



The Pakistan Credit Rating Agency Limited

Rating Report

JS Investments Limited | RMR

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Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 27-Jun-2023 | RM 3 | - | Stable | Maintain | - |
| 30-Jun-2022 | RM 3 | - | Stable | Initial | - |

Rating Rationale and Key Rating Drivers

The assigned rating reflects executive profile, sponsor strength and the modest positioning of JS Investments Limited (“JSIL-RMC” or the “Company”) in the competitive asset management industry. The rating incorporates a sound governance framework and satisfactory control infrastructure. The research and investment functions of the company are considered adequate. The Company launched its first-ever Rental REIT Fund "JS Rental REIT (JSRR) in Jun'22 with the objective of investing in REIT projects directly or through SPV to generate income/return for unit holders. The initial fund size of JSRR was PKR 657mln which is expected to rise further. The building under the Fund, called "The Center" is situated at Abdullah Haroon Road, near Zainab Market. The property is in a prime commercial zone of Karachi surrounded by government buildings and corporate offices. The performance of the Fund is measured through the management fee earned from JSIL-RMC. During CY22, the RMC generated a management fee amounting to PKR 3.8mln. The Company's equity stood at ~PKR 1.3bln at year-end-Mar'23, which is well above the minimum capital requirement. JSIL also has licenses for asset management, private equity, and venture capital to further support the core income. The rating finds comfort in the potential synergies from RMC's association with JS Bank Limited and the established presence of JS Group in the financial sector.

The rating is dependent upon the Company's ability to sustain its market share and uphold strong investment processes and control environment. Meanwhile, retention of key management, sound governance practices, and consistent performance of funds is critical. Any sustained downturn in fund performance and/or significant loss in market share will impact the rating.

Disclosure

| | |
|------------------------------|--|
| Name of Rated Entity | JS Investments Limited RMR |
| Type of Relationship | Solicited |
| Purpose of the Rating | REIT Manager Rating Rating |
| Applicable Criteria | Methodology Rating Modifiers(Jun-22),Methodology REIT Manager Rating(Oct-22) |
| Related Research | Sector Study Real Estate(May-23) |
| Rating Analysts | Muhammad Azmat Shaheen azmat.shaheen@pacra.com +92-42-35869504 |



Profile

Background JS Investments Limited (JS-RMC or the "Company") is a public Listed company, licensed by SECP to carry out REIT Management Services and Asset Management Services in accordance with NBFC Rules, 2003 and REIT Regulations, 2015. The Company was incorporated in Pakistan on February 22, 1995 under the Companies Ordinance 1984. The Company is a subsidiary of JS Bank Limited which is a subsidiary of JSCL (Jahangir Siddiqui & Co. Limited), Ultimate Parent. JSIL is in-process to launch its first Rental REIT Fund and shall provide REIT management services to it.

Market Share Currently, the industry size comprises 18 RMCs registered under SECP, with total assets amounting to PKR ~9.0bln (~0.3% of total assets of the NBFCs in the country) (Dec'22: ~16 RMCs with PKR ~8.9bln in assets and forming ~0.3% of NBFCs' total assets). JSIL-RMC is one of those companies licensed to undertake REIT management services and is launching the rental Non-PPP REIT Fund. The RMC aims to initially raise up to PKR 650mln, which would help to establish its footprints in the industry. The real estate sector of Pakistan is thriving and flush with private sector investment owing to the incentive packages given by the current government for the real estate sector.

Fund Mix The Company has launched the first closed-end Rental Non-PPP REIT Fund "JS REIT Fund" at end of Jun'22. The fund size targeted was ~ PKR 650mln. Initially the JS Global capital would be the sole investor of the Fund. Later on, other market participants would be targeted.

Ownership

Ownership Structure JSIL-RMC is a wholly-owned subsidiary of JS Bank Limited.

Stability JS Group is engaged in a diverse set of activities with its focus on the financial sector, including asset management, securities, and commodities brokerage, commercial banking, and insurance. Besides its concentration in the financial sector.

Business Acumen JS Bank Limited is a subsidiary (~75%) of Jahangir Siddiqui & Co. Limited (JSCL). The business acumen of the bank is considered strong. JSCL is the holding company for JS Group.

