



The Pakistan Credit Rating Agency Limited

Rating Report

Jahangir Siddiqui & Co. Ltd. | TFC XI | Mar-18

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-Aug-2020	AA+	-	Stable	Maintain	-
09-Aug-2019	AA+	-	Stable	Maintain	-
08-Feb-2019	AA+	-	Stable	Maintain	-
16-Aug-2018	AA+	-	Stable	Initial	-
29-Jan-2018	AA+	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The ratings reflect Jahangir Siddiqui & Co. Ltd.'s ('JSCL' or 'the Company') strong presence as a Holding Company in the financial sector with a portfolio of strategic investments mainly in banking (JS Bank, BankIslami Pakistan), insurance (EFU Life Assurance and EFU General Insurance), brokerage (JS Global Capital) and asset management segments (JS Investments). JS Bank is on its path to establish itself as a medium sized bank whereas BankIslami aims to expand its presence in the growing Islamic Banking sphere. The results have been so far mixed with macroeconomic challenges and stiff competition in the banking sector. JSCL holds significant stake in EFU General Insurance and EFU Life Insurance and plans to maintain it. After witnessing volatile markets for a while, JS Global and JS Investments are expected to have improved performance . The Company has recently increased its holding in Azgard Nine, while divested some stake in Pakistan International Bulk Terminal and other non-strategic investments. JSCL intends to diversify its portfolio and has made significant investments in LPG storage and infrastructure and OMC segments. The Company has made ~ PKR 2bln investments in these segments through its wholly owned subsidiary, Energy Infrastructure Holdings (Pvt.) Ltd. This is predominantly being funded by debt instruments. These initiatives are in gestation phase and will take time to mature. The recent upsurge in stock market, coupled with interest rate cuts of 625bps, are expected to improve the profitability of the Company. Moreover, EFU Life and EFU General remain stable dividend resources. The Company has a very strong capital structure with low leveraging and strong coverages. The debt instruments are covered by a mix of strategic and non-strategic investments. The Company has availed general relief provided by SBP for COVID-19, to defer part of its long-term debt repayment from bank. This will supplement cashflows along with lower interest payments due to reduced benchmark rate. JSCL does not plan to take further debt in the near term. The COVID outbreak has not impacted the Company's portfolio materially, exhibiting its resilience.

The ratings are dependent on the management's ability to execute its envisaged strategy of growth and expansion amidst prevailing tough environment. Timely materialization of these initiatives into sustainable ventures is critical. Strong performance of subsidiaries, stable dividends, and effective management of financial profile and liquidity remains important.

Disclosure

Name of Rated Entity	Jahangir Siddiqui & Co. Ltd. TFC XI Mar-18
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-20),Methodology Holding Company(Jun-20),Methodology Debt Instrument(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Holding Company(Aug-19)
Rating Analysts	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504



Profile

Legal Structure Jahangir Siddiqui & Co. Ltd. ('JSCL' or 'the Company') is a public limited company listed on the Pakistan Stock Exchange.

Background JSCL, successor to brokerage business started in early seventies by Mr. Jahangir Siddiqui, was established in 1991. Starting as a traditional securities firm, JSCL is now the main investment arm for Mr. Jahangir Siddiqui's business interests.

Operations The principal activities of the Company are managing its core and strategic investments, trading of securities etc. JSCL's portfolio of investments is categorized into a) Core Investments (17%), b) Strategic Investment (71%) and c) Trading Investments (12%), with significant concentration in banking (34%) and insurance (33%) sectors. Core and Strategic Investments therein include subsidiaries, JS Bank and Energy Infrastructure Holding (Pvt.) Ltd among others. JSCL has a significant stake in EFU General Insurance (21%) and Azgard Nine (20%). JSCL increased its stake in Azgard Nine post March-20.

