The Pakistan Credit Rating Agency Limited

JS INVESTMENTS LIMITED (JSIL)

	NEW [JUN-16]	PREVIOUS [JUN-15]
Long-Term	A+	A+
Short-Term	A1	A1
Outlook	Stable	Stable

REPORT CONTENTS

JUNE 2016

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 Karachi Stock Exchange since 2007.
- JSIL is a subsidiary of JS Bank Limited – 52% shareholding at end-Dec15.
- 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 274 branches (at end-Dec15). It carries long-term rating of "A+" and short-term rating of "A1+" by PACRA.

Governance & Management

- JSIL's board of directors comprises eight members – including CEO. Recently the chairman of the board (Mr. Nazar Muhammad Shaikh) alongwith a director (Mr. Muhammad Khalil ur Rehman) has resigned.
- Meanwhile, two new board members from JS Bank have been nominated Muhammad Yousuf Amanullah (Chief Financial officer (CFO) at JS Bank and Mr. Basir Shamsie (Head of Treasury at JS Bank); JSIL awaits SECP approval for both directors.
- The revised 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, Dr. Ali Akhtar Ali, is a finance professional working in the financial industry for over a decade.

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 CY15, the AUMs registered a decline of ~12% (Dec14: PKR 10,349mln, Dec15: PKR 9,073mln) as against the industry's growth of 3%. This lead to a decline in the system share (Dec14: 2.20%, Dec15: 1.83%). This highlights the challenge facing the company in the competitive landscape of industry.
- JSIL's AUMs observed a slight increase in its AUMs during 5MCY16 (Apr16: 9,158mln). The industry growth of ~4% during the same period led to a further decline in the company's system share (Apr16: 1.76%). JSIL also manages SMAs mandates of PKR 496mln at end-Apr16.

Performance

- During CY15, the total revenue of the company decreased by 53%. Mainly due to a fall in remuneration earned from funds under management (Dec15: PKR 212mln, Dec14: PKR 270mln).
- With the largely stable operating expenses, JSIL reported a decline in its profitability as compared to same period last year (Dec15: PKR 162mln, Dec14: PKR 649mln).
- During 1QCY16, JSIL witnessed a decline in its remuneration from funds under management owing to a declining trend in the overall AUM base. The company made loss of PKR 15mln during the period.

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 60 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 funds in the capital protection category in order to augment its AUM base.

Capital Structure

- During CY15, JSIL witnessed a decline in its equity base. This was on account of the buy-back of its 19,828,182 shares at a price of PKR18/share resulting in a decline in its capital.
- The company is currently working under a debt free capital structure and plans to remain so.

Investor Services

- The company has revamped its web site during the year.

RATING RATIONALE

The ratings reflect JSIL's strong risk absorption capacity emanating from sound equity base and a debt free capital structure. The company is challenged to hold its market position that has slided for last two years owing to decline in its AUMs. This has the company's revenue stream and hence resulted profitability. The management has embarked upon a plan to beef up its system share by increasing the AUM base with focus towards traditional corporate segment and enhancing the retail penetration. 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. Integration into the parent bank (JS Bank) may support the company's intrinsic growth plans.

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.

ASSET MANAGEMENT

Financial Information

The Pakistan Credit Rating Agency Limited

JS Investments Limited

PKR mln

BALANCE SHEET	31-Mar-16 *1Q*	31-Dec-15 *Annual*	31-Dec-14 *Annual*
Total Earning Assets	1,918	1,954	2,283
Non-Earning Assets	645	632	632
Total Assets	2,563	2,586	2,915
Long-term Borrowings	-	-	-
Short-term Borrowings	-	-	-
Total Other Liabilities	271	278	272
Total Equity	2,291	2,308	2,644
Total Liabilities & Equity	2,563	2,586	2,915

PROFIT & LOSS ACCOUNT	31-Mar-16	31-Dec-15	31-Dec-14
Fee-Based Income	39	172	211
Interest / Mark-up Income	1	4	9
Total Revenue	52	423	903
Operating Expenses	(11)	187	661
Net Income	(15)	176	649

RATIO ANALYSIS	31-Mar-16	31-Dec-15	31-Dec-14
ROE	-1.0%	17.0%	32.0%
Fee Income / Total Revenue	75.0%	41.0%	23.0%
Cost-to-Total Revenue	122%	56%	27%
Total Debt / Adjusted Equity	0%	0%	0%

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STANDARD RATING SCALES & 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

Rating	Definition
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.
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.
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 or 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.
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.
CCC CC C	**Very high 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.
D	Obligations are currently in default.

SHORT TERM RATINGS

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.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

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'.

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, a suspended 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, or e) the entity/issuer defaults.

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
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
25-May-11	A+	A1	Stable	Maintain

Related Criteria and Research

Rating Methodology — Corporate Raitng Methodology

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Rating Team Statement

Rating Procedure
Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

Disclaimer

Rating Shopping
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PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them
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The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA

The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees
PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities
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 ii) fee mandate - signed with the payer, which can be different from the entity
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
PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

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

Reporting of Misconduct
PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality
PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties
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

Prohibition

Probability of Default (PD)

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