

PKR (mln)

	30-Jun-09	30-Jun-08
Total Assets	3,704.6	5,678.0
Equity	3,299.2	3,282.2
Net Income	206.2	624.1
Avg. ROE (%)	6.3	19.6
Avg. ROA (%)	4.4	11.3

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RATING RATIONALE AND KEY DRIVERS

- The ratings reflect JSGC’s robust financial profile characterized by its sound capitalization, adequate liquidity, and strong risk management systems. The ratings also recognize strong profile and extensive experience of one of the key shareholders – JS group – in capital market operations. Meanwhile, though GIH – the other major, but relatively inactive shareholder – is in financial distress, given JSGC’s importance to JS group, the support is highly likely in case it is required. At the same time, the company maintains a low risk profile owing to its philosophy of not engaging in proprietary trading.
- The ratings are dependent on the company’s ability to manage its business risk, emanating from inherently highly volatile nature of stock market, while sustaining its relative positioning in the brokerage industry. Meanwhile, further strengthening of governance framework, while improving cohesiveness among the management team would be important.

ASSESSMENT

- Despite a turbulent year witnessed in equity markets during FY09, JSGC has shown resilience to the downturn as against many other brokerage houses in the industry. Imposition of floor at stock market for more than three months resulted in lower volumes. It also put the brokerage companies particularly CFS market participants in financial difficulties on account of customer defaults. However, JSGC, despite facing difficulties in recovering debts, managed to settle most of its outstanding payables. Nonetheless, the company was also affected by the overall capital markets meltdown. The brokerage revenues shrunk by almost 60%, in line with a decline in volumes. Other sources of revenue – advisory and consultancy fee, income from CFS transactions and spread transactions – also remained standstill. During the year, company initiated, inter alia, fixed income trading as part of its treasury management. This resulted in a significant boost to other income of the company (~215%) which provided a support to otherwise declining profitability. The company has also booked provisioning of PKR46mln against bad debts. However, it is actively pursuing clients for recovery.
- Going forward, JSGC, while targeting a consistent growth in its brokerage business through network expansion to major cities of the country, intends to gradually increase its market share. Main focus would remain on increasing retail clientele particularly high net worth individuals. Currently the company has around 2,000 active client accounts with 77% representation of retail at end- Aug09. However, in revenue terms, contribution of local institutions is the highest (43%), followed by foreign (35%), and retail (22%). The management also intends to acquire a commodity exchange license in the near term. However, significant revenues are not expected to accrue from this initiative as the commodity market is in its nascent stage. Whilst the revenues of brokerage industry would remain prone to overall equity market volumes, the company, as compared to most of its peers, is expected to withstand the impact of unfavorable market movements, while enjoying greater ability to handle higher business volumes on account of its sound net worth.
- Lately, JSGC has upgraded its technology infrastructure to improve its customer services. Moreover, the company has recently completed the implementation of its web terminal system, ‘Mubashar Total Brokerage Online Trading Solution’ (MTBS). MTBS is web based real time software that currently is providing JSGC’s customers online access Karachi, Dubai, and Abu Dhabi equity markets. By using this software, the company intends to tap the Middle East and Gulf investors. However, in the absence of support from the company’s foreign sponsor, GIH, any material growth in foreign clientele may be difficult.
- The management is continuously striving for further improvement in its overall IT and risk management framework. The company has detailed policies and guidelines in place addressing various risk factors. Margin requirements and exposure limits are reviewed on a regular basis in line with the changing dynamics of the market. JSGC, as a policy, has not engaged in proprietary investments in the past. Though this policy is only implied, the company intimated its intention to continue with it in its foreseeable future, thus limiting the impact of market risk at very low levels. Recently, in an effort to further strengthen its risk management function, the company has inducted new head of risk management. The internal audit function is outsourced to M/s Ford Rhodes Sidat Hyder, a reputed firm of Chartered Accountants.
- JSGC has strong capitalization level with net capital balanceⁱ standing at PKR1.8bln and equity at PKR3.3bln at end-FY09. At the same time, the company had no interest bearing debt obligations at end-Jun09. 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 (endFY09:PKR 2,650mln) for liquidity management.

PROFILE

- JSGC started its commercial operations in May 2003 as a wholly owned subsidiary of Jahangir Siddiqui & Co. Limited (JSCL). The company has been listed on Karachi and Islamabad Stock Exchanges since February 2005 by way of an offer for sale by JSCL. JSCL and Global Investment House (GIH) are the major shareholders of the company, each holding around 44% stake in JSGC.
- JSCL, a company listed on Karachi Stock Exchange, is the main holding company for Jahangir Siddiqui Group for its investments mainly in financial sector including asset management, brokerage, banking, insurance and trade finance services. The company has a long-term rating of ‘AA+’ by PACRA.
- GIH, listed on three stock exchanges in the Middle East – Kuwait, Bahrain, and Dubai – is headquartered in Kuwait. Corporate finance, private equity, investment funds, brokerage and research are main business activities of the company. The group is currently actively engaged with its lenders to restructure its debt obligations.
- The BOD of JSGC 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’s representatives has remained limited. Mr. G.M.Malkani is the CEO of the company. He is assisted by a team of young but well qualified professionals.

ⁱ Net Capital Balance is the actual net worth of a brokerage house and is calculated by applying haircuts on certain balance sheet items