The Pakistan Credit Rating Agency Limited

Rating Report

JS Global Capital Limited | BMR

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Dec-2019	BMR1	-	Stable	Maintain	-
28-Jun-2019	BMR1	-	Stable	Maintain	-
31-Dec-2018	BMR1	-	Stable	Maintain	
17-Nov-2017	BMR1	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect JS Global's strong brand, sizable market share, competitive positioning and extensive outreach to the retail segment. Despite the lackluster performance of the equity market and dwindling trading volumes, the Company maintained it's market share.The Company intends to further enhance its presence through branch network and strengthening operating platform, while developing new products. The rating incorporates JS Global's robust financial profile characterized by debt free capital structure and very strong risk absorption capacity owing to its healthy liquidity profile. The Company has defined investment limits through a formal policy to curtail market risk to an extent. The Company does not engage in proprietary trading in equities. The Company maintained the profitability, albeit small, despite low volumes of stock market. The management expects this trend to reverse, given recent improved performance and volumes in stock market. The ratings take into account the Company's association with a leading financial group,'JS Group' of the country.

The ratings are dependent on the management's ability to augment brokerage and other income by capitalizing on improved market sentiments. Retaining market share and sustaining profitability from core operations remain critical. Meanwhile, retention of key individuals and strengthening processes and procedures is important. Implementation of new software, resulting in better controls is critical in this regard.

Disclosure	
Name of Rated Entity	JS Global Capital Limited | BMR
Type of Relationship	Solicited
Purpose of the Rating	Broker Management Rating
Applicable Criteria	PACRA_Methodology_BMR(Jun-19)
Related Research	Sector Study | Brokerage & Securities(Jun-19)
Rating Analysts	Madiha Sohail | madiha.sohail@pacra.com | +92-42-35869504

Ownership

Ownership Structure JS Bank Limited (JSBL) and Global Investment House (GIH) are the major shareholders of the Company, each holding ~84% and ~10% stake in JS Global, respectively. JS Bank is the subsidiary of Jahangir Siddiqui & Co. Limited. The remaining shareholders comprise the general public and other market participants as at Sep 2019

Stability The Company is owned by JS Bank having 345 branches and reported equity of PKR ~16 bln as at Sep-19.

Business Acumen JS Bank is a medium-sized commercial bank, and has witnessed fast growth and market share in recent times. JS Global's second largest shareholder, GIHL, incorporated in 1998 and licensed by Central bank of Kuwait, is listed on Bahrain and London Stock Exchanges and offers a wide range of financial products and services. JS Group has business interests in banking, insurance, investment services, media, textile and port terminal operations demonstrating strong sponsor acumen.

Financial Strength JS Bank's equity stood at ~PKR 16bln at end Sep-19. JS Bank has a long-term rating of AA- and short-term rating of A1+. The equity size of GIHL stood at ~KD67mln at end June-19.

Governance

Board Structure Recently JS Global has elected new board of directors in compliance with Code of Corporate Governance. The board comprises eight members, including the CEO. Five directors are non-executive, while two are independent. Three directors represent JS Bank, while two represent GIH. The Company has elected one female director on the board as non executive director.

Members' Profile The board's Chairman, Mr. Muhammad Yousuf Amanullah (FCA), a certified director, has been associated with JS Group since 2003 in various strategic capacities and carries extensive professional experience. Mr. Munir Taher (FCCA, CFA), is the global vice president of GIHL and carries over a decade of professional experience in investment management.

Board Effectiveness To ensure compliance, and in line with best corporate governance practices, the Company has formulated three board committees, i) Audit committee, ii) HR & remuneration committee and iii) Risk Management committee. The independent director is a member of both the audit and HR & remuneration committees.

Financial Transparency JS Global has outsourced the internal audit function to Deloitte Yousuf Adil. The Company has appointed EY Fort Rhodes Sidat Haider as the external auditor. The auditor issued an unqualified opinion on the Company's financial statements for CY18.

Management

Management Team The CEO, Mr. Kamran Nasir (FCCA), has over fifteen years of experience in audit, investment banking and, brokerage business. All other members of the senior management are well qualified and carry broad-based professional experience.

Organizational Structure JS Global has a multi-tier functional organization structure, consisting of following departments, i) Finance, ii) Internal audit, iii) Risk Management & Compliance, iv) IT, v) Equity operations, vi) Research, vii) International sales, viii) Online trading, and, ix) Commodity trading and x) Corporate finance. Heads of the departments report directly to the CEO.