Financial Strength JS Bank Limited has an unconsolidated asset base of PKR 543bln at end-Mar'23 accompanied by equity of PKR 21.6bln. The long-term credit rating of JS Bank is 'AA-' and the short-term rating is 'A1+'.

Governance

Board Structure JSIL-RMC's control vests in eight-member board of directors including the CEO. There are two independent directors while all other directors except the CEO are non-executive.

Members' Profile The board carries diversified experience (~23 Years on average) in different business areas, especially in banking and investment management. The board members possess strong profile and skills suited to the financial services industry.

Board Effectiveness To ensure an effective control environment and compliance with reporting standards, JSIL has constituted an Audit Committee, HR Committee and Executive Risk Management Committee at board level.

Transparency JSIL has outsourced its internal audit department to M/S BDO Ebrahim & Co. for effective monitoring of control systems. The external auditors of the Company are M/S KPMG Taseer Hadi & Co. They have a satisfactory QCR rating and are classified in the 'A' category of SBP Panel of Auditors.

Management

Organizational Structure JSIL has a well-defined organizational structure based on eight departments, i) HR and Administration, ii) Compliance and Risk Management, iii) Business Development, iv) Investments and Research, v) Information Technology, vi) Finance, vii) Internal Audit and viii) Operations.

Management Team The management team of JSIL comprises of experienced and qualified professionals. Ms. Iffat Zehra Mankani is the CEO of JSIL since April 2021. She is a veteran of financial industry with over 20 years of experience in capital markets. Syed Hussain Haider (Chief Investment Officer) possesses two decades of global experience in investment management, equity advisory & private banking for clients spread across three continents.

Management Effectiveness System generated – real-time based – MIS reports add more efficiency in decision making whether related to operational, financial or strategic issues. JSIL-RMC has implemented a Unit Management System (web-based application) and ERP Application (portfolio accounting system) by Softech Systems Private Limited. The IT department has formulated an IT Steering Committee which comprises four members to make timely decisions on IT issues. The Company is focusing on strengthening its technological platform to enhance its outreach and improve customer services.

Oversight Of Third-Party Service Providers The valuation of the property is conducted by Colliers International Pvt Limited. While Digital Custodian Services is the trustee of the scheme. KPMG Taseer Hadi would be the external auditor of the Company while the legal advisor are Bawaney and Partners.

Control Environment The compliance and risk management department is being led by Mr. Salman Shakoor. The department ensures compliance with all applicable statutory regulations and internal investment guidelines. Segregation of these functions, in line with best practices, along with minimizing overlap in others is important to strengthen the control environment. The Company is working to fortify its KYC/AML practices.

Investment Risk And Portfolio Management

Investment Risk Management A strong risk management framework, monitoring culture and platform are the hallmark of a seasoned and mature RMC. The investment decision making process is well-structured with the CEO providing critical support. The members of investment committee also include the CIO, Director Finance and Fund Managers.

Investment Decision Making The investment committee reviews the investment strategy. Induction of an independent research head has further enhanced effectiveness.

Investment Research & Analysis The research department, which falls under the purview of CIO, is headed by Mr. Syavash Pahore. He possesses years of experience in equity research. Currently, his team comprises two qualified research analysts and a database manager.

Customer Relationship

Investor Services JSIL-RMC would establish investor services platform for investor education and facilitation.

Investor Reporting Much of the information provided to investors would be communicated through regular reporting in light of its comprehensiveness, clarity, consistency, accuracy and timing.

Distribution & Sales Network The RMC marketing strategies, well-structured sales team and association with other players in the real estate industry would be examined.

Investment Performance

REIT Funds Under Management The initial fund size is ~PKR 657mln and would eventually reach to PKR 5bln. The site has a land area of 3,988 sq.yds, whereas each floor has an area of 12,646 sq.ft with market value of ~PKR 3.4bln. The structure is relatively new and consists of 22 floors with a helipad on the roof top.

Performance Achieving competitive investment results to sustain and improve REIT funds is the principal objective of an RMC and would remain imperative for the rating. In long run, the REIT funds of an RMC with noted strengths will usually be superior or at par with peers.

