

## RATING REPORT

### LSE Financial Services Limited (Formerly Lahore Stock Exchange Limited)

**REPORT DATE:**

September 5, 2017

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-2	A	A-2
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Initial	
Rating Date	31 August'17		4 July'16	

#### COMPANY INFORMATION

<b>Incorporated in 2016</b>	<b>External auditors:</b> M/s A.F. Ferguson & Co., Chartered Accountants
<b>Company Limited by Shares</b>	<b>Chairman of the Board:</b> Mr. Rashid Rehman Mir
<b>Key Shareholders:</b>	<b>Chief Executive Officer:</b> Mr. Farid Malik
Joint Stock Companies, Corporations and SMCs – 79.0%	
Individuals – 10.8%	
Others – 10.2%	

#### APPLICABLE METHODOLOGY(IES)

**JCR-VIS Entity Rating Criteria** *Non-Bank Financial Companies (Mar 2005)*

<http://www.jcrvis.com.pk/Images/NBFC.pdf>

## LSE Financial Services Limited (Formerly, Lahore Stock Exchange Limited)

### OVERVIEW OF THE INSTITUTION

LSE Financial Services Limited was incorporated in January 2016 under the Companies Ordinance 1984. The company is licensed to carry out business of investment finance services under Non-Banking Finance Company (NBFC) rules.

### RATING RATIONALE

Ratings assigned to LSE Financial Services Limited (LSEFSL) take into account the company's steady revenue sources along with low risk appetite and traditional investment policy.

**Business Model:** Core business of LSEFSL comprises managing the lease and rental operations of the North and South Tower. The company expects to start receiving rental income from the South Tower by January'18. Total rental area of the North and South Tower is 59,363 and 12,414 sq. feet, respectively. South Tower is a newly constructed eleven storey building, out of which five floors have been sold out while Ground and Mezzanine floors are expected to generate rental income. In addition, there are four parking garages that will generate parking fee income. Further, the company has long term equity investments (unquoted) in associated companies.

**Investment Policy:** The company has an investment policy which is reviewed and approved by the Board every year. All the investments made are managed by a committee that comprises the CEO and CFO. As per policy, investments can only be made in entities and instruments rated 'AA/A-1' and above. During FY17, LSEFSL ventured into Marginal Trading Systems (MTS) and invested Rs.182.7m (around 16% of the total investment portfolio) by end-9M17.

**Profitability:** Rental income is the main source of income for the company, representing around 48% of the total income during 9MFY17; it has continued to increase on a timeline basis. In addition, income from MTS has started contributing toward the bottom line, though its proportion in total income has remained modest during 9MFY17. Management fee of funds managed by the company continues to support the bottom line. Share of profit of associated companies increased during 9MFY17 on the back of higher related profits. During 9MFY17, profit before tax decreased mainly owing to lower profit on fixed income portfolio and higher administration expenses. However, accounting for taxation, net profit stood higher vis-à-vis corresponding period last year.

**Capitalization & Liquidity:** Despite reasonable profitability, tier 1 equity remained largely stagnant on a timeline basis owing to cash dividend paid during FY16. The company continues to remain compliant with SECP's minimum capital requirement of Rs. 50m for non-deposit taking NBFCs for investment finance services. The company has availed credit facility of Rs. 200m for the construction of South Tower. Principal will be paid in 14 semi-annual instalment beginning June, 2018. Liquid assets of the company have been declining on a timeline basis. However, overall liquidity profile is considered sound with liquid assets representing around 2.5x of total borrowings at end-9MFY17 (FY16: 2.9x; FY15: 3.4x).

