



JAHANGIR SIDDIQUI CAPITAL MARKETS LIMITED

Ratings (June 2006)

Jahangir Siddiqui Capital Markets Limited (JSCM)

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

* These ratings are placed on rating watch with positive implications

Financial Data

PKR (mln)

	30-Jun-05	30-Jun-04
Total	1,062.5	332.3
Assets		
Equity	259.3	100.0
Net Income	102.3	40.3
ROE (%)	59.83	50.42
ROA (%)	14.67	20.51

Analysts

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Rating Rationale

Assessment

- The ratings reflect the company’s low risk profile emanating from brokerage business as the primary function. Meanwhile, the company’s strong franchise value through its association with the JS group is also a key-rating factor. The ratings are placed on the **Rating Watch with positive implications** pending the finalization of the proposed equity injection of PKR 2.25bln from Global Investment House KSC (GIH) – a Kuwait based company. The huge additional equity would transform the financial profile of the company with considerable improvement in business prospects. Although the performance – in terms of ROE – is likely to decline initially from the current high levels, owing to equity enhancement, the expected growth in volumes would dilute the impact, going forward.
- The company has shown robust performance during FY05, as measured by ROE, mainly due to upsurge in stock market with consequential increase in trading volumes. This trend was maintained in the first nine months of FY06. While the advisory and consultancy fees exhibited marginal increase as a proportion of total operating revenue, the management is projecting further improvement on the back of significant number of assignments in hand. The reverse repo transactions in the form of CFS also contributed as a stable source of income. Moreover, the expected introduction of CFS MKII could lead to substantially higher volumes. Meanwhile, most of the top ten institutional clients are the associated companies reflecting relative stability in brokerage revenue.
- Currently, the company is operating from Karachi and Lahore offices. However, going forward, the management, in order to increase its retail customers, is planning to expand operations to few other major cities. Meanwhile, to maintain its competitiveness, the management has installed new software replacing KATS with inbuilt feature of managing and monitoring client exposures. The company’s IT department is in the process of further strengthening the existing controls. Once the process is completed, the company plans to launch online stock trading. The management is also planning brokerage diversification into derivatives products as they develop and, at the same time, expand consultancy especially underwriting operations. These initiatives are expected to further enhance the business prospects and profitability.
- JSCM continuously reviews its risk management system including exposure limits and margin requirements in line with changing market dynamics. The company has established Risk Management Department / Internal Audit function which is responsible for monitoring the client position on the daily basis. However, the company, at the same time, remains relatively subjective in imposing margins on clients with whom it has an established working relationship. Although the counterparty risk can arise in CFS or margin financing, the retention of sufficient margins in dealing with the retail and the new institutional clients substantially mitigates the associated risk.
- JSCM’s capital structure is primarily equity based. While the company remains debt free at end-March06, a short-term funding facility of PKR 600mln is available, which was utilized during the year for brief periods in order to settle KSE’s clearing or for the purpose of CFS financing. Going forward, the company is expected to remain largely debt free since the management’s plans could be financed through the expected injection of additional equity. This would also substantially augment the risk absorption capacity of the company.

Background

- The company, sponsored by Jahangir Siddiqui & Company Limited (JSCL), was incorporated in June 2000. The commercial operations were started in May 2003, when JSCL transferred its agency business – equity, fixed income and currency brokerage, research and corporate finance – to JSCM (Pvt.) Limited, a wholly owned subsidiary at that time. Subsequently, on December 31, 2004, JSCL divested its 25% stake through an offer for sale and JSCM was listed on Karachi and Islamabad Stock Exchanges. According to the group’s strategy, JSCM’s operations are to be confined predominantly to the brokerage operations with no exposure to proprietary trading. Recently, the company has entered into an agreement with GIH according to which it would issue new capital of PKR 2.25bln with about 10.35mln new shares having price of PKR 217 per share. This would make GIH and JSCL two major stakeholders in the company with equal shareholding.
- JSCL, a listed company, was established in 1991. Starting as a traditional securities firm, JSCL is now the main holding company for Jahangir Siddiqui Group. 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.
- JSCL, one of the pioneers of introducing economic and equity research, set up a full-fledged Research Department in 1993. The department is now under the management of JSCM. Currently, two sets of bulletins – a Daily and a fortnightly – are generated primarily for the clients.

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