



The Pakistan Credit Rating Agency Limited

Rating Report

JS Global Capital Limited | BMR

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Rating History

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

Rating Rationale and Key Rating Drivers

The rating reflects JS Global Capital Limited's (JSGCL) strong market position in the brokerage industry emanating from an established franchise with sound geographical footprint, sizeable and sustained market share and cutting-edge technological framework. JSGCL's experienced management team has a strong focus to deliver quality service to its foreign, institutional and retail clients. It offers various value-added services to its clients including online trading, research portal, and mobile app. A robust IT infrastructure is in place to ensure the smooth running of the operations. Strong risk management framework exists with an active involvement of the top management to constantly monitor its effectiveness. The rating derives comfort from the company's investing policy limiting the market risk and liquidity risk. The rating also reflects the company's strong financial profile with Net Capital Balance of ~PKR 1.7bln as at Sep-18. Going forward, with a focus to provide quality services and continue to be a market leader, the company has deployed an internationally acclaimed brokerage house software in parallel to its existing system and will be rolling this new system in 1QCY19. The company is also willing to act as the market leader once Exchange Traded Fund is launched in Pakistan.

The rating is dependent upon the company's management ensuring strong control and governance framework continued update of client servicing tools, and careful monitoring of risks - mainly liquidity and market risk - emanating from investment activities. Materialization of efficiencies and effective control envisaged with the implementation of new software is important.

Disclosure

Name of Rated Entity	JS Global Capital Limited BMR
Type of Relationship	Solicited
Purpose of the Rating	Broker Management Rating
Applicable Criteria	Methodology Broker Management Rating(Jun-18)
Related Research	Sector Study Brokerage & Security(Nov-18)
Rating Analysts	Shahzaib Khalid shahzaib.khalid@pacra.com +92-42-35869504



Ownership

Ownership Structure JS Bank Limited (JSBL) is the major shareholder (~67%) of JS Global Capital Limited (JSGCL). JSBL is the subsidiary of Jahangir Siddiqui & Co. Limited (JSCL). The other major shareholder in JSGCL is Global Investment House Limited (GIHL) (27%) and Jahangir Siddiqui Securities Services Limited (0.57%). The remaining shareholders comprise the general public and other market participants.

Stability Before coming to Pakistan, Mr. Ali Jehangir s/o Jehangir Siddiqui worked in Hong Kong with Crosby Capital, a private equity firm. In 2006, he founded JS Bank Limited by acquiring American Express Bank's Pakistan operations. He resigned as the Chairman of JSBL in 2018 to serve as the Ambassador of Pakistan to the United States.

Business Acumen JSBL is a medium-sized commercial bank, operating with a network of 323 branches, has witnessed fast growth and market share in recent times. JSGCL's second largest shareholder (GIHL), incorporated in 1998, licensed by Central Bank of Kuwait, listed on Bahrain and London Stock Exchanges and offers a wide range of financial products and services. JSCL is the ultimate holding company for JS Group's business interest in banking, insurance, investment services, media, textile and port terminal operations.

Financial Strength JSBL's equity stood at ~PKR 16.6bln at end Sep-18. JSBL has a long-term rating of AA- and a short-term rating of A1+ issued by Pakistan Credit Rating Agency Limited. The equity size of GIHL was ~KD71mln (USD 234mln) at the close of CY17.

Governance

Board Structure JSGCL's board of directors comprises eight members, including the CEO. Six directors are non-executive, while one is independent. Four directors represent JS Group, while three represent GIHL. During FY19, two directors representing JS Group resigned and were replaced

Members' Profile The company'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. The CEO, Mr. Kamran Nasir, has been associated with the board since 2011.

Board Effectiveness To ensure the compliance and corporate governance, JSGCL has formulated three board committees, i) Audit committee ii) HR & remuneration committee and iii) Executive committee. The independent director is a member of both the audit and HR & remuneration committees.

Financial Transparency JSGCL has outsourced the internal audit function to Deloitte Yousuf Adil, the internal audit report for CY17 did not report any serious risks or failures in the company operations. JSGCL has appointed EY Ford Rhodes Sidat Haider as the external auditor, the auditor issued an unqualified opinion on the company's financial statements for CY17.

Management

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

Organizational Structure JSGCL 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 ix) Commodity trading x) and Investment banking. Heads of the above-listed departments report directly to the CEO

Client Servicing JSGCL offers multiple account opening mediums. A number of value added services are offered to clients including online trading, research portal and mobile app. To create public awareness about investment, investor awareness programs are conducted by the company. JSGCL has strong client reporting mechanism with account statements and market reports communicated to the clients on regular basis.

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

Extent Of Automation / Integration JSGCL utilizes one of the best fully integrated ERP's available to the brokerage industry, ensuring a solid and timely reporting framework at all user levels.

Continuity Of Operations JSGCL has a well-defined disaster recovery and business continuity plan. Functional testing of the plan is carried out regularly.

Risk Management Framework Senior management streamlines risk management architecture and internal policies through Risk Management Committee. JSGCL has a detailed criteria and limits for assigning credit/exposure limits for leveraging trading. Liquidity risk is monitored by the top management on daily basis.

Regulatory Compliance Risk Management & Compliance Department ensures that all the regulatory requirements are adhered to. No observations were reported by the Regulators during the previous and ongoing financial years.

Business Sustainability

Business Risk CY18 started off with a bull with KSE-100 posting a positive cumulative return ~4% in the first half of the year. After the general elections in July 18, the political uncertainty minimized. However, the investors remained cautious due to falling central bank reserves and balance of payment crises, leading to KSE-100 posting a negative return of ~-3% in the 3rd quarter of CY18.

