RATING REPORT

Jamshoro Joint Venture Limited (JJVL)

REPORT DATE:
January 10, 2017

RATING ANALYSTS:

Waqas Munir, FRM
waqas.munir@jcrvis.com.pk

Maryam Tanveer
maryam.tanveer@jcrvis.com.pk

RATING DETAILS

Rating Category	Latest Rating Long-term	Latest Rating Short-term	Previous Rating Long-term	Previous Rating Short-term
Entity Rating	A+	A-1	A+	A-1
Rating Outlook	Positive		Positive	
Outlook Date	*03 Jan'17*		*19Jan'16*	

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
Mr. Iqbal Z. Ahmed– 57.4% (Class A)	
Mr. Qazi Humayun Fareed – 17.93% (Class A)	
Mr. Jamal Akbar Ansari – 10.0% (Class A)	
ERBL(BVI) – 95.2% (Class B – non voting)	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria
Oil& Gas Industry (Feb 2004)[**http://www.jcrvis.com.pk/images/oilngas.pdf**](http://www.jcrvis.com.pk/images/oilngas.pdf)
Industrial Corporates (May 2016)[**http://www.jcrvis.com.pk/images/IndustrialCorp.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). JJVL operates two plants with a combined capacity of 325 MMSCFD.

Profile of Chairman & CEO

Mr. Iqbal Z. Ahmed is the cofounder and Chairman of Associated Group. Mr. Iqbal holds a Bachelor's degree in economics from Government College and a Master's degree in economics from Punjab University.

Financial Snapshot

Net Equity:1Q17- Rs. 3.5b, FY16-Rs. 3.2b

Net Profit: 1Q17- Rs.338m, FY16- Rs. 1.3b

RATING RATIONALE

The ratings take into account JJVL's prominent position in the LPG business and largely sustained operating performance with higher capacity utilization offsetting the impact of lower volumetric sales and subdued product prices. Gas processing remained the main driver of profitability. Going forward, revenues are expected to sustain while lower product prices may put pressure on margins.

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. The company has an established marketing network across the country, including two associated concerns namely Lub Gas (Pvt) Limited (LGL) and Mehran LPG (Pvt) Limited (MLL).

Investment in Subsidiary: Pakistan Gasport Limited (PGPL), a subsidiary of JJVL, is in the process of establishing a LNG import tolling terminal with an on board re-gasification. JJVL has contributed 25% of the ordinary share capital of PGPL amounting to Rs. 1.073b. The management expects the venture to generate stable dividend stream for the company, going forward.

Operating Performance: While increase in volume of gas processed during FY16 resulted in higher revenue from processing fee, prices of LPG and NGL along with volumetric sales remained depressed translating into lower sales amounting to Rs. 10.8b (FY15: Rs. 14.0b). On account of downward revision in charges payable under O&M agreement, gross margins improved to 29.3% (FY15: 21.7%) during FY16 and further to 34.3% in 1QFY17. Non-earning assets comprises more than one-third of total asset base and continue to drag potential profitability of the company. Processing fee and the payables due to SSGCL for purchase of LPG and NGL are settled regularly.

Funding and Capitalization: During FY16, funding mix was tilted in favor of short term financing with the same representing around two-third of total debt. The company raised Rs. 1.5b of long-term financing during FY16 to meet working capital needs. The facility is priced at kibor plus 3%. The company plans to raise additional debt amounting to Rs. 750m during FY17 to meet trade payables obligations.

On account of increase in debt levels, gearing of the company increased to 1.2x at end-1QFY17 (FY16: 1.2x; FY15: 0.9x). Capital base of the company has strengthened on a timeline basis on account of profit retention. Management expects leverage indicators to exhibit improvement going forward as a result of positive momentum in earnings and no major CAPEX requirements. Corporate governance practices of the company have room for improvement.

Jamshoro Joint Venture Limited

Annexure-I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**SEP 30, 2016**	**JUN 30, 2016**	**JUN 30, 2015**
Fixed Assets	4,185	4,292	4,767
Stock-in-Trade	163	127	71
Trade Debts	2,997	2,749	4,479
Cash & Bank Balances	106	139	240
Total Assets	12,761	12,444	14,214
Trade and Other Payables	1,156	1,508	4,416
Long Term Debt *(*incl. current maturity)*	1,369	1,458	729
Short Term Debt	2,930	2,368	1,295
Total Equity	3,538	3,201	2,166
INCOME STATEMENT	**SEP 30, 2016**	**JUN 30, 2016**	**JUN 30, 2015**
Net Sales	2,122	9,481	12,286
Gross Profit	727	2,782	2,670
Operating Profit	621	2,511	2,387
Profit After Tax	338	1,329	1,457
RATIO ANALYSIS	**SEP 30, 2016**	**JUN 30, 2016**	**JUN 30, 2015**
Gross Margin (%)	34.3	29.3	21.7
Net Working Capital	476	415	427
FFO to Total Debt (x)	0.52	0.44	0.98
FFO to Long Term Debt (x)	1.63	1.15	2.71
Debt Servicing Coverage Ratio (x)	3.63	1.76	2.45
ROAA (%)	2.7	10	8.6
ROAE (%)	10	49.5	82.3

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure- 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 — Annexure-III

Name of Rated Entity	Jamshoro Joint Venture Limited
Sector	Oil & Gas
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see below
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.
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2015 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
01/03/2017	A+	A-1	Positive	Reaffirmed
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