



The Pakistan Credit Rating Agency Limited

Rating Report

JS Global Capital Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
14-Dec-2020	AA	A1+	Stable	Maintain	-
14-Dec-2019	AA	A1+	Stable	Maintain	-
14-Jun-2019	AA	A1+	Stable	Maintain	-
13-Dec-2018	AA	A1+	Stable	Maintain	-
10-Mar-2017	AA	A1+	Stable	Maintain	-
11-Mar-2016	AA	A1+	Stable	Maintain	-
11-Mar-2015	AA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings take into account JS Global Capital Limited’s (“JSGCL” or “The Company”) established position as the top-tier brokerage house of the industry. The ratings incorporate the stable and sizeable market share, established brand name and a sound operating platform. The ratings also incorporate the strong sponsor profile, zero leveraged capital structure, well managed liquidity indicators and improvement in efficiency ratios. Following the recent boom in traded volumes of stock exchange, the core revenue of the Company remained buyout and the Company maintained its market share. The Company’s investment portfolio is compliant to its investment policy and is dominated by bank placements and equity spread transactions which provide stable stream of income. The rating takes into account the Company’s strong financial profile with the Net Capital Balance of ~PKR 934mln and an equity base of ~PKR 2.4bln as at Sep-20. Whereas, the topline of the Company depicts diversified revenue stream supplemented by consultancy income, RBFS trade, margin financing and investment return on financial assets. The Company remained profitable during 3QCY20 and generated ~PKR 136mln (SPLY: ~PKR 6mln).

The ratings are dependent on the management’s ability to strengthen revenue base by augmenting consultancy and advisory services. Retaining market share and sustaining profitability from core operations remain critical. Meanwhile, upholding strong internal controls and diligent monitoring of risks is important

Disclosure

Name of Rated Entity	JS Global Capital Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Broker Entity Rating(Jun-20)
Related Research	Sector Study Brokerage & Securities(Jan-20)
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PROFILE

Legal Structure Incorporated in June 2000 as a private limited company, JS Global Capital Limited (JS Global or "The Company") was listed on the Pakistan Stock Exchange (PSX) in December 2004

Background The Company carries the legacy of stock brokerage business initiated in the early seventies by Mr. Jahangir Siddiqui, one of the leading entrepreneurs in Pakistan with over 50 years of business experience in various industries.

Operations With its head office based in Karachi, main activities of the company include equity, commodities, forex and money market brokerage along with corporate finance and financial advisory business. The company operates with eight branches across the country.

OWNERSHIP

Ownership Structure JS Bank Limited (JSBL) is the major shareholder of the company, holding ~84% stake, the other major shareholder in JS Global, is Global Investment House Limited Kuwait, with ~8% stake. JS Bank is the subsidiary of Jahangir Siddiqui & Co. Limited. The remaining stake lies with the general public and other market participants as at end Sep'2020.

Business Acumen JS Bank is a medium-sized commercial bank, operating with a network of 323 branches, 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. JSCL is the holding company for JS Group's business interest in banking, insurance, investment services, media, textile and port terminal operations.

Financial Strength JS Bank's equity stood at ~PKR 20bln at end Sep'20. JS Bank has a long-term rating of AA- and short-term rating of A1+.

GOVERNANCE

Board Structure JS Global's board of directors comprises eight members, including the CEO. Five directors are non-executive, while two are independent.

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 Hassan has over 16 years of combined professional experience in asset management, private equity and corporate finance. Mr. Abdul Hamid brings over 12 years of experience in investment banking, asset management and capital markets

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.

Transparency JS Global has outsourced the internal audit function to Deloitte Yousuf Adil. The company has appointed EY Fort Rhodes Sidat Haider, one of the big 4 CA firms, as the external auditor. The auditor issued an unqualified opinion on the company's financial statements for CY19.

MANAGEMENT

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. All departmental heads directly report to the CEO.

Management Team The CEO, Mr. Kamran Nasir (FCCA), has over sixteen 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

Effectiveness Management's effectiveness and efficiency can be ensured through the presence of management committees. There are no management committees in place, which indicates a room for improvement.

Control Environment JS Global has devised detailed policies for operations, research, IT, trading and investment and risk among others. The Company installed a dedicated ERP system, "Mubasher". Specified margins and inbuilt restrictions in the trading software mitigate trading and settlement risks to an extent.