Financial Sustainability JS Investments Limited was established in 1995 and is listed on the Pakistan Stock Exchange. The Company is part of the Jahangir Siddiqui (JS) Group. JS Bank Limited holds ~85% shareholding in the Company. JS Investments possesses licenses for Asset Management, Investment Advisory, Private Equity, Venture Capital and REIT management Services. The equity base of the Company was PKR 1.3bln as of Mar'23 (SPLY: PKR 1.4bln). While the Company has reported net losses during 3MCY23 amounting to PKR 5.5mln (SPLY: ~49.8mln). The AMC segment of the Company comprises of total fourteen open ended funds and two Pension funds with AUM based PKR 37.5bln. The AMC rating of the Company is AM2+.



The Pakistan Credit Rating Agency Limited

| | <i>PKR mln</i> | | | |
|---|----------------|--------------|--------------|--------------|
| # | Mar-23 | Dec-22 | Dec-21 | Dec-20 |
| Listed Public Limited | 3M | 12M | 12M | 12M |
| A BALANCE SHEET | | | | |
| 1 Earning Assets | 1,155 | 1,176 | 1,382 | 1,637 |
| 2 Non-Earning Assets | 606 | 596 | 603 | 668 |
| 3 Total Assets | 1,760 | 1,772 | 1,985 | 2,305 |
| 4 Total Borrowing | 236 | 238 | 308 | 359 |
| 5 Other Liabilities | 174 | 178 | 173 | 171 |
| 6 Total Liabilities | 410 | 416 | 480 | 530 |
| 7 Shareholders' Equity | 1,350 | 1,355 | 1,504 | 1,775 |
| B INCOME STATEMENT | | | | |
| 1 Investment Income | 79 | 197 | 53 | 334 |
| 2 Operating Expenses | (79) | (356) | (332) | (336) |
| 3 Net Investment Income | (1) | (159) | (279) | (3) |
| 4 Other Income | 2 | 45 | 25 | 15 |
| 5 Total Income | 2 | (114) | (254) | 12 |
| 6 Other Expenses | - | - | - | - |
| 7 Total Finance Cost | (6) | (28) | (34) | (35) |
| 8 Profit Or (Loss) Before Taxation | (4) | (141) | (288) | (23) |
| 9 Taxation | (2) | (8) | (11) | (17) |
| 10 Profit After Tax | (6) | (149) | (300) | (40) |
| C RATIO ANALYSIS | | | | |
| 1 Investment Performance | | | | |
| i. Investment Income / Average AUMs | 0.8% | 0.6% | 0.3% | 1.6% |
| ii. ROE | -1.6% | -10.4% | -18.3% | -2.2% |
| iii. ROA | -1.3% | -7.9% | -14.0% | -1.7% |
| 2 Financial Sustainability | | | | |
| i. Coverages | | | | |
| a. Total Borrowing / EBITDA | 3.2 | (5.8) | (1.9) | 4.1 |
| b. EBITDA / Finance Cost | (3) | 2 | 5 | (3) |
| ii. Capitalization | | | | |
| a. Total Borrowing / (Total Borrowing + Shareholders' Equity) | 14.9% | 14.9% | 17.0% | 16.8% |

| REIT Manager Rating Scale | | | | |
|---|---|--|---|---|
| An independent opinion on a REIT Manager's quality of investment and operations management. | | | | |
| Scale | Definition | | | |
| RM1 | Very high quality of investment and operations management. | | | |
| RM2++ RM2+ RM2 | High quality of investment and operations management. | | | |
| RM3++ RM3+ RM3 | Good quality of investment and operations management. | | | |
| RM4++ RM4+ RM4 | Adequate quality of investment and operations management. | | | |
| RM5 | Weak quality of investment and operations management. | | | |
| <p>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'.</p> | <p>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.</p> | <p>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.</p> | <p>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 surveill the opinion due to lack of requisite information.</p> | <p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p> |
| <p>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.</p> | | | | |

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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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(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 | Clause 11-(A)(p).

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(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

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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

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(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)

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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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