



The Pakistan Credit Rating Agency Limited

JAHANGIR SIDDIQUI & Co. LIMITED (JSCL)

INSTRUMENT RATING REPORT

PRELIMINARY RATING [JULY-17]	
Long-Term	AA+
Short-Term	-
Outlook	Stable

Long-Term	AA+
Short-Term	-
Outlook	Stable

JULY 2017

TFC 10

- JSCL plan to issue 10th TFC worth of PKR 1,500 mln with a tenor of 5 years maturing at July-2021 and grace period of one year.
- The issue has Floating rate of return at 6Months KIBOR + 1.40% p.a. Profit is payable semiannually in arrears calculated on annual basis on the outstanding principal amount.
- Pledge of securities in a designated account with the Central Depository Company of Pakistan Limited, with a 35% margin.
- The issue also incorporates call option which is exercisable partially or in full at any time on a coupon payment date, subject to a 30 days' notice at a premium of 0.25% on the outstanding face value;

Governance

- JSCL's overall control vests in its eight members BoD. The eight member board includes two JS family members along with five other group nominees, including JSCL's CEO, and one independent director. Chief Justice (R) Mr. Mahboob Ahmed is Chairman of the BoD.
- The CEO, Mr. Suleman Lalani, FCA, carries over two decades of experience at key positions within the JS Group.

Investment

- During CY16, a wholly owned subsidiary was incorporated with the name of Quality Energy Solutions (Pvt.) Limited for the purpose of investment in power projects. The company plans to inject PKR 1,100mln equity in due course. JSCL also invested PKR 1,000mln in right issue of JS Infocom, a wholly owned subsidiary.
- JSCL's short term investments primarily comprise equity market investments. The company has recently increased this exposure with intent to build sound investments trading portfolio.

Risk Management Framework

- The investments oversight framework encompasses the structure whereby board members are represented on the boards of investee companies.
- The Investment Committee (IC), comprising CEO, CFO and Head of Investments, convenes meetings regularly and presents investment dashboard, highlighting performance of investee companies, to the BoD on a quarterly basis.

Performance

- During CY16, JSCL witnessed a meagre decrease in its revenue stream on the back of growth in dividend income (19.5% YoY) coupled with reversal clocking at PKR351mln on provisions made on impairments on its subsidiaries.
- The bottom line is supported by the interest income earned on bank deposits also contributed towards the total operating income.
- The rise in operating expenses is on account of an increase in the personnel expenses and a one-time payout of PKR 48mln to Citibank Overseas Investment Corporation.
- During 1QCY17, JSCL's revenue stream witnessed a steady growth. The top-line is also supported by gain on sales of its unquoted investment. JSCL has also booked a reversal of provisions made for impairments clocking in at ~PKR 187mln providing breather to the bottom-line.

Capital Structure

- During CY16, JSCL's witnessed considerable improvement in its equity on account of sound profitability with no dividend payment and notable appreciation in revaluation surplus on its investment book.

RATING RATIONALE

The ratings reflect JSCL's strong risk absorption capacity emanating from a sizeable investment portfolio mainly financed through equity. These are predominantly strategic in nature; notably most are listed with adequate liquidity. During the year, the company penetrated further into financial & technological sector through equity injection. The Company has also build a non strategic book of investments having a market value of over PKR 4 bln along with sizeable cash placements. This include a sizeable investment in technology sector along with other investments. JSCL's financial profile continues to benefit from the ensuing dividend stream, though currently low, which is expected to increase with improving underlying entities. JSCL's financial profile includes its profitable strategic investments in financial sector - JS Bank and EFU Insurance, providing strong position in ensuing consistent dividend stream. The oversight framework for the strategic investments is improving. JSCL has a low leveraged capital structure. JSCL plans to issue a debt instrument (10th TFC) of PKR 1,500 mln. The proceeds will be utilized for expansion of business and other on going projects. The rating of the instrument draws comfort from the security structure.

