Jamshoro Joint Venture Limited (JJVL)

REPORT DATE:
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RATING ANALYSTS:
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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity Rating	A+	A-1	A+	A-1
Rating Outlook	Positive		Positive	
Outlook Date	*19 Jan' 16*		*20 Mar'15*	

COMPANY INFORMATION

Incorporated in 2002	**External auditors:** M/s Rahman Sarfaraz Rahim Iqbal Rafiq & Co. Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Iqbal Z. Ahmed
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Iqbal Z. Ahmed
ERBL(BVI) – 48.3% (Class B)	
Mr. Iqbal Z. Ahmed – 28.3% (Class A)	
Mr. Qazi Humayun Fareed – 8.8%% (Class A)	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Oil& Gas Industry (Feb 2004) & Industrial Corporates (Oct 2003)*
http://www.jcrvis.com.pk/images/oilngas.pdf
http://www.jcrvis.com.pk/images/IndustrialCorp.pdf

Jamshoro Joint Venture Limited (JJVL)

OVERVIEW OF THE INSTITUTION

JJVL is a public limited, unlisted company incorporated in 2002. JJVL is one of the largest private sector producers of Liquefied Petroleum Gas (LPG) and Natural Gas Liquid (NGL) in the country. JJVL is the flagship company of Associated Group (AG). The group includes two LPG marketing companies - Lub Gas (Pvt.) Limited and Mehran LPG (Pvt.) Limited. AG also has presence in media, design and aviation sector

RATING RATIONALE

The ratings take into account JJVL's prominent position in LPG business and improved operating performance on account of continued high propane recovery, better availability of gas leading to higher capacity utilization. Financial risk profile of the company remains healthy. Under the new arrangement, processing fee and the payables due to SSGCL for purchase of LPG and NGL are settled regularly. Business risk profile of the company is considered moderate as demand for LPG has increased in view of the dwindling supplies of natural gas leading to stable offtake of JJVL products. The company has an established marketing network across the country, including two associated concerns. JJVL operates through two plants with a combined capacity of 325 mmscfd. Operation and maintenance agreements for both plants are with Exterran Services (UK) Limited; a reputable operator in oil and gas production and processing.

While prices of LPG and NGL remained depressed during FY15, higher capacity utilization and sustained propane recovery translated into improved revenues with sales increasing to Rs. 14.0b during FY15 (FY14: Rs. 13.4b). Gross margins remained healthy at 21.7% during FY15 (FY14: 19.8%), further improving to 28.2% during 1QFY16. Non-earning assets comprises more than one-third of total asset base thus putting drag on the potential profitability of the company. Improved gross margins and higher revenue translated into improved bottom line with JJVL reporting profit before tax of Rs. 2.0b (FY14: Rs. 1.7b). In the coming years, gas processed will remain the main driver of profitability while higher capacity utilization is expected to positively reflect on the operating performance.

The company maintains a healthy financial risk profile with gearing reported at 1.23x at end-1QFY16 (FY15: 0.93x; FY14: 1.35x). During FY15, funding mix was titled in favor of short term financing with proportion of same increasing to 64% (FY14: 30%) of total borrowings. Project financing arranged for JJVL-2 is expected to be completely paid off during the ongoing year while additional long term financing planned in the coming years is expected to be adequately supported by operating cashflows. FFO to total debt stood at 0.98x (FY14: 0.67x) at end-FY15.

Capital structure of the company has strengthened on a timeline basis on account of profit retention and augmentation of paid up capital. Debt leverage (adjusted for royalty charges) declined to 5.2x (FY14: 9.6x). Going forward, leverage indicators are likely to exhibit further improvement as a result of positive momentum in earnings and no major CAPEX requirements.

Total payables to SSGCL reduced to Rs. 8.2b (FY14: Rs. 14.7b) at end-FY15 on account of royalty payment amounting to Rs. 4.3b and repayment of deferred liability pertaining to LPG and NGL. Meanwhile, current payables due to SSGCL are being settled against processing charges on a monthly basis.

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Jamshoro Joint Venture Limited — Appendix I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**SEP 30,2015**	**JUN 30, 2015**	**JUN 30, 2014**
Fixed Assets	4,652	4,767	4,950
Stock-in-Trade	4	71	86
Trade Debts	2,839	4,479	5,720
Cash & Bank Balances	290	240	4,642
Total Assets	12,689	14,214	11,546
Trade and Other Payables	1,556	4,416	5,431
Long Term Debt *(*incl. current maturity)*	862	729	1,304
Short Term Debt	2,240	1,295	550
Total Equity	2,514	2,166	1,375
INCOME STATEMENT	**SEP 30,2015**	**JUN 30, 2015**	**JUN 30, 2014**
Net Sales	2,744	12,286	11,821
Gross Profit	774	2,670	2,339
Operating Profit	654	2,387	1,791
Profit After Tax	348	1,457	1,166
RATIO ANALYSIS	**SEP 30,2015**	**JUN 30, 2015**	**JUN 30, 2014**
Gross Margin (%)	28.2	21.7	19.8
Net Working Capital	1,137	427	1,033
FFO to Total Debt (x)	0.67	0.98	0.67
FFO to Long Term Debt (x)	2.37	2.71	0.95
Debt Servicing Coverage Ratio (x)	1.91	2.45	1.64
ROAA (%)	10.3	8.6	7.5
ROAE (%)	59.4	82.3	147.0

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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

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

(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

'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.

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	Jamshoro Joint Venture Limited
Sector	Oil & Gas
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
01/19/2016	A+	A-1	Positive	Reaffirmed
03/20/2015	A+	A-1	Positive	Maintained
12/31/2013	A+	A-1		Rating Watch Developing
08/28/2012	A+	A-1	Stable	Reaffirmed

Instrument Structure	N/A
Statement by the Rating Team	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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