The Pakistan Credit Rating Agency Limited

JS Investments Limited (JSIL)

Entity Ratings Report

	New [Dec-17]	Previous [Jun-17]
Long-Term	A+	A+
Short-Term	A1	A1
Outlook	Stable	Stable

December 2017

Profile &Ownership

- Incorporated in 1995, JS Investments Limited (JSIL) is a private sector asset management company in Pakistan.
- The company has been listed on the Pakistan Stock Exchange since 2007.
- JSIL is a subsidiary of JS Bank Limited – 65% shareholding at end-Dec16.
- JSIL remains a strategic investment for JSCL as the holding company owns controlling interest (70%) in JSBL. JS Bank, in operations since December 2006, has a country-wide network of 307 branches (at end-Dec16). It carries long-term rating of "AA-" and short-term rating of "A1+" by PACRA.

Governance & Management

- JSIL's board of directors comprises eight members – including CEO. The structure of board includes two group representatives of the sponsoring bank and an independent director.
- The structure of the board includes two group representatives, four representatives of the sponsoring bank and an independent director.
- The BoD has three sub-committees 1) Audit Committee, 2) HR Committee and 3) Executive Committee.

The CEO, Mr. Hasnain Raza Nensey, is an experienced professional working in the financial industry for over a decade. He has an aggregate work experience of 23 years of which around 15 years has been in the Financial Industry in Pakistan.

Assessment

- JSIL is managing a diversified portfolio of funds which comprises ten open-end funds and two pension schemes along with a few discretionary portfolios. The company has recently launched a capital protection scheme.
- During 9MCY17, the AUMs of the company registered a minute increase of ~.67% (Sep17: PKR 12,629mln, Dec16: PKR 12,545mln) as against the industry's growth of 2.4%.
- The system share of the company was 1.98% which improved to 2% compared to the previous period.
- JSIL also manages SMAs mandates of PKR 1,024mln at end-Apr17. Registering an increase of 131% compared to the SMA size of 442.mln at end-June16.

Performance

- During 9MCY17, fee based revenue of the company increased by 38% compared to the corresponding period last year (9MCY17: 174.5mln 9MCY16: 140.76mln). Dividend income also witnessed an increase of 52% (9MCY17: 40.74mln 9MCY16: 26.8mln).
- However, Gain on sales of Investments (9MCY16: 69.24mln, 9MCY17: 39.91mln) declined by 43%.
- Operating expenses also witnessed an increase of 17%.
- Consequently, profit after tax declined by 71%. The company posted a net gain of PKR 9.27mln in 9MCY17 compared a gain of PKR 31.82mln in 9MCY16.

Strategy

- The management has made a comprehensive marketing plan in collaboration with JS Bank for enhancing its AUM base. The company has already placed a sales team of 50 individuals in the designated branches of JS Bank under this initiative.
- JSIL plans to further beef up its sales team with increased presence in the parent bank's network. The results of this intuitive remains to be seen.
- JSIL plans to launch new term structure funds which are suitable for banks to sell.
- JSIL devices to target significant number of inactive UIN.

Capital Structure

- During 9MCY17, the company witnessed a decrease in its equity base. This was on account of accumulated profits distributed to the investors.
- JSIL invests significant fund size prescribed by the regulator. The market value of these funds form 89% of equity at end Sep 17 (Sep 16: 92%).
- The investment is classified as long-term (PKR 37.5mln) and short-term (PKR 2,089mln).
- The long term investments are made in a subsidiary (JS ABAMCO). The short-term investments currently consist of units of JSIL's own funds.

RATING RATIONALE

The ratings reflect JSIL's strong risk absorption capacity emanating from sound equity base and a debt free capital structure. The rating incorporates JSIL's association with a strong commercial bank (JS Bank Limited) and Jahangir Siddiqui Company Limited which is the holding company of the underlying company. Lately the company has managed to improve its AUMs and stabilize the revenue stream. During the year Mr. Hasnain Raza Nensey took the leader ship role as CEO of the company. The new management has embarked upon a plan to beef up its system share by increasing the AUM base by collaborating with JS Bank. Integration into the parent bank (JS Bank) may support the company's intrinsic growth plans. To achieve this strategy, the company has developed products that will be beneficial for bank to sell. The company also plans to focus on SMA segment to capture the growing demand from provident and endowment funds. Furthermore, the company devices to focus on retail clients and to revive significant number of inactive accounts. The success of these initiatives is crucial though the desired outcome may stretch over a longer horizon. The company's strong financial position permits gradual advancement towards its target.

KEY RATING DRIVERS

The ratings remain dependent, alongside a debt-free capital structure, upon management's ability to effectively execute its business strategy for growth in AUMs, in turn, augmenting competitive positioning in the industry. Herein, the challenge would be diversity of funds including contribution from the retail segment along with sustained improvement in fund's performance. The company enjoys low financial risk due to deleveraged structure; any debt acquisition should be planned carefully.

