



The Pakistan Credit Rating Agency Limited

Rating Report

Jahangir Siddiqui & Co. Ltd. | TFC X | Jul-17

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
08-Feb-2019	AA+	-	Stable	Maintain	-
16-Aug-2018	AA+	-	Stable	Maintain	-
29-Jan-2018	AA+	-	Stable	Maintain	-
18-Jul-2017	AA+	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The ratings reflect Jahangir Siddiqui & Co. Ltd.'s (JSCL) strong presence as a Holding Company in the financial sector with a basket of strategic investments most prominent of which are JS Bank, BankIslami Pakistan, EFU Life Assurance and EFU General Insurance. JS Bank is on its path to establish itself in the medium sized banking sector. BankIslami aims to expand its lending portfolio by funding through low cost deposits, however, the bank's lending portfolio has slimmed down while NPLs has witnessed an upward trend during 9MCY18, which is a concern. Meanwhile, EFU Life and EFU General continue as a stable income stream for the Company. JSCL is increasing its stake in EFU General Insurance gradually and has made significant progress with its diversification strategy in energy, petroleum, and infrastructure segment. The Company has made ~PKR 2bln investments in LPG Storage and Oil Marketing businesses. This is predominantly being funded by debt instruments. Although the investment activity has increased the debt exposure for the Company, it still remains within moderate limits.

Ratings draw strength from the Company's moderately leveraged capital structure and continuing growth trajectory in its existing strategic investments. Meanwhile, strict financial discipline in terms of coverages remains critical for ratings. Prolonged downturn in capital markets leading to substantial deterioration in the Company's investments will impact ratings.

Disclosure

Name of Rated Entity	Jahangir Siddiqui & Co. Ltd. TFC X Jul-17
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Debt Instrument(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Holding Company(Aug-18)
Rating Analysts	Adnan Dilawar adnan@pacra.com +92-42-35869504



Profile

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

Background Jahangir Siddiqui & Co. Ltd., 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 (JS) business interests.

Operations The principal activities of the Company are managing strategic investments, trading of securities, consultancy services, etc.

Ownership

Ownership Structure JS Group holds majority stake (end Dec' 18: 72.24%, end Dec' 17: 70.90%) in the Company through individuals and its Group Companies. As at Dec' 18, Mr. Jahangir Siddiqui holds 43.13% stake directly while 15.90% and 13.21% is held by Jahangir Siddiqui Securities Services Limited and Jahangir Siddiqui & Sons Limited. The other major shareholder is SAJ Capital Management Limited (5.69%).

Stability JS Group has been increasing its stake in the Company gradually. Ownership is seen as stable as major stake rests with the Group.

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

Financial Strength Majority of JS Groups financial strength is consolidated in its Holding Company, JSCL. At end Sept-18 the Company had an asset base of PKR 422bln which is supported by an equity base of PKR 36bln and consolidated debt exposure is PKR 62bln with sizeable deposits emanating from JS Bank of ~PKR 308bln. Its topline clocked in at PKR 25bln with the bottom-line closing in at PKR 1bln for 9MCY18.

Governance

Board Structure JSCL has an eight-member Board of Directors (BoD), where all except the CEO are Non-Executive Directors. The BoD has one independent director.

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. Lately, Mr. Stephen Smith resigned and Mr. Muhammad Ali has been appointed as the Director. Previously, he served as CEOs of Engro Vopak Terminal, Engro Elengy Terminal and Engro Powergen Qadirpur Limited. He is responsible to head the industrial businesses of JS Group including oil and gas and energy storage and handling business. Chief Justice (R) Mahboob Ahmed is Chairman of the BoD.

Board Effectiveness JSCL's board has constituted three committees for effective monitoring and oversight namely, Audit Committee, HR & Remuneration Committee and Executive Committee.

Financial Transparency JSCL's External Auditors are EY Ford Rhodes. They issued an unqualified audit report for financial year ended Dec17. The board's Audit Committee and HR & Remuneration Committee are headed by an independent director.

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 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 has been appointed as the CFO in place of Mr. Hasan Shahid recently. Mr. Hasan Shahid serves as Director Finance and Company Secretary.

Effectiveness At management level, an Investment Committee (IC) is in place to evaluate performance measurement and monitoring of the investment portfolio. It meets regularly to review the portfolio. Further, board members of JSCL are represented on the boards of investee companies.

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

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

Business Risk

Industry Dynamics Hold Cos are an emerging phenomenon in Pakistan. Some operating companies that held strategic investments gradually for the purpose of diversification and growth eventually demerged from their operations and structured itself so that holding companies could concentrate their investments for the purpose of business growth and diversification.

Relative Position In comparison to the major players in the Holding Companies 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. It has a consolidated asset base of ~PKR 422bln as at end-Sept18.

Revenues JSCL's topline mainly comprises dividend income and capital gains which decreased to ~PKR 1,089mln in 9MCY18 as compared to ~PKR 1,363mln same period last year. This decline is mainly due to lower capital gains on disposal of investments. During 9MCY18, JS Banks's mark-up income witnessed sizeable increase to PKR ~22bln (9MCY17: PKR 14bln) owing to the increase in asset yield and substantial growth in lending. Bank earned a NIMR PKR ~7bln (9MCY17: PKR 4bln). After conversion of preference shares of JS Bank, JSCL's dividend income is expected to be concentrated from insurance sector, while stock market performance would determine gains from disposal of investments.

