



## The Pakistan Credit Rating Agency Limited

### Rating Report

#### JS Global Capital Limited | BFR

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##### Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
27-Apr-2022	BFR 1	Stable	Initial	-

#### Rating Rationale

Factor	Comment
<b>Ownership</b>	JS Bank Limited is the primary shareholder with ~93% of the ownership, remaining shares are owned by general public and institutions.
<b>Governance</b>	The Board is comprised of eight directors including the chairman and CEO. Presence of two independent and a female director is well noted.
<b>Management and Client Services</b>	JSGCL has a well-defined organizational structure headed by seasoned professionals. Well drafted policies are in place to ensure high quality of client services.
<b>Internal Controls and Regulatory Compliance</b>	The internal audit is performed at group level. A dedicated risk manager is also present along with the compliance department.
<b>Business Sustainability</b>	Major part of revenue emanates from equity brokerage; however, investment banking, money market, forex and commodity brokerage desk provides support.
<b>Financial Sustainability</b>	The Company does not engage in Proprietary-Book, thus minimizing market risk. Capitalization indicators are strong with a low leveraged capital structure.

#### Key Rating Drivers

The rating reflects the overall strength of the Company in the brokerage space. The rating signifies strong internal control framework whereby the internal audit is performed at the group level while a separate compliance department and a dedicated risk manager also provides support. JS Global Capital Limited (JSGCL) provides its clients with online trading, mobile-app, complaint management, dedicated research and real time reporting mechanism. The rating takes comfort from the strong ownership and governance framework emanating from its association with the JS Group. However, the independence of risk management function may be considered to enhance regulatory compliance. During CY21, brokerage revenue improved by ~52% to stand at ~PKR 882mln (CY20: ~PKR 582mln), contributing ~83% to the total operating revenue. Consultancy income has also shown improvement in CY21. The rating derives comfort from JSGCL's policy to not partake in Proprietary-Book; limiting the market risk. Going forward, sustainability and improvement in core revenue and profitability remains critical. Meanwhile, upholding strong internal controls, retention of key management and diligent monitoring of risk are important. Listed in 2005, JSGCL is part of one of the most prominent groups in the financial industry. JSGCL primarily provides the services of Equity Brokerage, Corporate Finance and Research while Margin Financing is also available.

##### Disclosure

<b>Name of Rated Entity</b>	JS Global Capital Limited   BFR
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Broker Fiduciary Rating (BFR)
<b>Applicable Criteria</b>	Methodology   Broker Fiduciary Rating(Jan-21)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jan-22)
<b>Rating Analysts</b>	Afnan Iqbal   afnan.iqbal@pacra.com   +92-42-35869504

## Profile

**Background:** JS Global Capital Limited (“JSGCL” or “The Company”) was incorporated as a private limited company in the year 2000 and commenced operations in 2003. Subsequently, the Company was converted into a public unquoted company and the Company obtained listing on Pakistan Stock Exchange in 2005.

**Operations:** JSGCL provides the services of Equity & Commodity Brokerage, Money Market, Forex, Corporate Finance and Research. The clients are divided into three broad categories: i) Foreign ii) Institutions & Corporates and iii) Retail and HNWI's.

## Ownership

**Ownership Structure:** JS Bank Limited (JSBL) is the major shareholder of JSGCL with an ownership stake of ~93%. The remaining shares are vested with general public and other market participants. JSBL is the subsidiary of Jahangir Siddiqui & Company Limited (JSCL).

**Stability:** The holding company, JS Bank Limited is a subsidiary company of Jahangir Siddiqui and Company Limited and its shares are listed on Pakistan Stock Exchange. JSBL is a scheduled bank, engaged in commercial banking through 281 branches in Pakistan and one wholesale banking branch in Bahrain.

**Business Acumen:** Jahangir Siddiqui & Company Limited has established a considerable presence in major sectors of Pakistan’s economy. JSCL and its subsidiary companies (The Group) are involved in trading of securities, maintaining strategic investments, investment advisory, brokerage, asset management, agency telecommunication, commercial banking, power generation and other businesses.

