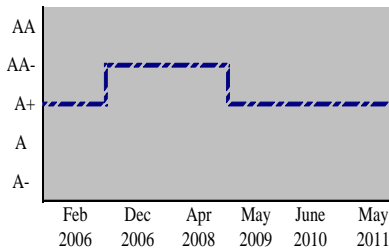


RATING (MAY 2011)

JS INVESTMENTS LIMITED (JSIL)

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

LT ENTITY RATING - HISTORY



FINANCIAL DATA

Amount in PKR mln

	31-Mar-11 ^	30-Jun-10	30-Jun-09
Total Assets	1,808	1,735	2,015
Equity	375	362	310
Adj. Equity	890	572	437
Net Income	8.7	45	(1,721)
ROE (%)	2.3	13.5	(141.2)
Debt / Adj. Equity (%)	93	186	334.0
AUM	13,887	16,508	21,247

^ Figures are based on unaudited, 9-months period ended Mar 31, 2011

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RATING RATIONALE AND KEY DRIVERS

- The ratings reflect JSIL’s sustained efforts at maintaining its competitive positioning despite continuing tough operating environment. The company’s performance is under pressure on account of decline in AUM resulting in suppressed management fee revenue. However, repayment of fair portion of borrowings and recovery in the market value of investments has helped in reducing the leveraging. The company is still exposed to market risk through investments in its own funds, mainly equity funds. Nevertheless, the strong financial profile of the JS Group remains a source of comfort.
- The rating is dependent upon management’s ability to effectively execute its business strategy for growth in AUMs alongwith strong and stable funds’ performance. Moreover, JSIL’s ability to augment its risk absorption capacity while managing exposure to market risk would remain critical.

ASSESSMENT

- The tough operating environment of the country has hindered the performance prospects of asset management industry, with a modest growth of ~12% observed in assets under management (AUM) on a YoY basis (Mar10: 203bln, Mar11: PKR 229bln). Considering high interest rate during this period and the value appreciation of the stock market, it is apparent that the industry hardly retained the returns earned during the period. While some players have been able to surpass the industry average giving boost to their system share, others have lost in terms of absolute AUMs as well as market share. JSIL also shredded a fair portion of its AUMs (Mar10: PKR 20.1bln, Mar11: PKR13.8bln), resulted in reduced system share (Mar10: 9.47%, Mar11: 6.06%). This was mainly attributed to high redemption brought about by significant non-performing assets in portfolios under management and conversion of a close-end fund to open-end fund. The management efforts to realign its fund slate in favor of low risk asset class with launch of JS Cash Fund (JSCF) also remained limited with its system share standing at 1.6% at Mar11.
 - JSIL maintains an edge over most of its peers with a well diversified fund slate including twelve open-end, two closed-end, three capital protected and two pension schemes. This would facilitate JSIL regaining its AUMs. Moreover, the management’s efforts to strengthen its research and risk management department for providing requisite support to the fund management is depicted in 9MFY11 results. The company’s ten funds outperformed their benchmarks during 9MFY11 as against only two funds outperforming their benchmarks in FY10.
 - During 9MFY11, owing to substantial reduction in AUM, JSIL fee based income registered a sharp decline (9MFY10: PKR 285mln, 9MFY11: PKR 186mln). The company’s investments contributed positively towards total revenue in the form of capital gains. Meanwhile, the company’s dividend income registered a sharp decline. However, the management’s efforts to achieve rationalization in overall costs alongwith 26% decline in the financial charges supported the company’s bottom line. As a result, JSIL reported a net profit of PKR 8.7mln during 9MFY11.
 - Going forward, the company, leveraging its prominent brand name, intends to re-establish distribution arrangements with established players to enhance assets under management. JSIL is in the process of enhancing its outreach, to tap the retail segment aiming to step-up fee revenue. Furthermore, the management’s plans to strengthen sales monitoring & reporting function will bode well for the company. Although the plans reflect clarity of direction, the extent of success and the related timeline remains to be seen.
 - JSIL, in addition to the seed capital, invests significant funds in its own mutual funds, which form 123% of its equity at end 9MFY11 (9MFY10: 164%). Although these investments witnessed a declining trend, still it generates significant market risk to the company, particularly when a substantial portion of the investment book is funded through borrowings.
 - JSIL witnessed an increase in its equity base on account of unrealized gain on revaluation of investments (9MFY11: PKR 376mln). This increase coupled with the reduction in the company’s borrowings resulted in an improved debt to equity levels (9MFY10:173%, 9MFY11:93%), yet it remained at a high level compared to peers. JSIL’s debt has mostly remained short term (Current Debt/Total Debt: 9MFY10:58%, 9MFY11:55%). During 9MFY11, subdued core revenue has impacted the company’s interest coverage confining it at 1.31x (Jun10:1.47x). Nevertheless, comfort is taken from the company’s sizable investment portfolio.
- PROFILE**
- Incorporated in 1995 and listed in 2007, JS Investments Limited (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-Mar11. Starting as a traditional securities firm, JSCL is the key investment holding company for JS Group, mainly for interests within the financial sector – banking, asset management, brokerage and insurance.
 - JSIL’s seven-member board, including four independent directors, is diverse in terms of experience and background. Mr. Rashid Mansur, the Chief Executive, joined JSIL in April 2010. He is an Associate of the Chartered Institute of Bankers, London, and a Fellow of the Institute of Bankers, Pakistan, with over three decades of domestic and international banking experience He is assisted by a team of experienced professionals.