KEY RATING DRIVERS

The ratings are dependent on the company's ability to augment cash producers in its investment book. The improvement in the performance of the company's strategic investments provides comfort. Diversification of the investment book among sectors would be beneficial. Immaculate financial discipline remains important for the ratings.



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JAHANGIR SIDDIQUI & CO. LTD. BALANCE SHEET

	31-Mar-17 <i>3M</i>	31-Dec-16 <i>Annual</i>	31-Dec-15 <i>Annual</i>	31-Dec-14 <i>Annual</i>
A. INVESTMENTS				
1. Equity Securities				
a. Strategic Equity Investments				
i. Subsidiaries / Associates / Joint Ventures	8,110	7,892	6,541	6,980
ii. Others	21,906	19,429	15,785	15,340
	30,016	27,321	22,326	22,321
b. Equity Investments	3,960	3,780	2,259	54
	33,976	31,101	24,584	22,374
2. Debt Securities				
a. Government Securities	-	-	26	26
b. Listed Debt Instruments (TFCs, Preference Shares)	-	-	-	-
c. Un-Listed Debt Instruments and others	400	400	-	-
	400	400	26	26
Total Investments	34,376	31,501	24,610	22,400
B. FINANCES				
1. Loans	1	2	3	4
2. Others	-	-	-	-
3. <i>Less: Provisions</i>	-	-	-	-
Total Finances	1	2	3	4
C. OTHER EARNING ASSETS				
1. Deposits with Banks	374	730	2,000	135
2. Placements (including Reverse REPO)	-	-	-	-
Total Other Earning Assets	374	730	2,000	135
D. TOTAL EARNING ASSETS	34,751	32,232	26,613	22,538
E. FIXED ASSETS	7	7	10	9
F. OTHER NON-EARNING ASSETS				
1. Cash and Bank Balances	1	1	1	0
2. Deferred Tax Asset	-	-	-	-
3. Others	415	323	399	373
Other Non-Earning Assets	416	324	400	373
G. TOTAL ASSETS	35,173	32,563	27,022	22,921
H. BORROWINGS				
1. Current Maturity of long term loan	412	291	430	322
2. Banks and Other Financial Institutions (including REPO)	372	434	-	-
3. TFCs	1,101	1,221	957	894
4. Others	-	-	-	-
Total Borrowings	1,885	1,945	1,387	1,216
I. OTHER LIABILITIES (Non-Interest Bearing)				
1. Deferred Tax Liability	211	162	-	-
2. Dividend Payable	-	-	-	-
3. Others	318	401	332	241
Total Other Liabilities	529	564	332	241
J. EQUITY				
1. Share Capital				
a. Ordinary Shares	9,159	9,159	9,159	7,633
b. Preference Shares	-	-	-	-
	9,159	9,159	9,159	7,633
2. Reserves:				
a. Capital Reserve (Share Premium)	4,498	4,498	4,498	4,498
b. Revenue Reserve	-	-	-	-
c. Unappropriated Profit	2,171	1,761	1,139	(1,692)
	6,669	6,259	5,637	2,806
Pure Equity	15,829	15,419	14,797	10,439
3. Surplus/(Deficit) on Revaluation of Investments	16,930	14,636	10,505	11,025
Total Equity	32,759	30,055	25,302	21,464
L. TOTAL LIABILITIES & EQUITY	35,173	32,563	27,022	22,921