**Financial Strength:** During CY21, the Group has reported profit after tax of ~PKR 2,013m for the year ended December 31, 2021. The Group has reported improvement in its assets base which increased to PKR 614,921 million as at December 31, 2021. PACRA has assigned long-term credit rating of AA and short-term rating of A1+ to JSCL.

## Governance

**Board Structure:** The Company’s Board of Directors (BoD) comprises eight members, which include two independent directors, four non-executive directors and two executive directors. The board is currently chaired by Mr. Shahab Anwar Khawaja, an independent director.

**Members’ Profile:** All the directors are seasoned professionals and possess manifold experiences in the relevant fields. The board members are skilled and experienced to manage the business operations efficiently. The presence of independent directors strengthens the governance framework.

**Board Effectiveness:** To ensure an effective control environment and compliance with reporting standards, the Company has constituted three board committees: i) Audit Committee, ii) Risk Management Committee, and iii) Human Resource and Remuneration Committee. The Committees are chaired by independent directors.

**Transparency:** JSGCL has appointed M/S KPMG Taseer Hadi & Co. Chartered Accountants as the external auditors. The auditors have expressed an unqualified opinion on the financial statements of JSGCL for CY21. The firm is placed in the Category A of the SBP’s panel of auditors.

## Management and Client Services

**Organizational Structure:** JS Global has a strong multi-tier organizational structure consisting of following departments, i) Finance, ii) Risk Management & Compliance, iii) IT, iv) Equity Operations, v) Research, vi) International Sales, vii) Online Trading, viii) Commodity Trading and xi) Corporate Finance. To streamline operations, two committees exist at the senior management level, (i) Management Committee and (ii) Investment Committee.

**Management Team:** The CEO, Mr. Kamran Nasir joined JS Group in 2010 and has been leading JS Global Capital Limited as its Chief Executive Officer since 2011. He is a Chartered Accountant from ICAEW and brings with him rich experience of Investment Banking and handling complex financial matters.

## Internal Controls and Regulatory Compliance

**Client Servicing:** The Company offers multiple account opening mediums. Similarly, various channels, including a mobile app, are available to customers to execute and monitor their transactions. The Company has strong client reporting mechanism with account statements and market reports communicated to the clients on regular basis.

**Complaint Management:** An adequate complaint management system is in place. Complaints can be made via e-mail, SMS, calls and website.

**Extent of Automation / Integration:** The front-end and back-end software's are installed with full integration and procured from SECP's approved vendors. The system has the ability to generate timely reports and incorporates primary and secondary level protection.

**Continuity of Operations:** JSGCL has a detailed disaster recovery plan to ensure the business continuity at the time of disaster. Moreover, backups are maintained on daily basis.

**Risk Management Framework:** JSGCL has established Risk Management Committee at board level for reviewing risk appetite, policies and controls put in place. The internal audit function which is instrumental in mitigating risk arising from operational failures is performed at group level.

**Regulatory Compliance:** Risk Management & Compliance Department ensures regular monitoring of controls and systems, which ensures all functions are in line with the applicable policies and procedures.

## Business Sustainability

**Operating Environment:** Pakistan's economy staged a recovery in CY21. The rebalancing of MSCI gives an indication to a hopefully better upcoming quarter with expectations of greater international investment; however, the escalating tension and supply chain constraints due to the Russia and Ukraine war have destabilized the capital markets, creating an uncertain future for the market.

**Performance:** JSGCL earned operating revenue of ~PKR 1,060mln for CY21 (SPLY: ~PKR 613mln). Income from Margin Financing stood at ~PKR 58mln. Accordingly, the profit after tax improved to ~PKR 411mln for CY21 (SPLY: ~PKR 207mln). The operating revenue primarily emanates from commission on equity brokerage and the income from corporate finance/advisory may be enhanced further.

**Strategy:** JSGCL is working on a customized mobile-app for further improving the client service and growth. The relevant human resource has also been taken on-board.