Margins Operating and administrative expenses increased marginally (1.7%) while finance cost increased substantially (91%) in 9MCY18 as compared to corresponding period last year, owing to increase in interest rate and long term borrowings. As a result bottom line clocked in at ~PKR 386mln in 9MCY18 as compared to ~PKR 617mln, reflecting a decline of 37%

Sustainability Going forward, JSCL envisages further diversification as a group. The Company is increasing its stake in insurance, energy, oil and marketing and infrastructure sectors. The Company has established subsidiaries for the said purpose.

Financial Risk

Working Capital The Company holds sizeable liquid investments (~PKR 2.8bln) in the form of listed equity securities and there are no short term borrowings as at Sept-18.

Coverages Owing to low capital market performance, increase in interest costs and borrowings, interest coverage deteriorated to 3x at end Sept-18 (end Dec 17: 4x, end Dec-16: 7x).

Capitalization JSCL has a large equity base of ~PKR 25bln which mainly comprises of a sizeable unrealized gain on investments of ~PKR 8.8bln at end Sept-18. JSCL's borrowings, amounting to ~PKR 4.7bln, comprise long-term loans in the shape of (i) Term Finance Certificates (TFCs), and (ii) Term Loans from commercial banks. During the year, the Company issued TFC 11 amounting to PKR 1.5bln. This has resulted in an upward pressure on Company's leveraging, represented by a debt/equity ratio of 19% at end Sept-18.(end-Dec17: 13%). Debt/Equity ratio is expected to increase further as the Company plans to raise additional debt, going forward.



JAHANGIR SIDDIQUI & CO. LTD.

BALANCE SHEET	30-Sep-18	31-Dec-17	31-Dec-16	31-Dec-15
	9M	Annual	Annual	Annual
Investments	28,495	29,721	31,501	24,609
Strategic Equity Investments	25,672	26,689	27,321	22,325
Subsidiaries	10,531	8,894	7,892	6,541
Others	15,142	17,794	19,429	15,784
Other Equity Investments	2,823	3,033	3,780	2,258
Debt Investments	-	-	400	26
Investment Property	2	2	2	2
Cash and Bank Balances	1,089	1,427	730	2,001
Other Assets	411	265	330	410
Total Assets	29,997	31,415	32,563	27,022
Borrowings	4,658	3,509	1,945	1,387
Long Term	4,658	3,509	1,945	1,387
Short Term	-	-	-	-
Total Liabilities (Excluding Borrowings)	342	386	563	332
Shareholder's Equity	24,997	27,520	30,055	25,302
Total Liabilities & Equity	29,997	31,415	32,563	27,022
INCOME STATEMENT				
Income	1,089	1,533	946	4,065
Expenditure	250	644	(68)	745
Financial Charges	284	222	145	165
Net Income	386	366	622	2,831
Ratio Analysis				
Profitability				
ROE	3.2%	2.3%	4.1%	22.4%
ROA	1.7%	1.1%	2.1%	11.3%
Capital Structure				
Total Debt / Total Equity	18.6%	12.7%	6.5%	5.5%
Total Debt / Pure Equity	28.8%	22.2%	12.6%	9.4%
Coverage				
EBIT / Financial Charges	2.95	4.00	7.01	20.11

DEBT INSTRUMENT RATING SCALE & DEFINITIONS

The instrument 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.

LONG TERM RATINGS		SHORT TERM RATINGS		
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.			
AA+ AA 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.	A1+:	The highest capacity for timely repayment.	
A+ A 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.	A1:	A strong capacity for timely repayment.	
BBB+ BBB 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.	A2:	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.	
BB+ BB 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.	A3:	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.	
B+ B 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:	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.	
CCC CC C	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.	C:	An inadequate capacity to ensure timely repayment.	
D	Obligations are currently in default.			
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, a) some material identifiable event and/or b) deviation from expected trend. 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 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 surveil the opinion due to lack of requisite information

Disclaimer: PACRA's ratings are an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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 - 10	
Placement	Privately Placed
Issue size	PKR1,500mln (inclusive of Green Shoe option of PKR500mln)
Issue Date	18-Jul-17
Maturity	18-Jul-22
Tenor	5 Years including a grace period of 1 Years
Profit Rate	Floating rate of return at 6Months Kibor at + 1.40% p.a. Profit will be payable semiannually The first such profit payment will fall due six (6) months from the Issue date and subsequently every six (6) months thereafter
Principal Repayment	In eight (8) equal semi-annual installments, starting from the 18th month of the drawdown date
Call Option	Exercisable partially or in full at any time on a coupon payment date, subject to a 30 days' notice at a premium of 0.25% on the outstanding face value
Security	Pledge of securities in a designated account with the Central Depository Company of Pakistan Limited, with a 35% margin. The eligible shares to kept as securities are : IGI Insurance Limited, United Bank Limited, TRG Pakistan Limited, Pakistan International Bulk Terminal Limited, Fauji Cement Company Limited, Engro Fertilizers Limited, Hum Network Limited, EFU Life Assurance Limited, EFU General Insurance Limited, Ghani Glass Limited
Latest Book Value of Security- 31-Dec-18	PKR1064mln
Latest Market Value of Security-31-Dec-18	PKR2415mln
Trustee	Pak Brunei Investment Company Limited

Installment	Year	Due Date	Days	Principal	Mark Up	Total Installment	Outstanding Balance
-----PKR In Million -----							
	18-Jul-17						1500
1	2019	18-Jan	184	188	71	259	1313
2	2019	18-Jul	181	188	79	267	1125
3	2020	18-Jan	184	188	69	256	938
4	2020	18-Jul	181	188	57	244	750
5	2021	18-Jan	184	188	46	233	563
6	2021	18-Jul	181	188	34	221	375
7	2022	18-Jan	184	188	23	210	188
8	2022	18-Jul	181	188	11	199	0