Ownership

Ownership Structure JS Group holds majority stake (~71%) in the Company through individuals and other Group companies. As at Mar-20, Mr. Jahangir Siddiqui holds 43.1% stake directly; while, 14.6% and 12.7% stakes are held by Jahangir Siddiqui & Son Limited and Jahangir Siddiqui Securities Services Limited, respectively. The other major shareholder is SAJ Capital Management Limited (5.7%). The Company has a free float of 25%.

Stability Ownership is seen as stable as major stake rests with the Group and the holdco structure is in place.

Business Acumen JS Group is a renowned business group of Pakistan. The Group has varied interests in the financial sector including banking, insurance, asset management, brokerage and lately, energy infrastructure.

Financial Strength Majority of JS Groups financial strength is consolidated in its Holding Company, JSCL. As at 1QCY20, the Company had a consolidated asset base of PKR 496bln, which is supported by an equity base of PKR 32bln. Its topline clocked in at PKR 15bln with the bottom-line closing in at PKR 365mln for 1QCY20.

Governance

Board Structure JSCL has an eight member Board of Directors (BoD) including the CEO. The BoD includes one executive director, five non-executive directors with two representative directors of JS Group (including one director from the sponsoring family) and two independent directors.

Members' Profile The Board members include financial sector experts and respected civil servants. Their diverse backgrounds and varied expertise provide holistic guidance and direction to the Company. During CY19, Mr. Khalid Imran resigned as a Non-Executive Director from the Company's Board and was replaced by Mr. Hasib Navaid Malik, an Independent Director. In Jan-20, Ms. Rukhsana Shah resigned as a Non Executive Director from the Company's Board and was replaced by Ms. Hina Athar Khan (Non-Executive Director).

Board Effectiveness JSCL's Board has constituted three committees for effective monitoring and oversight namely, Audit Committee, HR & Remuneration Committee and Executive Committee. Audit and HR committees are headed by Independent Director. While, the Executive Committee is headed by Mr. Ali Raza Siddiqui, a Non-Executive Director. During CY19, the Board met 7 times. Board minutes are properly documented and followed up with high participation from directors.

Financial Transparency JSCL's External Auditors are EY Ford Rhodes. They issued an unqualified opinion for the year ended December-19.

Management

Organizational Structure The Company is headed by the CEO. It has four major departments namely: a) Investments, b) Finance, c) Human Resources and Administration, and d) Corporate Affairs. All departments report to the CEO.

Management Team The CEO, Mr. Suleman Lalani, FCA, has been associated with the Group since 1992. He carries over two decades of experience at key positions. Mr. Najmul Hoda Khan, CFO, carries over a decade of experience. While, Mr. Syed Ali Hasham serves as a Company Secretary since 2019.

Effectiveness At management level, an Investment Committee (IC) is in place to evaluate performance measurement and monitoring of the investment portfolio. IC, comprising CEO, CFO and Manager Investments, meets regularly to review the portfolio and its performance. Further, Board members of JSCL are represented on the Boards of its investee companies for effective control.

MIS To manage trading portfolio, the Company use an in-house developed automated system, which captures transactional data for Ready and Deliverable Future Markets contracts for buy and sell transactions.

Control Environment The Company has outsourced its internal audit function to M/s Grant Thornton Anjum Rahman, Chartered Accountants exhibiting strong control environment.

Business Risk

Industry Dynamics Holding companies are an emerging phenomena in Pakistan. Some operating companies that held strategic investments for the purpose of diversification and growth eventually de-merged from their operations and gradually structured into holding companies. This allowed the HoldCos to concentrate on growth of their investments and further diversify through acquisitions or undertaking greenfield projects.

Relative Position In comparison to the major players in the Holdco's, JSCL is one of the key players as it has structured itself into a pure Investment Holding Company for the purpose of oversight of its investments. However, some of its investments are still at nascent stage.