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Balance Sheet

	30-Jun-17 1H CY17	31-Dec-16 Annual	30-Dec-15 Annual	30-Dec-14 Annual
A. EARNING ASSETS				
1. Deposits with Banks	29	11	12	13
2. Placements	0	0	0	0
3. Investments				
a) Own Funds	2,078	2,137	1,721 *1*	1,882
b) Others	235	247	222	388
	2,314	2,384	1,942	2,271
Total Earning Assets	2,343	2,395	1,954	2,283
B. NON-EARNING ASSETS				
1. Cash and Bank Balances	1	0	1	1
2. Balance Due from Closed-End Funds Under Management	0	0	0	0
3. Balance Due from Open-End Funds Under Management	116	115	95	66
4. Advances, Receivables, Deposits and Other Assets	175	189	175	189
5. Fixed Assets / Intangible Assets	379	375	362	376
Non-Earning Assets	671	679	632	632
C. TOTAL ASSETS	3,013	3,074	2,586	2,916
D. BORROWINGS				
Long-term				
1. Banks and Other Financial Institutions				
2. Listed TFCs	0	0	0	0
3. Sponsors / Others	4			
	4	0	0	0
Short-term				
1. Current maturity of long-term borrowings	0	0	0	0
2. Short-term finances	0	0	0	0
	0	0	0	0
Total Borrowings	4	0	0	0
E. OTHER LIABILITIES (Non-Interest Bearing)				
1. Accrued Expenses & Other Liabilities	212	226	200	178
2. Tax Payable				
3. Deferred Liabilities (including tax)	67	82	78	94
Total Other Liabilities	279	309	278	272
F. EQUITY				
1. Share Capital	802	802	802	1,000
2. Reserves:				
a. Capital Reserves	198	198	198	
b. Revenue Reserves				
c. Accumulated Profit	847	700	492	667
	1,045	898	690	667
Pure Equity	1,847	1,700	1,492	1,667
3. Surplus/(Deficit) on Revaluation of Fixed Assets	187	192	200	194
4. Unrealized Gain/(Loss) on Revaluation of Investments	696	874	616	783
	883	1,065	816	977
Total Equity	2,730	2,765	2,308	2,644
G. TOTAL LIABILITIES & EQUITY	3,013	3,074	2,586	2,916

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JS Investments Limited

Income Statement

	30-Jun-17 1H CY17	31-Dec-16 Annual	30-Dec-15 Annual	30-Dec-14 Annual
1. Fee-Based Income				
a. Remuneration from Open-end Funds	118	155	160	270
b. Remuneration from Closed-end Funds				
c. Commission from Open-end Funds	6	9	4	1
d. Advisory Fee / Others	3	6	5	9
e. Sales Tax & Federal Excise Duty	(14)			(69)
	114	170	169	211
2. Interest / Mark-up Income				
a. Bank Deposits & Placements	1	1	2	7
b. TFCs & Other Invesments	0	0	2	2
	1	1	4	9
3 Other Investment Income				
a. Dividend Income	41	27	19	0
b. Gain on Sale of Investments	38	264	214	649
c. Impairment on Investments				
d. Others				
	78	291	233	649
4. Other Income/Loss	20	32	33	33
5. Total Revenue	**213**	**494**	**439**	**903**
6. Operating Expenses				
a. Personnel Expenses	(145)	(132)	(111)	(94)
b. Other Operating Expenses	(1)	(152)	(128)	(147)
	(146)	(284)	(240)	(241)
	67	210	199	661
7. Financial Charges	(0)	(0)	(0)	(1)
8. Pre-Tax Profit	67	210	199	661
9. Taxes	(36)	(10)	(25)	(12)
10. Net Income	**31**	**200**	**174**	**649**
11. Unapprpopriated Profit / (Loss) Brought Forward	701	492	667	10
12. Adjustments (incl. dep. on revaluation)	4	9	8	7
13. Available for Appropriations	737	700	849	666
14. Appropriations				
a. Cash Dividend	(40)	0	(357)	0
b. Issue of Bonus Shares	0	0		
c. Others/Capital Reserve	0	0		
d. Dividend	0	0		
	(40)	0	(357)	0
15. Unappropriated Profit Carried Forward	**697**	**700**	**492**	**667**

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RATIO ANALYSIS

	30-Jun-17 1H CY17	31-Dec-16 Annual	30-Dec-15 Annual	30-Dec-14 Annual
A. PERFORMANCE				
1. ROE	1%	8%	7%	32%
2. ROA	1%	5%	4%	17%
3. Fee Income / Total Revenue	53%	34%	38%	23%
4. Personnel Expenses-to-Total Revenue	68%	27%	25%	10%
5. Cost-to-Total Revenue	68%	58%	55%	27%
6. Taxes / Pre-Tax Profit	53%	5%	13%	2%
B. CAPITAL STRUCTURE				
1. Pure Equity / Total Assets	61%	55%	58%	57%
2. Total Debt / Adjusted Equity	0%	0%	0%	0%
3. Total Debt / Pure Equity	0%	0%	0%	0%
4. Current Debt / Total Debt	0%	0%	0%	0%
C. LIQUIDITY				
1. Liquid Assets / Total Assets	0.8	0.8	0.8	0.8
D. Growth				
1. Total Assets	14%	19%	-11%	41%
2. Pure Equity	22%	14%	-10%	65%
3. Total Investments	18%	23%	-14%	43%

CREDIT RATING
SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or 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.	**A1+:** The highest capacity for timely repayment.
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:**. A strong 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.	**A2:** A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
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.	
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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information

Regulatory and Supplementary Disclosure

Rated Entity

Name of Rated Entity JS Investments Limited
Sector Asset Management
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment
Regulatory Requirement

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
22-Dec-17	A+	A1	Stable	Maintain
23-Jun-17	A+	A1	Stable	Maintain
28-Jun-16	A+	A1	Stable	Maintain
30-Jun-15	A+	A1	Stable	Maintain
19-Jun-15	A+	A1	Stable	Maintain
13-Jul-12	A+	A1	Stable	Maintain

Related Criteria and Research

Rating Methodology Corporate Raitng Methodology

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Rating Team Statement

Rating Procedure
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PACRA ensures that the credit rating assigned to an entity or instrument should 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

Surveillance
PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer
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PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

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Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

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Probability of Default (PD)

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