



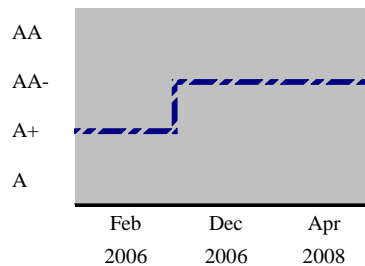
JS INVESTMENTS LIMITED (JSIL)

RATINGS (APRIL 2008)

JS INVESTMENTS LIMITED
(formerly JS ABAMCO Limited)

	New	Previous
Entity		
Long-term	AA-	AA-
Short-term	A1+	A1+

LT ENTITY RATING – HISTORY



FINANCIAL DATA

Amount in PKR mln

	31-Mar 08 [^]	30-Jun-07	30-Jun-06
Total Assets	5,070	2,547	2,353
Equity	1,976	1,726	1,201
Net Income	399	521	532
ROE (%)	20.2 [*]	35.6	56.9
ROA (%)	7.9 [*]	21.2	27.6
Debt / Pure Equity (%)	141.8	45.0	78.8

[^] Figures are based on unaudited, 9-months period ended Mar 31, 2008^{*} ROE and ROA are non-annualised

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RATING RATIONALE AND KEY DRIVERS

- The ratings reflect JSIL's strong franchise and leading position in the nascent, albeit rapidly growing mutual fund industry. This is underpinned by the size and diversity of its assets under management (AUM), successful track record, relatively superior systems and processes and a qualified and experienced management team. Meanwhile, enterprise wide restructuring has enhanced the efficacy of operations and quality of support systems. JSIL's pioneering channel management strategy provides it a much-needed push into the retail investor sector. While the core income / management fee is showing an increasing trend, the returns from the investment portfolio still have a major contribution towards the bottom line. Although financial leverage registered a YoY increase, the company continues to maintain strong risk absorption capacity, while keeping a high liquid profile of assets.
- Although achieving fast-paced growth in recent years, the asset management industry is still in an evolving phase and has a considerable way to go before achieving maturity. Given the increasing competition in the asset management industry, JSIL's ability to sustain its leading position in the sector and continually upgrade its systems and processes in tandem with the aggressive growth in AUM and evolving industry dynamics are key considerations for ratings. Meanwhile, the retention of key employees is critical and the increasing stability in earnings stream would have positive implications.

ASSESSMENT

- In FY07, JSIL maintains its leading position in terms of the number of funds and the size of the AUM (aggregating to over PKR27bln at end-Jun'07). However, it experienced a decline in its market share in FY07 due to significant industry growth, though it was concentrated in one fund category, that is, income funds. However, beginning FY08, JSIL has managed to recoup some of its lost market share. During 9M'FY08, AUM grew substantially (45%). The increase came mainly from JS Income fund, and the growing portfolio of capital protected funds.
- As JSIL remains aligned with the industry's healthy appetite for innovative products, it pushes ahead aggressively with its revamped distribution strategy of "channel management" (investing in strategic relationships with channel partners, that is, banks and distributors). The strategy has provided impetus to the growth of assets in the retail sector. However, it entails a time bound opportunity, as a few other peers following suit are likely to make this niche competitive.
- In FY07, JSIL's performance deteriorated in terms of ROE. This is because of a constrained bottom line that suffered, as fee income was almost stagnant, while the operating costs remained high. Moreover, the growth in AUM failed to translate into higher fee income as it came from low-fee funds. Although dividend income registered a YoY decline, overall returns on the investment portfolio remained the same owing to a higher level of capital gains. Furthermore, capital gains remained tax-exempt reducing the tax incidence, hence, providing relief to the bottom line. However, any revision in existing tax structure, resulting in imposition of tax on capital gains, can affect the company's earnings. Fee income, the stable source of income, was not the main contributor to revenues and contributed less than half (47%) of JSIL's total revenue in FY07. However, during 9M'FY08, the growth in fee income has improved along with its contribution to total revenue. Under the revised NBFC rules, the payment pattern for closed-end funds has changed to a monthly basis, resulting in a more uniform cashflow stream, facilitating working capital management. As the restructuring continues, operating expenses are expected to come down as evident by the improvement seen in the operating expense ratio.
- JSIL has an asset manager rating of "AM2+" by PACRA reflecting a very strong capacity to manage the risks inherent in asset management. The mutual fund industry, with its rapid growth pattern, offers a blend of opportunities and risks. While entry of aggressive players, backed by strong business groups and leading commercial banks, is contributing in developing institutional and public awareness of the sector, it has intensified competition for attracting investments. However, the avenues for deployment of the new funds remain limited.
- The equity base of JSIL has increased in size with retention of profits. Availability of surplus funds continues to provide an avenue to supplement the overall income of the company and strengthen its liquidity position (liquid assets are 70% of the total assets at end-Mar'08). However, they also expose the company to a high level of market risk. By virtue of its recently procured Investment Finance Services (IFS) license, JSIL has increased its activity in the money market. In this regard, in 9M'FY08, short-term borrowing has increased substantially which has been mainly deployed in term finance certificates (TFCs), own and other funds. Some of these TFCs are unlisted and belong to entities having association with JS Group. Gearing levels, though increased, still remain within reasonable bounds. However, with improving profitability, the overall capital structure and consequent risk absorption capacity of the company is likely to remain intact.

PROFILE

- Incorporated in 1995, JSIL is the leading private sector asset management company in Pakistan. It is a subsidiary of Jahangir Siddiqui and Company Limited (JSCL) - 52% shareholding at end-Dec'07. Starting as a traditional securities firm, JSCL now functions as a holding company for JS Group, mainly for its interest within the financial sector. It has a long-term rating of 'AA+' from PACRA, which denotes a very low expectation of credit risk and indicates very strong capacity for timely payment of financial commitments. JS Group controls and operates financial services companies in sectors such as asset management, financial advisory services, stock brokerage and banking. The Group also has investments in major industries namely textiles, fertilizer, technology, commercial real estate, energy & natural resources and aviation. JSIL went public on March 21, 2007 with some members of the JS family divesting a portion of their holding through an offer for sale.
- JSIL's main office is located in Karachi. Currently, major channel partners are foreign commercial banks operating in Pakistan, namely, Standard Chartered, Citibank and ABN AMRO. Going ahead, while continuing direct marketing to non-retail segment, JSIL plans to rely solely on its channel partners for retail and expand the channel network for distribution of its funds. The management intends to close down all branches within 2008 except the branches in Karachi, Lahore and Islamabad.
- With the induction of two new directors, the seven-member board is now more diverse in terms of experience and background. JSIL has a qualified staff with key management positions occupied by qualified professionals. The CEO of JSIL, a chartered accountant with considerable experience in related fields, has been associated with the company since 2004.