Revenues JSCL's topline, mainly comprising dividend income and capital gains, stood at PKR 1,220mln in CY19 (CY18: PKR 1,246mln). This decrease was mainly due to lower dividend income received from JS Bank, as the Company converted preference shares to common stock of the bank. Dividend income stood at PKR 871mln during CY19 (CY18: PKR 1,017mln). However, during 1QCY20, the Company's topline increased to PKR 456mln (1QCY19: 197mln) on the back of significantly higher dividend income received from EFU General and EFU Life. JSCL's dividend income is expected to be concentrated towards insurance sector, while better stock market performance will result in gains on trading investments.

Margins Finance cost increased by 46% (CY19: PKR 577mln, CY18: 395mln) owing to higher interest rates. The Company controlled its operating costs, along with booking a reversal of provision on impairment. As a result, the bottom line clocked in at PKR 360mln during CY19 (CY18: PKR 207mln) reflecting an increase of 74%. During 1QCY20, the Company booked an impairment provision on its subsidiary amounting to PKR 228mln. As a result, the Company's bottom line dipped despite better dividends and posted a loss of PKR 29mln (1QCY19: Net Profit PKR 243mln). The profitability is expected to improve with lower finance cost, going forward.

Sustainability JSCL has implemented diversification strategy by tapping in LPG storage, OMC and energy infrastructure sectors as a Group. The Company has established subsidiaries for the said purpose under the umbrella of Energy Infrastructure Holding Pvt. Ltd (EIHPL). Some of these initiative will be delayed due to challenging economic environment. However, the overall investment portfolio of JSCL was not materially impact by COVID-19 outbreak, exhibiting resilience of investment philosophy.

Financial Risk

Working Capital The Company holds sizable liquid investments of PKR 1.6bln (1QCY19: PKR 2.4bln) in the form of listed equity securities. Short term borrowings as at 1QCY20 stood at PKR 119mln (1QCY19: nil). Borrowings are primarily long-term, in line with Holding Company's investment philosophy.

Coverages Owing to low capital market performance and increase in interest costs, interest coverage dipped to 1.8x during CY19 (CY18: 2.1x), but improved to 1.3x during 1QCY20 (1QCY19: 1.1x). These are expected to further improve as the interest rates have decreased by 625bps resulting in lower finance cost by ~PKR 274mln. The Company has availed the SBP deferment measure for COVID-19, for part of its long-term loan repayment. This will provide cushion and supplement cashflows.

Capitalization JSCL has an equity base of PKR 21bln as at 1QCY20. Borrowings, amounting to PKR 3.8bln, comprise long-term loans in the shape of (i) Term Finance Certificates (TFCs), and (ii) Term Loans from commercial banks. Leveraging, stood at 18% during 1QCY20. (CY19: 16%, 1QCY19: 20%). The Company issues debt instruments and has successfully repaid 8 TFCs so far. The proceeds are utilized for investments and replacing existing debt. However, the Company does not plan on taking further debt in the near term as deferment of existing principal will provide room.

**JAHANGIR SIDDIQUI & CO. LTD.**

BALANCE SHEET	31-Mar-20	31-Dec-19	30-Sep-19	30-Jun-19	31-Mar-19	31-Dec-18
	3M	Annual	9M	6M	3M	Annual
Investments	24,339	28,820	25,744	27,087	28,368	28,130
Strategic Equity Investments	22,021	25,217	23,317	24,258	24,908	25,078
Subsidiaries	10,251	10,479	10,239	10,306	10,435	10,419
Others	11,770	14,738	13,078	13,953	14,473	14,659
Other Equity Investments	2,120	3,157	1,784	1,992	2,472	2,751
Debt Investments	197	445	641	835	986	300
Investment Property	2	2	2	2	2	2
Cash and Bank Balances	424	232	410	589	304	296
Other Assets	446	394	415	408	459	289
Total Assets	25,210	29,447	26,570	28,084	29,131	28,715
Borrowings	3,821	3,943	4,124	4,348	4,745	4,344
Long Term	3,702	3,943	4,124	4,348	4,745	4,344
Short Term	119					
Total Liabilities (Excluding Borrowings)	283	475	381	471	389	577
Shareholder's Equity	21,105	25,028	22,065	23,266	23,997	23,795
Total Liabilities & Equity	25,210	29,447	26,570	28,084	29,131	28,715

