



The Pakistan Credit Rating Agency Limited

Rating Report

Jahangir Siddiqui & Co. Ltd. | TFC X | Jul-17

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
09-Aug-2019	AA+	-	Stable	Maintain	-
08-Feb-2019	AA+	-	Stable	Maintain	-
16-Aug-2018	AA+	-	Stable	Maintain	-
29-Jan-2018	AA+	-	Stable	Maintain	-
18-Jul-2017	AA+	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The ratings reflect Jahangir Siddiqui & Co. Ltd.'s (JSCL) strong presence as a Holding Company in the financial sector with a basket of strategic investments most prominent of which are JS Bank, BankIslami Pakistan, EFU Life Assurance and EFU General Insurance. JS Bank is on its path to establish itself in the medium sized banking sector. BankIslami aims to expand its lending portfolio by funding through its increased deposit base, however, the bank's lending portfolio has slimmed down while NPLs have decreased during CY18. Meanwhile, EFU Life and EFU General continue as a stable income stream for the Company. JSCL has increased its stake in EFU General Insurance while it has divested in Azgard Nine as it makes significant progress in its diversification strategy in energy, petroleum, and infrastructure segment. The Company has made ~PKR 2bln investments in LPG Storage and Oil Marketing businesses. This is predominantly being funded by debt instruments. Although the investment activity has increased the debt exposure for the Company, it still remains within moderate limits.

Ratings draw strength from the Company's moderately leveraged capital structure and continuing growth trajectory in its existing strategic investments. Meanwhile, strict financial discipline in terms of coverages remains critical for ratings. Prolonged downturn in capital markets leading to substantial deterioration in the Company's investments will impact ratings.

Disclosure

Name of Rated Entity	Jahangir Siddiqui & Co. Ltd. TFC X Jul-17
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Methodology_Holding Company_FY19(Jun-19),PACRA_Methodology_Debt Instrument_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study Holding Company(Aug-19)
Rating Analysts	Silwat Malik silwat.malik@pacra.com +92-42-35869504



Profile

Legal Structure Jahangir Siddiqui & Co. Ltd. (the Company) is a public limited company listed on the Pakistan Stock Exchange.

Background Jahangir Siddiqui & Co. Ltd., successor to brokerage business started in early seventies by Mr. Jahangir Siddiqui, was established in 1991. Starting as a traditional securities firm, JSCL is now the main investment arm for Mr. Jahangir Siddiqui's (JS) business interests.

Operations The principal activities of the Company are managing strategic investments, trading of securities, consultancy services, etc. JSCL's portfolio of investments is categorized into a) Strategic Investments and b) Short Term Investments. Investments in the financial segment dominate the portfolio – significant concentration in insurance (~33%) and banking (~31%) sectors. Strategic Investments therein include subsidiaries, JS Bank and Energy Infrastructure Holding (Pvt.) Ltd among others. JSCL increased its stake in EFU General Insurance (1QCY19: 21.1%, 1QCY18: 20.6%), while it divested in Azgard Nine (1QCY19: 19.96%, 1QCY18: 24.96%) and PIBT (1QCY19: 8.59%, 1QCY18: 10.54%). During CY18, the Company invested PKR 1,700mln in Energy Infrastructure Holding (Private) Limited (EIHPL) via subscription of right shares. Strategic Investments under Energy Infrastructure include sub-subsidiaries, JS Petroleum for LPG Storage facility and JS Fuel for Oil Marketing business.

Ownership

Ownership Structure JS Group holds majority stake (end Jun'19: ~71%, end Dec'18: ~72%) in the Company through individuals and its Group Companies. As at Jun'19, Mr. Jahangir Siddiqui holds ~43.1% stake directly while ~13.3% and ~14.1% is held by Jahangir Siddiqui Securities Services Limited and Jahangir Siddiqui & Sons Limited. The other major shareholder is SAJ Capital Management Limited (~5.7%).

Stability Ownership is seen as stable as major stake rests with the Group.

Business Acumen JS Group is a renowned business group of Pakistan. The Group has varied interests in the financial sector, including asset management, financial advisory, brokerage, insurance and banking. JS Group also has investments in industries namely energy, infrastructure and technology.

Financial Strength Majority of JS Groups financial strength is consolidated in its Holding Company, JSCL. At end Mar-19 the Company had an asset base of PKR 503bln which is supported by an equity base of PKR 35bln and consolidated debt exposure is PKR 127bln with sizeable deposits emanating from JS Bank of ~PKR 314bln. Its topline clocked in at PKR 11bln with the bottom-line closing in at PKR 120mln for 3MCY19.