Client Servicing JS Global Capital Limited is implementing new premium online trading software "Mubasher" at year end CY19. Mubasher is an internationally acclaimed software developed by the National Technology Group of Saudi Arabia. It has been recognized for establishing new benchmarks and maintaining high level of customer satisfaction in the delivery of technology-based financial services. Successful implementation of the software and ensuing benefits are important for the company to gain competitive advantage.

Complaint Management JS Global has an adequate complaint management system in place, complaints can be made via e-mail, SMS, and calls. JS Global has centralized complaint logging and attention-grabbing tools available.

Extent Of Automation / Integration Two database platforms are installed with full integration between back and front office. The system has the ability to generate timely reports.

Continuity Of Operations JS Global has a detailed disaster recovery plan to ensure the business continuity at the time of disaster.

Risk Management Framework The Company's risk management framework revolves around the risk committee. The main purpose of the committee is to monitor the risks faced by the Company at all levels and enlist the observations for the senior management to review.

Regulatory Compliance Risk Management & Compliance Department ensures that all the regulatory requirements have adhered to. No observations were reported by the regulators during 9MCY19. Separate compliance and Internal Audit bodes well for the control environment.

Business Sustainability

Business Risk KSE-100 index recorded an overall oscillating trend during FY19. The start of FY19 witnessed the market gaining momentum, reaching the highest point of 43,557 on July 30, 2018, after which it started dropping and hit low of 33,166 on May 17, 2019. The KSE-100 index posted a negative return of around ~19% in FY19 compared to the negative return of ~10% in FY18. The index witnessed a rising trend in 4MFY20 as sentiments improved and certain key economic indicators started to stabilize. The market posted a positive return of 13% in 4MFY20. The overall trading volumes remained depressed in FY19 and averaged ~96 mln putting pressure on brokerage income. However, the volumes have improved in 4MFY20. SECP has also taken certain initiatives, including introduction of minimum commission rates and relaxation in reporting and capital of brokers, to boost market activity.

Business Profile JS Global remains one of the prominent players in equity, fixed income and foreign domain with a market share of ~10%.

Revenue And Profitability Analysis The fee-based income of the Company for 9MCY19 stood at ~PKR 229 mln as compared to ~PKR 378 mln in SPLY, (Dec-18 ~PKR 478 mln). The main decline can be attributable to the reduction in brokerage income of the Company by ~31%, to ~PKR 202 mln (Sep-18: ~PKR 292 mln, Dec-18 ~PKR 389 mln). The advisory income also reduced to ~PKR 26 mln and remain nominal. Non-fee based income over 9MCY19 has increased by ~19%, on the back of higher profits generated from TFCs, sukuks and bank deposits. During 9MCY19, the Company recorded net profit of ~PKR 6 mln (SPLY: ~PKR 21 mln). The bottom line was supported by interest and other income as core brokerage business remained under pressure.

Financial Sustainability

Credit Risk For the assessment of client's credit worthiness, the Company has formulated detailed KYC/CDD policies. Limits have been defined, which are strictly monitored. At end Sep-19, trade debts have depicted a declining trend amounting to ~PKR 464mln (Dec-18 ~PKR 1,086 mln). Overdue debts have been provided for as per the simplified approach for expected credit loss (ECL) under IFRS 9.

Market Risk The Company is not running any proprietary book , hence not exposed to market risk. JS Global's short term investments comprises quoted equity securities, which fall under the segment of ready futures. This limits the market risk, while correct execution of the transaction remains critical.

Liquidity Profile The liquidity risk for the Company arises from the T+2 settlement framework. The Company's liquid assets were ~0.5x of the total asset as of end Sep-19 (Dec 2018: ~0.3x). Furthermore, liquid assets were ~1.5x that of the trade-related liabilities (Dec 2018: ~0.6x). In case a need arises, the Company has a finance line of ~PKR 800mln provided by a commercial bank.

Financial Risk JS Global's finance cost mainly pertains to interest expense on assets subject to finance lease otherwise. The Company has debt-free capital structure. At end Jun 2019, the net capital balance (NCB) for the Company stood at ~PKR 1.5 bln at end Sep-2019 (Dec 2018: ~PKR 1.5 bln) depicting strong capitalization. The Company can take exposure up to 25x of its NCB .