Business Profile JSGCL remains one of the prominent players in equity, fixed income and foreign domain with a market share of ~10%. JSGCL is one of the two BMR1 rated brokerage houses in the country. Going forward, JSGCL is focusing on product development to maximize profits once the market improves.

Revenue And Profitability Analysis In line with the market trend, the fee-based income of JSGCL shrank by 15% to ~PKR 378mln, as compared to the same period last year (SPLY). The decline in the equity brokerage fee (9MCY18: ~PKR 292mln, 9MCY17: ~PKR 441mln) was partly offset by a gain in the advisory income which jumped to ~PKR 85mln, compared to SPLY, when it was ~PKR 6mln. Non-fee based income over 9MCY18 also declined to ~PKR 210mln (SPLY: ~PKR 281mln). During 9MCY18, the operating margins of the company declined to 25% (SPLY: 56%).

Financial Sustainability

Credit Risk JSGCL has due diligence procedures in addition to its KYC, for the assessment of its client creditworthiness. Applicable policies for leveraged products have been adopted and limits have been defined which are strictly monitored.

Market Risk JSGCL carries no market risk as it has no direct exposure in the equity market. Funds have been deployed in the ready future spread transactions, units of mutual funds, and secured money market instruments. The risk related to ready future spread transaction primarily emanates from the execution of the transactions.

Liquidity Profile The liquidity risk for the company arises from the T+2 settlement framework. JSGCL's liquid assets were 58% of the total asset as of end Sep 18 (Dec 17: 62%). Furthermore, liquid assets were 2x that of the trade-related liabilities (Dec 17: 2.3x). In case a need arises, the company has a finance line of ~PKR 800mln provided by JSBL.

Financial Risk JSGCL has a debt-free capital structure. At end Sep-18, the net capital balance (NCB) for the company stood at ~PKR 1.7bln (CY17 & CY16: ~PKR 1.9bln). The company can take exposure up to 25x of its NCB.



**Brokerage
Financials [Summary]**

The Pakistan Credit Rating Agency Limited

JS GLOBAL CAPITAL LIMITED

	<i>PKR Mn</i>			
	30-Sep-18	31-Dec-17	31-Dec-16	31-Dec-15
BALANCE SHEET				
EARNING ASSETS				
	<i>9MCY18</i>	<i>Annual</i>	<i>Annual</i>	<i>Annual</i>
1. Financing and Placements	1,368	666	1,659	1,392
2. Investments	387	379	122	83
	1,755	1,045	1,782	1,476
NON-EARNING ASSETS				
3. Cash and Bank Balances (including Client funds)	924	1,679	1,048	1,480
4. Trade receivables	709	562	923	171
5. Advances, Deposits and Other receivables	441	383	624	320
6. Others (including Fixed Assets)	98	94	82	86
TOTAL ASSETS	3,927	3,762	4,458	3,533
	2,609	2,605	2,556	2,885
7. EQUITY				
LIABILITIES				
8. Short Term Borrowings	-	-	-	-
9. Trade Payables	1,132	995	1,740	444
10. Other Liabilities	186	163	163	203
TOTAL EQUITY & LIABILITIES	3,927	3,762	4,458	3,533
INCOME STATEMENT				
	<i>9MCY18</i>	<i>Annual</i>	<i>Annual</i>	<i>Annual</i>
FEE-BASED INCOME				
11. Brokerage	292	529	451	453
12. Advisory and Consultancy Fees	85	9	17	46
	378	538	468	499
NON-FEE BASED INCOME				
13. Financing and Placements	140	208	155	209
14. Gain on Sale of Investments	41	79	57	72
15. Others	29	66	63	74
TOTAL INCOME	588	891	743	854
OPERATING COST				
16. Personnel Expenses	(243)	(312)	(231)	(241)
17. Administrative Expenses	(252)	(327)	(273)	(230)
	(495)	(638)	(504)	(471)
18. Financial Charges	(4)	(54)	(1)	(7)
PRE-TAX PROFIT	89	198	239	376
19. Taxes	(68)	(113)	(68)	(125)
PROFIT AFTER TAX	21	86	171	251
RATIO ANALYSIS				
	30-Sep-18	31-Dec-17	31-Dec-16	31-Dec-15
LIQUIDITY RISK				
1. Trade Receivables / Trade Payables	0.6	0.6	0.5	0.4
2. Liquid Assets / Trade Related Liabilities	2.0	2.3	1.1	5.1
3. Liquid Assets / (Short term Borrowings + Trade Payables)	2.0	2.3	1.1	5.1
4. Liquid Assets / Total Assets	58%	62%	42%	64%
BUSINESS RISK				
5. Net Profit (before tax) Margin	23%	37%	51%	75%
6. Fee Based Income to Total Income	64%	60%	63%	58%
7. Operating Cost-to-Brokerage Income	169%	121%	112%	104%
8. Operating Cost-to-Total Income	84%	72%	68%	55%
9. Net Profit (before tax) to Total Income	15%	22%	32%	44%
10. Net Non-Earning Assets / Equity	-33%	-60%	-30%	-49%
FINANCIAL RISK				
11. Total Debt / Equity	0%	0%	0%	0%
12. NCB / Equity	66%	74%	76%	81%

BROKER MANAGEMENT RATING SCALE

SYMBOL	DEFINITION	
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.

SURVEILLANCE AND VALIDITY OF THE RATING

PACRA shall not keep the Broker Management Rating under constant surveillance. The rating will be reviewed at least once every six months. Any material happening during a period that may warrant a revision of rating will be incorporated in the following review.

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'.

WITHDRAWN

A rating is withdrawn on a) termination of rating mandate, or b) cessation of underlying entity.

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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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