## Financial Sustainability

**Credit Risk:** The Company has developed its own risk management policies and guidelines whereby clients are provided trading limits according to their worth and proper margins are collected and maintained from the clients. The management continuously monitors the credit exposure towards the clients.

**Market Risk:** JSGCL has an active Investment Committee (IC) in place to monitor and mitigate market risk. The IC establishes limits and takes decisions regarding all investments made by the company. Moreover, JSGCL hedge its equity positions by selling in futures thereby locking in the spread.

**Liquidity Risk:** At end-CY21, the current assets of ~PKR 5,399mln adequately covers the current liabilities of ~PKR 3,834mln. Un-utilized bank liens are also in place to meet any unexpected funding needs.

**Capitalization:** JSGCL has a strong capitalization level with regulatory Net Capital Balance (NCB) standing at ~PKR 1,131mln at end-Dec'21. The Company's equity stood at ~PKR 2,196mln at end-Dec'21.

## JS Global Capital Limited

Dec-21

Dec-20

Dec-19

12M

12M

12M

## A BALANCE SHEET

1 Finances	453	425	363
2 Investments	1,578	477	651
3 Other Earning Assets	-	124	196
4 Non-Earning Assets	4,559	4,365	2,882
5 Non-Performing Finances-net	-	-	-
<b>Total Assets</b>	<b>6,591</b>	<b>5,391</b>	<b>4,092</b>
6 Funding	695	123	227
7 Other Liabilities (Non-Interest Bearing)	3,699	2,821	1,631
<b>Total Liabilities</b>	<b>4,394</b>	<b>2,944</b>	<b>1,858</b>
<b>Equity</b>	<b>2,196</b>	<b>2,446</b>	<b>2,234</b>

## B INCOME STATEMENT

1 Fee Based Income	1,061	613	370
2 Operating Expenses	(749)	(566)	(571)
3 Non Fee Based Income	252	259	349
<b>Total Operating Income/(Loss)</b>	<b>564</b>	<b>306</b>	<b>147</b>
4 Financial Charges	(29)	(17)	(40)
<b>Pre-Tax Profit</b>	<b>535</b>	<b>290</b>	<b>107</b>
5 Taxes	(125)	(83)	(60)
<b>Profit After Tax</b>	<b>411</b>	<b>207</b>	<b>47</b>

## C RATIO ANALYSIS

## 1 Business Sustainability

Pre Tax Margin	50.5%	47.2%	29.0%
EBITDA/ Revenue	60.1%	62.6%	63.4%
Profit / (Loss) Before Interest & Taxes / Total Assets	8.6%	5.7%	3.6%

## 2 Financial Sustainability

Total Investments / Equity	71.9%	19.5%	29.2%
NCB / Equity	51.5%	35.6%	56.8%
LCB/ Total Equity	84.7%	55.5%	93.2%
( Cash & Cash Equivalents + Government Securities ) / Total Assets	53.5%	62.3%	56.1%
Total Debt / Equity	31.6%	5.0%	10.2%

### Broker Fiduciary Rating Scale & Definitions

An independent opinion on the quality of management and client services and sustainability of operations

Scale	Definition
<b>BFR 1</b>	<b>Very Strong.</b> Very Strong quality of management, client services and very high likelihood of sustaining operations.
<b>BFR 2++</b> <b>BFR 2+</b> <b>BFR 2</b>	<b>Strong.</b> Strong quality of management, client services and high likelihood of sustaining operations.
<b>BFR 3++</b> <b>BFR 3+</b> <b>BFR 3</b>	<b>Good.</b> Good quality of management, client services and above average likelihood of sustaining operations.
<b>BFR 4++</b> <b>BFR 4+</b> <b>BFR 4</b> <b>BFR 5</b>	<b>Adequate.</b> Adequate quality of management, client services and average likelihood of sustaining operations.
	<b>Weak.</b> Weak quality of management, client services and weak likelihood of sustaining operations.

**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) cessation of underlying entity, c) the rating remains suspended for six months, or/and d) 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.

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(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

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- (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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