INCOME STATEMENT

Income	449	1,280	1,001	850	197	1,246
Expenditure	267	220	342	234	56	410
Financial Charges	148	577	419	270	126	395
Net Income	(29)	360	122	246	9	207

Ratio Analysis

Profitability						
ROE	-0.2%	2.9%	1.0%	2.0%	0.1%	1.3%
ROA	-0.1%	1.6%	0.6%	1.1%	0.0%	0.7%
Capital Structure						
Total Debt / Total Equity	17.5%	15.8%	18.7%	18.7%	19.8%	18.3%
Total Debt / Pure Equity	25.1%	23.8%	27.2%	27.0%	29.2%	27.2%
Coverage						
EBIT / Financial Charges	1.28	1.84	1.57	2.28	1.12	2.12

JAHANGIR SIDDIQUI & CO. LTD.

Jul-20

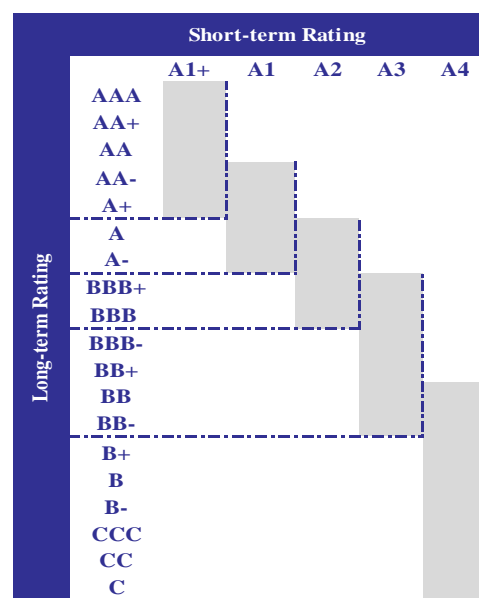
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Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying debt instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA	
AA-	
A+	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A	
A-	
BBB+	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB	
BBB-	
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B	
B-	
CCC	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

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) 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.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion on debt instrument is carried out on an ongoing basis till the maturity of the instrument or cessation of contract. 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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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)

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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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Term Finance Certificates - 11	
Placement	Listed
Issue size	PKR1,500mln PKR300mln (inclusive of Green Shoe option)
Tenor	5 Years from the date of issue with a 2 year grace period
Profit Rate	The issue has Floating rate of return at 6Months KIBOR + 1.40% p.a. Profit is payable semiannually in arrears calculated on annual basis on the outstanding principal amount.
Principal Repayment	Six (6) equal semi-annual installments commencing from the 30th month after the Issue date.
Call Option	Early redemption, full or partial, within 30 days of notice subject to premium of 0.25% of the amount being repaid
Security	<p>Pledge of securities in a designated account with the Central Depository Company of Pakistan Limited, with a 35% margin.</p> <p>The eligible shares to kept as securities are : Pakistan International Bulk Terminal Limited, EFU Life Assurance Limited, EFU General Insurance Limited, Ghani Glass Limited and TRG Pakistan Limited</p>
Latest Market Value of Security-30-Jun-20	PKR 2,536mln
Trustee	Pak Brunei Investment Company Limited

Installment	Year	Due Date	Days	Principal	Mark Up	Total Installment	Outstanding Balance
-----PKR In Million -----							
	06-Mar						1,500
1	2020	Sep-20	184	250	110	360	1,250
2	2021	Mar-21	181	250	91	341	1,000
3	2021	Sep-21	184	250	74	324	750
4	2022	Mar-22	181	250	54	304	500
5	2022	Sep-22	184	250	37	287	250
6	2023	Mar-23	181	250	18	268	0