Governance

Board Structure JSCL has an eight-member Board of Directors (BoD), where all except the CEO are Non-Executive Directors. The BoD has one independent director. Currently, the BoD stands to have two representatives of JS Group (including one family member).

Members' Profile The board members include financial sector experts and respected civil servants. Their diverse backgrounds and varied expertise provide holistic guidance and direction to the Company. During June'2019, two members, Mr. Kalim-Ur-Rehman and Mr. Munawar-Alam-Siddiqui resigned from the board. Mr. Shahid Hussain Jatoi has replaced Mr. Munawar -Alam-Siddiqui while no replacement has been announced for Mr. Kalim-Ur-Rehman as of yet.

Board Effectiveness JSCL's board has constituted three committees for effective monitoring and oversight namely, Audit Committee, HR & Remuneration Committee and Executive Committee.

Financial Transparency JSCL's External Auditors are EY Ford Rhodes. They issued an unqualified audit report for financial year ended Dec18. The board's Audit Committee is headed by an independent director.

Management

Organizational Structure The Company is headed by the CEO. It has four major departments namely: a) Investments, b) Finance, c) Human Resources and Administration, and d) Corporate Affairs. All departments report to CEO.

Management Team The CEO, Mr. Suleman Lalani, FCA, has been associated with the group since 1992. He carries over two decades of experience at key positions. Mr. Najmul Hoda Khan has been appointed as the CFO in place of Mr. Hasan Shahid recently. Mr. Hasan Shahid serves as Director Finance and Company Secretary.

Effectiveness At management level, an Investment Committee (IC) is in place to evaluate performance measurement and monitoring of the investment portfolio. It meets regularly to review the portfolio. Further, board members of JSCL are represented on the boards of investee companies.

MIS To manage trading portfolio, the Company uses an in-house developed automated system which captures transactional data for Ready and Deliverable Future Markets contracts for buy and sells transactions.

Control Environment The Company has outsourced its internal audit function to M/s Grant Thornton Anjum Rahman, Chartered Accountants.

Business Risk

Industry Dynamics Hold Cos are an emerging phenomenon in Pakistan. Some operating companies that held strategic investments gradually for the purpose of diversification and growth eventually demerged from their operations and structured itself so that holding companies could concentrate their investments for the purpose of business growth and diversification.

Relative Position In comparison to the major players in the Holding Companies JSCL is one of the key players as it has structured itself into a pure Investment Holding Company for the purpose of oversight of its investments. It has a consolidated asset base of ~PKR 504bln as at end-Mar'19.

Revenues JSCL's topline mainly comprises dividend income and capital gains which decreased by ~19% YoY clocking in at PKR ~1,246mln in CY18 (CY17: PKR ~1533mln). This is mainly due to lower capital gains on disposal of investments (CY18: PKR 56mln, CY17: PKR 284mln) and lower dividend income (CY18: PKR 1,016mln, CY17: PKR 1,054mln). During 1QCY19, the holding company's revenues increased to PKR 467mln compared to SPLY (1QCY18: 269mln) on the back of higher capital gains on disposal of investments. JSCL's dividend income is expected to be concentrated from insurance sector, while stock market performance would determine gains from disposal of investments.

Margins Finance cost increased substantially (78%) in CY18 as compared to corresponding period last year (CY18: PKR 395mln, CY17: 222mln), owing to an increase in interest rates and long-term borrowings. As a result bottom line clocked in at ~PKR 207mln in CY18 as compared to ~PKR 366mln, reflecting a decline of 43%. During 1QCY19, the Company's bottom line improved on account of improved revenues during the year and noted an increase of ~15% to stand at PKR 279mln (1QCY18: PKR 243mln).

Sustainability JSCL is implementing its diversification in energy, oil and marketing and infrastructure sectors as a group. The Company has established subsidiaries for the said purpose under the umbrella of Energy Infrastructure Holding (Pvt.) Ltd. BOD have also approved to provide a long term loan of up to PKR500mln to EIHPL, which would be disbursed during the CY19. Meanwhile, the group is sustaining a growth trend in JS Bank by expanding its network in a rising interest rate environment. The group has largely maintained its stake in the bulk cargo-handling infrastructure project. Further, JSCL is expected to increase its investment in EFU General by upto PKR 1,000mln from time to time.

Financial Risk

Working Capital The Company holds sizeable liquid investments (~PKR 2.7bln) in the form of listed equity securities and there are no short term borrowings as at Mar'19.

Coverages Owing to low capital market performance, increase in interest costs and borrowings, interest coverage deteriorated to 3.3x at end Mar-19 (end Dec 18: 2.1x, end Dec-17: 4x).