JS GLOBAL CAPITAL LIMITED
BALANCE SHEET
As at

		30-Sep-19	31-Dec-18	31-Dec-17	31-Dec-16
		3QCY19	**CY18**	**CY17**	**CY 16**
		Unaudited	**Audited**	**Audited**	**Audited**
A.	**EARNING ASSETS**				
	a. Finances				
	1. Margin Financing	198	310	343	873
	2. Ready Futures (Spread Transactions)	411	994	322	787
		609	**1,304**	**666**	**1,659**
	b. Investments				
	1. Deposits with Banks and other institutions (Own Funds)	1,554	216	1,050	1,045
	2. Deposits with Banks and other institutions (Client's Fund)	702	1,352	626	0
	3. Govt. Securities and Money Market Fund	0	0	225	0
	4. Debt Securities & Income Funds	32	52	97	53
	5. Long-Term				
	i) Listed Equities (PSX)	112	142	49	61
	ii)TREC	6	8	8	8
	6. Short-Term				
	i) Listed Equities	0	0	0	0
		2,406	**1,770**	**2,055**	**1,167**
	Total Earning Assets	**3,015**	**3,075**	**2,721**	**2,827**
B.	**NON-EARNING ASSETS**				
	1. Cash and Bank Balances	3	4	3	2
	2. Advance Tax	146	121	57	47
	3. Accounts Receivable	464	1,086	562	923
	4. Advances, Deposits and Other receivables	232	272	324	577
	5. KSE Shares				
	5. Fixed Assets	555	283	96	82
	Non-Earning Assets	**1,400**	**1,766**	**1,042**	**1,631**
C.	**TOTAL ASSETS**	**4,415**	**4,840**	**3,762**	**4,458**
D.	**Funding**				
	1. Commercial				
	i) Advances from Customers	0	0	0	0
	ii) Trade paybales	1,323	2,045	995	1,740
		1,323	**2,045**	**995**	**1,740**
	2. FIs				
	i) Short-term Borrowings	0	0	0	0
	ii) Current Maturity of Long Term Debt	0	0	0	0
	iii) Long-term Borrowings	0	0	0	0
		0	**0**	**0**	**0**
	Total Funding	**1,323**	**2,045**	**995**	**1,740**
E.	**Other Liabilities**				
	1. Borrowings (Leased Assets)	278	0	0	0
	1. Due to Associates	0	0	0	0
	2. Other Liabilities (staff gratuity, Accrued mark-up)	210	183	163	163
	3. Provision for Taxation	0	0	0	0
	Other Liabilities	**488**	**183**	**163**	**163**
F.	**EQUITY**				
	1. Share Capital	**380**	**380**	**380**	**380**
	2. Reserves:				
	i. Statutory Reserve	0	0	0	0
	ii. Capital Reserve	1,810	1,810	1,810	1,810
	iii. Reserve for Bonus Shares	0	0	0	0
	iv. Revenue Reserve	0	0	0	0
	v. Unappropriated Profit	414	410	384	299
		2,224	**2,220**	**2,195**	**2,109**
	Pure Equity	**2,604**	**2,600**	**2,575**	**2,489**
	3. Surplus/(Deficit) on Revaluation of Investments	(3)	8	27	66
	4. Unclaimed dividend	3	3	3	0
	Total Equity	**2,604**	**2,612**	**2,605**	**2,556**
G.	**TOTAL LIABILITIES & EQUITY**	**4,415**	**4,840**	**3,762**	**4,458**
H.	**CONTINGENT LIABILITIES**	0	0	0	0

JS GLOBAL CAPITAL LIMITED
INCOME STATEMENT
For the period ended

		30-Sep-19 3QCY19 Unaudited	31-Dec-18 CY18 Audited	31-Dec-17 CY17 Audited	31-Dec-16 CY 16 Audited
1.	**Fee-Based Income**				
	a. Advisory Fees	26	90	6	13
	b. Commission / Underwriting	0	0	0	0
	c. Brokerage	202	389	529	451
	d. Others (including MFS)	0	0	2	4
		229	**478**	**538**	**468**
2.	**Operating Expenses**				
	a. Personnel Expenses*	(177)	(277)	(312)	(231)
	b. Other Non-interest/Mark Up Expenses*	(245)	(375)	(327)	(273)
		(422)	**(652)**	**(638)**	**(504)**
3.	**Brokerage Income / (Loss)**	**(193)**	**(174)**	**(100)**	**(35)**
4.	**Non Fee-Based Income**				
	a. Placements (including Reverse REPO/COI/CFS)	0	0	0	0
	b. Bank Deposits and Margin finance	171	161	88	155
	c. Dividend Income	61	79	70	55
	d. Gain on Sale of Investments	15	40	79	57
	e. Surplus/(Deficit) on Revaluation of Investments	2	0	(4)	14
	f. Share of profit of subsidiaries/associates	0	0	0	0
	g. Others	0	0	0	0
		249	**280**	**233**	**280**
5.	**Total Operating Income / (Loss)**	**55**	**106**	**132**	**245**
6.	Financial Charges	(30)	(7)	(54)	(1)
7.	Other Income / (Loss)	0	0	0	(5)
8.	**Profit / (Loss) Before Tax**	25	99	78	239
9.	Taxes	(19)	(73)	(113)	(68)
10.	**Net Income**	**6**	**26**	**(35)**	**171**