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**JAHANGIR SIDDIQUI & CO. LTD.
INCOME STATEMENT**

	31-Mar-17 <i>3M</i>	31-Dec-16 <i>Annual</i>	31-Dec-15 <i>Annual</i>	31-Dec-14 <i>Annual</i>
1. Capital Market and Related Operations				
a. Dividend Income	210	720	602	331
b. Gain on Sale of Investments	111	78	3,247	98
c. Surplus/(Deficit) on Revaluation of Investments	-	-	(0)	(0)
d. Provision for Diminution in Value of Investments	188	351	(439)	(10)
	509	1,149	3,410	419
2. Interest / Mark-up Earned				
a. Finances	-	0	0	0
b. Placements (including Reverse Repo)	-	21	74	-
c. Bank Deposits, Investments and others	27	84	95	62
	27	105	170	62
3. Other Operating Income				
a. Fees	-	-	3	-
b. Commission	-	-	1	3
c. Brokerage	-	-	-	-
d. Others	-	-	-	-
	-	-	4	3
4. Total Operating Revenue	536	1,254	3,584	484
5. Financial Charges	38.4	145	165	165
6. Total Net Revenue	497	1,109	3,419	319
7. Other Income / (Loss)	11	44	41	37
	508	1,153	3,460	356
8. Operating Expenses				
a. Personnel Expenses	14	61	107	32
b. Other Non-interest/Mark Up Expenses	51	222	199	96
	65	283	306	128
9. Pre-Tax Profit	443.7	870	3,154	228
10. Taxes	35	248	323	39
11 Net Income	409	622	2,831	189
12 Unappropriated Profit / (Loss) Brought Forward	1,762	1,139	(1,692)	(1,880)
13 Adjustments	-	-	-	-
14 Available for Appropriations	2,171	1,762	1,139	(1,692)
15. Appropriations				
a. Statutory Reserve	-	-	-	-
b. Capital Reserve	-	-	-	-
c. Revenue Reserve	-	-	-	-
d. Dividend	-	-	-	-
	-	-	-	-
16. Unappropriated Profit/(Loss) Carried Forward	2,171	1,762	1,139	(1,692)



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JAHANGIR SIDDIQUI & CO. LTD. RATIO ANALYSIS

	31-Mar-17	31-Dec-16	31-Dec-15	31-Dec-14
A. PERFORMANCE				
1. ROE (<i>Average</i>)	10.5%	4.0%	22.5%	1.8% *
2. ROA (<i>Average</i>)	4.8%	2.0%	11.3%	1.0% *
3. Personnel Expenses-to-Total Net Revenue	2.8%	5.5%	3.1%	10.0%
4. Cost-to-Total Net Revenue	13.0%	25.5%	9.0%	40.1%
5. Taxes / Pre-Tax Profit	7.8%	28.5%	10.3%	17.2%
B. CAPITAL ADEQUACY				
1. Pure Equity / Total Assets (excluding surplus on re-valuation of Investments)	86.8%	86.0%	89.6%	87.8%
2. Total Equity (including surplus on revaluation) / Total Assets	93.1%	92.3%	93.6%	93.6%
3. Total Debt / Total Equity	5.8%	6.5%	5.5%	5.7%
4. Total Debt / Pure Equity	11.9%	12.6%	9.4%	11.6%
C. FUNDING & LIQUIDITY				
1. Long-Term Debt / Total Debt	76.3%	85.1%	69.0%	73.5%
2. Unsecured Debt / Total Debt	0.0%	0.0%	0.0%	0.0%
3. LT Assets / LT Debt + Total Equity	87.7%	86.2%	85.1%	99.9%
4. Earnings before Interest & Tax / Financial Charges	1270.6%	701.4%	2010.9%	237.9%
5. Liquid Assets / Total Debt (net of REPO)	1226.7%	1077.9%	1268.3%	1179.9%
D. GROWTH				
1. Total Assets	8.0%	20.5%	17.9%	53.1%
2. Investments	9.1%	28.0%	9.9%	77.2%
3. Pure Equity	2.7%	4.2%	41.74%	1.8%



STANDARD RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

LONG TERM RATINGS		SHORT TERM RATINGS
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.	A1+: The highest capacity for timely repayment.
AA+ AA AA-	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	A1: A strong capacity for timely repayment.
A+ A A-	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB BBB-	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB BB-	Speculative. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.	B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B B-	Highly speculative. Significant credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	C: An inadequate capacity to ensure timely repayment.
CCC CC C	High default risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.	
D	Obligations are currently in default.	

Rating Watch

Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled.

Outlook (Stable, Positive, Negative, Developing)

Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Suspension

It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn

A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issues in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

