



## RATINGS (JULY 2011)

### JAHANGIR SIDDIQUI & Co. LTD. (JSCL)

|                                      | New  | Previous |
|--------------------------------------|------|----------|
| <b>Entity</b>                        |      |          |
| Long Term                            | AA   | AA       |
| Short Term                           | A1+  | A1+      |
| <b>TFCs - Listed</b>                 |      |          |
| <i>Unsecured</i>                     |      |          |
| 3 <sup>rd</sup> Issue (PKR 500mln)   | N/A* | AA       |
| <i>Secured</i>                       |      |          |
| 4 <sup>th</sup> Issue (PKR 1,100mln) | AA   | AA       |
| <b>TFCs – Privately Placed</b>       |      |          |
| 5 <sup>th</sup> Issue (PKR 1,250mln) | AA   | AA       |

\* Fully redeemed

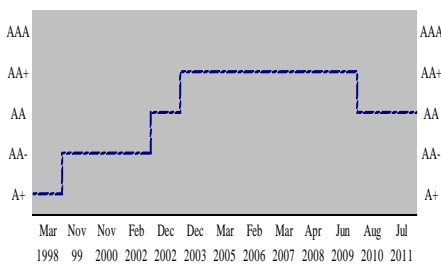
## RATING RATIONALE AND KEY DRIVERS

- The ratings reflect strong risk absorption capacity of the company emanating from sound equity structure and sizeable strategic investment portfolio with considerable liquidity. This helps the company in managing its financial risk as well. Although the company's significant exposure to inherently volatile stock market exposes its earnings to high vulnerability, the management has sound controls in place to manage the associated risks. JSCL's strategic book is mainly equity financed and leveraging is largely a function of its trading portfolio, which currently is modest in size, hence significant deleveraging. Meanwhile, the management's effort to strengthen its overall systems and controls, and plans to put in place a vibrant performance monitoring mechanism for its subsidiaries bodes well for the company.
- The ratings are dependent on improvement in the performance prospects of subsidiaries and their ability to generate stable dividend income for the group. Meanwhile, efficient monitoring of its subsidiaries and maintaining adequate liquidity remains critical for the ratings. Any further downturn in the stock market adversely impacting the company's performance and/or sizeable debt accumulation to fund any long-term investment without sufficient coverages could have negative implication for the ratings.

## ASSESSMENT

- JSCL, the investment holding company for JS group, has a large portfolio categorized into a) core, b) strategic and c) trading. The strategic and trading portfolio is marked to market for listed investments, while core portfolio – mainly subsidiaries – is largely carried at adjusted cost. The company's revenue stream mainly constitutes dividend income – core & strategic – gains/(losses) originating from trading portfolio, exposing the company's performance to highly volatile stock market. A sizeable exposure to the financial sector dominates the company's overall investment portfolio.
- The Executive Committee, comprising CEO and two BoD members, is responsible for strategic decision making and identification of new investment opportunities, and reports to the BoD. In order to strengthen the risk management framework and overall control environment, an investment committee at the management level has been formulated. The committee, comprising the CEO and Head of Investments, is responsible for monitoring key performance indicators of major investments; an Investment Dashboard is prepared and also shared with executive committee. Nevertheless, the decision making remains concentrated with the CEO and key board members.

## L. T. ENTITY RATING HISTORY



## FINANCIAL DATA

PKR (mln)

|                       | Mar-10 * | Jun-10  | Jun-09   |
|-----------------------|----------|---------|----------|
| Total Assets          | 12,605   | 15,383  | 23,184   |
| Equity ^              | 9,535    | 10,127  | 19,278   |
| Net Income / (loss)   | (601.8)  | (8,983) | (14,413) |
| Total Debt/Equity (%) | 29.8     | 48.7    | 18.8     |

^ Adjusted Equity including surplus / (deficit) on revaluation of investments

\* Based on un-audited accounts for nine months ended Mar 31, 2010

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## TFC ISSUES

The fourth secured TFC was issued in Nov06 with principal redemption due in two equal installments beginning 60th month (Nov11). JSCL issued its fifth secured TFC issue in July07 for a tenor of 6 years with principal redemption due in two equal installments beginning 66th month (Jan13). Both instruments have largely similar security structure in the form of first ranking floating charge with 25% margin on all present and future movable assets of the company, with certain exclusions.

- In order to mitigate market volatility risk, the management has defined maximum exposure limits with respect to single security and particular sectors of the trading book. However, in the absence of designated resource to head the risk management department, the effective implementation of these initiatives remains a challenge. The company has developed an automated system "IPortfolio" to improve the efficiency and availability of the investment performance information. . Meanwhile, in line with the management's conservative stance towards unstable socio-economic environment, JSCL restricted its trading portfolio (end-Mar11: PKR 39mln, FY10: PKR 1,594mln).

- During 9MFY11, JSCL reported a net loss of PKR 602mln. Although the company earned a capital gain of PKR 504mln, it had to sustain a revaluation loss of PKR 891mln on some of its strategic investments (EFU General, EFU Life and Azgard Nine Limited). There was also a dip in the dividend income of the company during the period. Although financial charges experienced downward movement, the revaluation loss caused the company to register negative bottom line.

- The core investments of the company, though braving tough operating environment, have not been able to generate ample profitability. JS Global has experienced a dip in its net income during 9MFY11, attributed to fall in operating revenue. JS Investments, after registering net loss for 1HFY11 was able to breakeven by 3QFY11. The company is facing immense challenge in increasing – indeed sustaining – its AUM base. JS Bank, after posting a loss of PKR 408mln during 2010, was able to witness slight profitability in 1Q11. The bank is non-compliant with regulatory nominal minimum capital requirement (PKR 7bln at end-2010). To enable JS Bank to meet its MCR, JSCL would transfer its 44% stake in JS Global to bank in swap of its shares increasing JSCL's stance in the bank (~69%). This, while supporting the bank, would take a dividend stream away from JSCL. The company has divested certain key strategic investments during the period; significantly reducing its net debt. Going forward, the management intends to rationalize its investment portfolio by retaining the investments, which have the potential to generate healthy returns.

- The pressure on the company's equity base on account of reported losses continues though its extent has subsided. Nevertheless, capitalization level of the company remains strong with core equity to assets ratio of 72% at end 3QFY11 (FY10: 62%, FY09: 83%). Moreover, liquid nature of its investments and adequate level of unencumbered assets provide cushion against unforeseen contingencies.

## PROFILE

- JSCL, listed on KSE, was established in 1991. Starting as a traditional securities firm, JSCL has now acquired the status of an investment holding company with focus on the financial sector, including asset management, brokerage, banking, micro finance and insurance. Its non-financial interests include textile, fertilizer, media services and transport.

- Mr. Jahangir Siddiqui directly (43%) and through a family company (8%) remains the largest shareholder in JSCL. Seven members BoD includes two JS family members – Mr. Ali Jehangir Siddiqui and Mr. Munawar Alam Siddiqui – alongwith four other Jahangir group nominees. The remaining one director represents minority shareholders. The CEO of the company, Mr. Munaf Ibrahim, is an experienced professional and has been with the company since 1993.