BUSINESS RISK

Industry Dynamics The pandemic had triggered the deepest global recession in decades but Pakistan's stock market shown considerable immunity to this global turbulence. The fiscal and monetary authorities responded with unprecedented economic policies including fiscal stimulus, monetary easing and debt moratorium. During 11MCY20 Pakistan Stock Exchange (KSE-100 index) witnessed a seesaw situation but maintained the momentum despite continuous hiccups. The bourse touched the highest point of 43,219 on January 13, 2020, after which it started dropping to hit the low of 27,228 on March 25, 2020. Currently index stood at 41069 points posting a positive return of 1% since start of CY20. The traded volumes remained elevated over the period and remained at an average of ~203mln which was ~99mln in SPLY despite large market swings amidst COVID-19 implications and government's response to support economy.

Relative Position The Company remains one of the prominent players in equity, fixed income and forex domain with a market share of ~12% in the equity trading.

Revenue Topline of the company is divided into two segments. Brokerage income contributes ~95% to the total revenues of the Company. Company revenue stream is underpinned by Advisory fee that contributes 5% in the total income. Total revenues clocked in at PKR ~430mln mainly on the account of increase in brokerage commission. The brokerage income in 9MCY20, contributed ~95% to the topline with an increase of ~23.4% YOY due to escalation in commission from retail clients. Brokerage income contributes ~ 12.9% to the total operating.

Profitability The net profit margin showed significant surge in 9MCY20 to ~PKR 137mln (CY 19: ~PKR 47mln), showing an increase of 32% YoY, due to elevation in brokerage commission. The operating expenses witnessed slight decrease due to increase in tax expense to ~ 89mln against ~60mln in CY19.

Sustainability Going forward equities may remained under pressure till end CY20 because economic concerns arising from International Monetary Fund's (IMF) bleak growth outlook following dismal political outlook and concerns over 2nd wave of COVID-19 has stymied investor's sentiments. Given the operating environment, players with efficient and variable cost structures focusing on high margin business and diversification in revenue streams are expected to fare better vis-à-vis peers. Furthermore, high traded volumes would bode well for brokerage firms.

FINANCIAL RISK

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'20, trade debts have depicted a slight increase to ~PKR 661mln (Dec'19 ~PKR 516mln). 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 buy futures.

Liquidity Risk The company's liquid assets increased to 24.7% of its trade related liabilities at end Sep-20 (41.5% at end Dec-19). JSGL's liquid assets were 14.7% of its total assets (Dec-19: 15.9%).

Coverages JS Global's finance cost mainly pertains to interest expense on assets subject to finance lease under IFRS 16.

Capitalization JSGL has a strong capitalization level with regulatory Net Capital Balance (NCB) standing at PKR 1,084mln at end June-20 which is well above the minimum regulatory requirement of PKR 10mln. During the year, company's equity base stood at (Sep20: 2,380mln, Dec19: PKR 2,237mln, Dec-18: PKR 2,612mln. The company's high risk absorption capacity emanates from (i) strong equity base and (ii) debt-free capital structure



PKR mln

JS Global Limited
Listed Public Limited

Sep-20	Dec-19	Dec-18	Dec-17
9M	12M	12M	12M

A BALANCE SHEET

1 Finances	148	850	1,331	693
2 Investments	128	164	173	352
3 Other Earning Assets	1,972	1,198	1,568	1,676
4 Non-Earning Assets	2,294	1,880	1,768	1,042
5 Non-Performing Finances-net	-	-	-	-
Total Assets	4,542	4,092	4,840	3,762
6 Funding	2,149	1,612	2,045	995
7 Other Liabilities (Non-Interest Bearing)	13	243	183	163
Total Liabilities	2,162	1,855	2,228	1,158
Equity	2,380	2,237	2,612	2,605

B INCOME STATEMENT

1 Fee Based Income	34	370	478	536
2 Operating Expenses	(414)	(571)	(652)	(638)
3 Non Fee Based Income	639	349	280	355
Total Operating Income/(Loss)	259	147	106	253
4 Financial Charges	-	(40)	(7)	(54)
Pre-Tax Profit	259	107	99	198
5 Taxes	(89)	(60)	(73)	(113)
Profit After Tax	170	47	26	85

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)	0.0%	27.1%	6.7%	21.5%
Return on Equity (ROE)	200.2%	3.8%	1.8%	5.5%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	52.4%	54.7%	54.0%	69.2%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current M)	N/A	-371.7%	218.4%	-197.2%

3 Liquidity

Liquid Assets / Total Assets (D+E+F)	14.7%	15.9%	25.4%	22.3%
Liquid Assets / Trade Related Liabilities	31.4%	47.0%	60.2%	84.3%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers	31.1%	37.2%	53.1%	56.4%
Equity Instruments / Investments	0.0%	79.4%	82.1%	14.0%

Credit Rating

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
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+	
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-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
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.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

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

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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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)

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