**Management:** There has been a change at the helm of affairs. Mr. Farid Malik has been appointed as the CEO of the company in April 2017. He is a CFA charter holder in addition to being a graduate of the London School of Economics. Mr. Malik's career spans over two decades. Sustainability in the senior management would play a pivotal role in effective implementation of business strategy.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

### LSE Financial Services Limited (Formerly, Lahore Stock Exchange Limited)

Annexure I

FINANCIAL PROJECTIONS <i>(amounts in PKR millions)</i>					
<b><u>BALANCE SHEET</u></b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>
<b>Total Assets</b>	2,982.9	3,014.8	3,108.9	3,217.4	3,338.0
<b>Total Investments</b>	1,046.9	1,091.6	1,176.8	1,267.8	1,364.8
<b>Operating Fixed Assets</b>	1,713.5	1,686.2	1,662.4	1,640.3	1,619.5
<b>Tier-1 Equity</b>	1,520.0	1,668.0	1,826.1	1,994.5	2,172.3
<b><u>INCOME STATEMENT</u></b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>
<b>Total Income</b>	160.6	177.2	184.7	192.8	201.1
<b>Share of Profit of Associates</b>	104.5	109.7	115.2	121.0	127.0
<b>Total Expenses</b>	94.1	117.5	119.3	121.8	125.0
<b>Efficiency</b>	56.6%	59.2%	58.7%	58.5%	58.5%
<b>Profit After Tax</b>	95.3	148.0	158.1	168.3	177.8
<b>ROAA</b>	3.2%	4.9%	5.2%	5.3%	5.4%
<b>ROAE</b>	4.2%	6.3%	6.4%	6.5%	6.5%

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### LSE Financial Services Limited (Formerly, Lahore Stock Exchange Limited)

### Annexure II

<b>FINANCIAL SUMMARY</b>			
	<i>(amounts in PKR millions)</i>		
<b>BALANCE SHEET</b>	<b>9MFY17</b>	<b>FY16</b>	<b>FY15</b>
Property and Equipment	1,700.0	1,611.0	788.0
<b>Total Assets</b>	<b>2,927.8</b>	<b>2,899.5</b>	<b>2,164.4</b>
<b>Borrowings</b>	<b>200</b>	<b>200</b>	<b>200</b>
Long Term Deposit	241.0	222.0	250.6
Tier-1 Equity	1,507.0	1,487.2	1,509.1
<b>Total Equity</b>	<b>2,280.9</b>	<b>2,263.6</b>	<b>1,566.9</b>
<b>INCOME STATEMENT</b>			
<b>Total Revenue</b>	<b>80.4</b>	<b>110.2</b>	<b>114.6</b>
Administrative Expenses	51.8	52.3	67.1
<b>Profit (Loss) Before Tax</b>	<b>105.4</b>	<b>126.7</b>	<b>136.9</b>
<b>Profit (Loss) After Tax</b>	<b>82.0</b>	<b>79.2</b>	<b>158.1</b>
<b>RATIO ANALYSIS</b>			
<b>Operating Margins (%)</b>	<b>33.8%</b>	<b>34.9%</b>	<b>38.3%</b>
<b>Net Margins (%)</b>	<b>102.0%</b>	<b>71.9%</b>	<b>138.0%</b>
<b>Efficiency (%)</b>	<b>66.2%</b>	<b>65.1%</b>	<b>61.7%</b>
<b>ROAA (%)</b>	<b>2.8%</b>	<b>3.1%</b>	<b>7.3%</b>
<b>ROAE (%)</b>	<b>3.6%</b>	<b>4.1%</b>	<b>10.1%</b>

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Annexure III**

Medium to Long-Term

**AAA**

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

**AA+, AA, AA-**

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

**A+, A, A-**

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

**BBB+, BBB, BBB-**

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

**BB+, BB, BB-**

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

**B+, B, B-**

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

**CCC**

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

**CC**

A high default risk

**C**

A very high default risk

**D**

Defaulted obligations

Short-Term

**A-1+**

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

**A-1**

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

**A-2**

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

**A-3**

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

**B**

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

**C**

Capacity for timely payment of obligations is doubtful.

**Rating Watch:** JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.com.pk/images/criteria_watch.pdf)

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.com.pk/images/criteria_outlook.pdf)

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. [www.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES		Annexure IV			
<b>Name of Rated Entity</b>	LSE Financial Services Limited (Formerly, Lahore Stock Exchange Limited)				
<b>Sector</b>	Non-Bank Financial Institution (NBFC)				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	31/08/2017	A	A-2	Stable	Reaffirmed
	04/07/2016	A	A-2	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	JCR-VIS, 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(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
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