JS GLOBAL CAPITAL LIMITED
RATIO ANALYSIS

	30-Sep-19	31-Dec-18	31-Dec-17	31-Dec-16
	3QCY19 Unaudited	CY18 Audited	CY17 Audited	CY 16 Audited
A. PERFORMANCE				
1. ROE	0.2%	1.1%	-1.2%	7.5%
a Net Profit Margin	2.8%	5.4%	-6.5%	36.5%
b Asset Turnover	4.8%	11.1%	13.1%	11.7%
c Financial Leverage	1.7	1.9	1.4	1.7
2. ROA	0.1%	0.5%	-0.9%	3.8%
3. Cost-to-Fee Income	184.6%	136.3%	118.7%	107.6%
4. Cost-to-Total Operating Income	88.4%	86.0%	82.8%	67.3%
5. Taxes / Pre-Tax Profit	74.3%	74.1%	145.2%	28.5%
6. Net Non-Earning Assets / Assets net of Non-Interest Liabilities	23.2%	34.0%	24.4%	34.2%
B. FINANCIAL EXPOSURE				
1. Investments / Equity	115.8%	118.2%	105.7%	113.6%
2. Equities / Total Capital	4.3%	5.5%	1.9%	2.4%
3. Fixed Income / Total Capital	1.2%	2.0%	12.5%	2.1%
4. NCB / Equity	65.8%	65.9%	74.8%	77.6%
C. LIQUIDITY				
1. Trade Related Assets / Trade Related Liabilities	0.4	0.5	0.6	0.5
2. Liquid Assets / Total Assets	0.5	0.3	0.5	0.4
3. Liquid Assets / Trade Related Liabilities	1.5	0.6	1.7	1.1
4. Liquid Assets / (Short term Borrowings + Advances from Customers + Accounts Payable)	1.5	0.6	1.7	1.1
5. Liquid Investments / Equity	0.8	0.5	0.7	0.8
D. COVERAGE RATIOS				
1. EBITDA/Gross Interest	3.7	16.5	2.1	440.8
2. FCFO/Gross Interest	2.1	1.1	(0.2)	214.3
3. TCF/Gross Interest	2.1	1.1	(0.2)	214.3
4. FCFO/Gross Interest+CMLTD	2.1	1.1	(0.2)	214.3
5. FCFO/Gross Interest+CMLTD+Uncovered Short Term Borrowings	2.1	1.1	(0.2)	214.3
6. TCF/Gross Interest+CMLTD+Uncovered Short Term Borrowings	2.1	1.1	(0.2)	214.3
Debt Payback Analysis				
7 Long-term Debt/FCFO	0.0	0.0	0.0	0.0
8 Total Debt / FCFO	0.0	0.0	0.0	0.0
E. CAPITAL ADEQUACY				
1. Equity / Total Assets	59.0%	53.7%	68.4%	55.8%
2. Total Equity (including surplus on revaluation) / Total Assets	59.0%	54.0%	69.2%	57.3%
3. Total Debt / Equity	0.0%	0.0%	0.0%	0.0%
F. GROWTH				
1. Total Assets	-12.2%	28.6%	-15.6%	26.2%
2. Equity	0.0%	1.0%	3.4%	-13.7%
3. Brokerage Revenue	50.9%	-26.6%	17.4%	-0.4%
4. Investment Yield	7.9%	9.6%	8.4%	9.7%

Broker Management Rating Scale & Definitions

An independent opinion on the quality of management and services provided by the broker

Long Term Ratings

BMR 1A	**Excellent.** Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.
BMR 1++ BMR 1+ BMR 1	**Strong.** Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.
BMR 2++ BMR 2+ BMR 2	**Sound.** Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.
BMR 3++ BMR 3+ BMR 3	**Adequate.** Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.
BMR 4++ BMR 4+ BMR 4	**Inadequate.** Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.
BMR 5	**Weak.** Weak regulatory compliance and business practices.

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

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 rating remains suspended for six months, or/and d) 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.

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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)

Independence & Conflict of interest
(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)

Proprietary Information