Capitalization JSCL has an equity base of ~ PKR 24bln which comprises of unrealized gain on investments of ~PKR 7.8bln at end Mar-19. Borrowings, amounting to ~PKR 4.6bln, comprise long-term loans in the shape of (i) Term Finance Certificates (TFCs), and (ii) Term Loans from commercial banks. Leveraging, stood at 19% at end Mar-19.(end-Dec18: 18.3%). TFC-8 matured during Apr '19 and additional debt, in the form of TFC 12 is expected to be issued.



The Pakistan Credit Rating Agency Limited

JAHANGIR SIDDIQUI & CO. LTD.

BALANCE SHEET	31-Mar-19	31-Dec-18	30-Sep-18	31-Dec-17
	3M	Annual	9M	Annual
Investments	28,491	28,493	28,495	29,721
Strategic Equity Investments	24,908	25,078	25,672	26,689
Subsidiaries	10,435	10,419	10,531	8,894
Others	14,473	14,659	15,142	17,794
Other Equity Investments	2,472	2,751	2,823	3,033
Debt Investments	986	300	-	-
Investment Property	2	2	2	2
Cash and Bank Balances	1,085	1,087	1,089	1,427
Other Assets	459	289	411	265
Total Assets	29,993	29,995	29,997	31,415
Borrowings	4,593	4,342	4,658	3,509
Long Term	4,597	4,344	4,658	3,509
Short Term	(4)	(2)	-	-
Total Liabilities (Excluding Borrowings)	338	340	342	386
Shareholder's Equity	23,993	23,793	24,997	27,520
Total Liabilities & Equity	28,919	28,472	29,997	31,415
INCOME STATEMENT				
Income	467	1,246	1,089	1,533
Expenditure	56	410	250	644
Financial Charges	126	395	284	222
Net Income	279	207	386	366
Ratio Analysis				
Profitability				
ROE	2.3%	1.3%	3.2%	2.3%
ROA	1.2%	0.7%	1.7%	1.1%
Capital Structure				
Total Debt / Total Equity	19.2%	18.3%	18.6%	12.7%
Total Debt / Pure Equity	28.3%	27.2%	28.8%	22.2%
Coverage				
EBIT / Financial Charges	3.26	2.12	2.95	4.00

JAHANGIR SIDDIQUI & CO. LTD.

Feb-19

Term Finance Certificates - 10	
Placement	Privately Placed
Issue size	PKR1,500mln (inclusive of Green Shoe option of PKR500mln)
Issue Date	18-Jul-17
Maturity	18-Jul-22
Tenor	5 Years including a grace period of 1 Years
Profit Rate	Floating rate of return at 6Months Kibor + 1.40% p.a. Profit will be payable semiannually The first such profit payment will fall due six (6) months from the Issue date and subsequently every six (6) months thereafter
Principal Repayment	In eight (8) equal semi-annual installments, starting from the 18th month of the drawdown date
Call Option	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
Security	Pledge of securities in a designated account with the Central Depository Company of Pakistan Limited, with a 35% margin. The eligible shares to be kept as securities are : IGI Insurance Limited, United Bank Limited, TRG Pakistan Limited, Pakistan International Bulk Terminal Limited, Fauji Cement Company Limited, Engro Fertilizers Limited, Hum Network Limited, EFU Life Assurance Limited, EFU General Insurance Limited, Ghani Glass Limited
Latest Book Value of Security-30-Jun-19	PKR 816mln
Latest Market Value of Security-30-Jun-19	PKR 2,237mln
Trustee	Pak Brunei Investment Company Limited

Installment	Year	Due Date	Days	Principal	Mark Up	Total Installment	Outstanding Balance
-----PKR In Million -----							
	18-Jul-17						1,500
1	2019	18-Jan	184	188	71	259	1,313
2	2019	18-Jul	181	188	79	267	1,125
3	2020	18-Jan	184	188	85	273	938
4	2020	18-Jul	182	188	71	258	750
5	2021	18-Jan	184	188	57	244	563
6	2021	18-Jul	182	188	43	230	375
7	2022	18-Jan	184	188	28	216	188
8	2022	18-Jul	181	188	14	202	-

Debt Instrument Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying 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

AAA **Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments

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.
AA
AA-

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.
A
A-

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.
BBB
BBB-

BB+ **Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB
BB-

B+ **High 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.
B
B-

CCC **Very high credit 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.
CC
C

D Obligations are currently in default.

Short Term Ratings

A1+ The highest capacity for timely repayment.

A1 A strong capacity for timely repayment.

A2 A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.

A3 An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.

B The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C An inadequate capacity to ensure timely repayment.

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'.

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. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

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, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue 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.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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