



The Pakistan Credit Rating Agency Limited

Rating Report

JS Global Capital Limited | BFR

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Rating History table with columns: Dissemination Date, Rating, Outlook, Action, Rating Watch. Rows for 14-Dec-2022 and 27-Apr-2022.

Rating Rationale

Table with columns: Factor, Comment. Rows include Ownership, Governance, Management and Client Services, Internal Controls and Regulatory Compliance, Business Sustainability, and Financial Sustainability.

Key Rating Drivers

The rating reflects the overall strength of the Company in the brokerage space. The rating signifies a 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 provide support.

Disclosure table with rows: Name of Rated Entity, Type of Relationship, Purpose of the Rating, Applicable Criteria, Related Research, Rating Analysts.

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 a listing on the Pakistan Stock Exchange in 2005.

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

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 the general public and other market participants. JSBL is the subsidiary of Jahangir Siddiqui & Company Limited (JSCL).

Stability: JS Bank Limited is a subsidiary (~75%) of Jahangir Siddiqui & Co. Limited (JSCL). Other shareholders include banks and financial institutions, and foreign investors while the remaining stake is distributed amongst local individuals and other shareholders. The bank’s shareholding pattern is expected to remain stable in the foreseeable future.

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

Financial Strength: During 9MCY22, the Group reported a profit after tax of ~PKR 1,897mln for the nine months ended September 30, 2022. The Group has reported improvement in its assets base which increased to PKR 619,179 million as of September 30, 2022. PACRA has assigned a long-term credit rating of AA and a 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 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 Category A of the SBP’s panel of auditors.

Management and Client Services

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

Management Team: The management team comprises seasoned professionals possessing worthy educational credentials and expertise in their domains. During the period under review, the CEO, Mr. Kamran Nasir, resigned from his position. Mr. Imtiaz Gardar has been appointed as the CEO of JSGCL. He was previously serving as the deputy CEO of JSGCL. Mr. Imtiaz has over 20 years of capital markets experience and has worked with well-known companies such as JP Morgan - Pakistan and Bank Alfalah Limited.

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 a strong client reporting mechanism with account statements and market reports communicated to the clients on regular basis.

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

Extent of Automation / Integration: The front and back-end software is procured from an approved vendor with complete integration. The system is capable to generate real-time MIS pertaining to order placements, execution and risk management, and compliance.

Continuity of Operations: JSGCL has a detailed disaster recovery plan to ensure business continuity at the time of disaster. Backups are maintained on a timely basis.

Risk Management Framework: JSGCL has a strong control environment supported by the internal audit being performed at the group level and reporting directly to the Audit Committee. Mr. Tanzeel ur rehman, who is an MBA with ~19 years of experience, heads the Risk Management and Compliance Department. The control framework could be improved further with the appointment of separate heads of departments for the Risk Management and Compliance function.

Regulatory Compliance: The 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 during CY22 has remained largely volatile. From international aspects such as global recession and Russia-Ukraine war, to the domestic political uncertainty and flash floods devastating a major part of the country, the investors have had no confidence in the market. Traded volumes have remained low which has affected the topline of the brokerage industry as a whole. Moving forward, political stability after elections may play a large factor in possibility stabilizing the market; however, the recent increase of policy interest rates may continue to deter the investors towards the safer fixed income returns instead of the riskier equity market.

Performance: JSGCL's operating revenue is mainly concentrated in equity brokerage while corporate finance/advisory, commodity brokerage and MFS/MTS services are also in place to augment the revenue streams. The revenue from equity brokerage declined by ~58% during the 9MCY22 to stand at ~PKR 306mln (9MCY21: ~PKR 734mln). Due to this the operating profitability remained under stress. JSGCL reported a net profit of PKR ~26mln in 9MCY22 compared to a net profit of ~PKR 400mln in SPLY. The Company earned a topline of ~PKR 1,061mln during CY21 (CY20: ~PKR 613mln) while profit after tax stood at ~PKR 411mln during CY21 (CY20: ~PKR 207mln).

Strategy: Going forward, JSGCL plans to enhance its footprint in the retail universe. JSGCL is working on a customized mobile app for this purpose and the relevant human resource has also been taken on board.

Financial Sustainability

Credit Risk: The Company has developed and implemented 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 of the clients.

Market Risk: The investment book of JSGCL remains limited to bank placements, RBFS, and other low-risk investments and does not engage in proprietary book investments, limiting the exposure to market risk.

Liquidity Risk: The Current Liabilities of the Company stood at ~PKR 3,626mln at end-Sep'22, compared with ~PKR 3,834mln at end-Dec'21. Whereas the current assets stood at ~PKR 5,094mln at end-Sep'22, compared to ~PKR 5,399mln at end-Dec'21. JSGCL has secured short-term financing facilities from different banks to utilize in case of liquidity needs.

Capitalization: JSGCL has a strong capitalization level with the Company's equity standing at ~PKR 2,214mln at end-Sep'22. The ratings take comfort from a low-leveraged capital structure.

PKR mln

JS Global Capital Limited	Sep-22	Dec-21	Dec-20	Dec-19
	9M	12M	12M	12M

A BALANCE SHEET

1 Finances	587	453	425	363
2 Investments	766	1,578	477	651
3 Other Earning Assets	96	-	124	196
4 Non-Earning Assets	4,787	4,559	4,365	2,882
5 Non-Performing Finances-net	-	-	-	-
Total Assets	6,237	6,591	5,391	4,092
6 Funding	647	695	123	227
7 Other Liabilities (Non-Interest Bearing)	3,375	3,699	2,821	1,631
Total Liabilities	4,022	4,394	2,944	1,858
Equity	2,214	2,196	2,446	2,234

B INCOME STATEMENT

1 Fee Based Income	511	1,095	641	370
2 Operating Expenses	(514)	(749)	(566)	(571)
3 Non Fee Based Income	188	218	231	349
Total Operating Income/(Loss)	185	564	306	147
4 Financial Charges	(118)	(29)	(17)	(40)
Pre-Tax Profit	66	535	290	107
5 Taxes	(41)	(125)	(83)	(60)
Profit After Tax	26	411	207	47

C RATIO ANALYSIS**1 Business Sustainability**

Pre Tax Margin	13.0%	48.9%	45.2%	29.0%
EBITDA/ Revenue	48.6%	58.2%	59.9%	63.4%
Profit / (Loss) Before Interest & Taxes / Total Assets	3.0%	8.6%	5.7%	3.6%

2 Financial Sustainability

Total Investments / Equity	34.6%	71.9%	19.5%	29.2%
NCB / Equity	47.1%	51.5%	35.6%	56.8%
LCB/ Total Equity	86.8%	84.7%	55.5%	93.2%
(Cash & Cash Equivalents + Government Securities) / Total Assets	62.5%	53.5%	62.3%	56.1%
Total Debt / Equity	29.2%	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
BFR 1	Very Strong. Very Strong quality of management, client services and very high likelihood of sustaining operations.
BFR 2++ BFR 2+ BFR 2	Strong. Strong quality of management, client services and high likelihood of sustaining operations.
BFR 3++ BFR 3+ BFR 3	Good. Good quality of management, client services and above average likelihood of sustaining operations.
BFR 4++ BFR 4+ BFR 4	Adequate. Adequate quality of management, client services and average likelihood of sustaining operations.
BFR 5	Weak. Weak quality of management, client services and weak likelihood of sustaining operations.

<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) 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.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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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

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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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- (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)
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- (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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