# RATING REPORT

# Jamshoro Joint Venture Limited (JJVL)

**REPORT DATE:**
April 02, 2018

**RATING ANALYSTS:**
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## RATING DETAILS

| Rating Category | Latest Rating | | Previous Rating | |
|---|---|---|---|---|
| | Long-term | Short-term | Long-term | Short-term |
| **Entity Rating** | A+ | A-1 | A+ | A-1 |
| **Rating Outlook** | Stable | | Positive | |
| ***Outlook Date*** | *28 Mar'18* | | *03Jan'17* | |

## COMPANY INFORMATION

| | |
|---|---|
| **Incorporated in 2002** | **External auditors:** M/s Rahman Sarfaraz Rahim Iqbal Rafiq – 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 (Nov 2016)* **http://jcrvis.com.pk/docs/Meth-OilGas201611.pdf**
*Industrial Corporates (May 2016)* **http://jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf**

# Jamshoro Joint Venture Limited (JJVL)

## OVERVIEW OF THE INSTITUTION

Jamshoro Joint Venture Limited (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).

**Profile of Chairman & CEO**

Mr. Iqbal Z. Ahmed is the cofounder and Chairman of AG. Mr. Iqbal holds a Bachelor's degree in economics from Government College Lahore and a Masters degree in economics from University of The Punjab. He also serves as the Chairman of PGP Consortium Limited.

**Financial Snapshot**

Net Equity:1Q18 - Rs. 4.7b, FY17 - Rs. 4.4b

Net Profit: 1Q18 - Rs. 328m, FY17 - Rs. 1.2b

## RATING RATIONALE

The rating assigned takes into account JJVL's prominent position in the LPG business. The ratings also incorporate company's largely sustained profitability mainly on account of higher product prices and better propane recovery. The ratings also take into account declining gas volumes, adversely impacting quantum of processing fee and product sales. Timely recoupment of capacity utilization is an important rating factor.

The company operates 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) has achieved COD of LNG import tolling terminal. JJVL has contributed 25% of the ordinary share capital of PGPL amounting to Rs. 1.07b. CoD has been achieved in Jan'18. The management expects the venture to generate stable dividend stream for the company, going forward.

**Operating Performance:** The quantity of gas processed witnessed a decline during FY17 on account of reduced production of gas from Badin field. Resultantly, volume produced of both LPG (FY17: 103,024MT; FY16: 134,938MT) and NGL (FY17: 41,367; FY16: 53,556MT) also stood lower. Overall, capacity utilization declined to 69.4% (FY16: 79%). Prices of LPG and NGL, however, increased to Rs. 48,933/MT (Rs. 45,035/MT) and 36,634/MT (Rs. 32,526/MT), respectively. With lower volume of gas processed, processing fee and sale of LPG/NGL also declined, resulting in lower sales revenue of Rs. 7.5b (FY16: Rs. 9.5b). Processing fee is fixed at USD 235/metric ton of LPG and NGL. Gross margins improved to 34.6% (FY16: 29.3%). Propane recovery improved to 96% (FY16: 93.5%). In addition to lower gas volumes, cost of sales declined due to decrease in stores, spares and supplies consumed (FY17: Rs. 66.3m; FY16: Rs. 488.9m). Other income stood lower at Rs. 214.1m (FY16: Rs. 500.7m) mainly due to higher one-off income in FY16.

Distribution cost decreased to Rs. 61m (FY16: Rs. 76.3m) mainly on account of lower commission on export of NGL in line with lower exports during the year. Administrative expenses stood lower mainly on account of lower traveling and legal charges. Other expenses declined to Rs. 133.9m (FY16: Rs. 369.1m) mainly due to a one-time loss realization in the previous year. Finance cost amounted to Rs. 553m (FY16: Rs. 586.4m) during FY17. Despite higher average borrowings, finance cost declined on account of lower mark-up expenses related to SSGC invoices. Accounting for taxation, profit after tax was reported at Rs. 1.2b (FY16: Rs. 1.3b) during FY17. During 1QFY18, sales were reported at Rs. 1.5b while gross margin stood at 34.1%. Accounting for taxation, profits after tax stood at Rs. 328.2m.

**Capitalization and Funding:** The company's paid up capital remained unchanged at Rs. 1.97b at end-FY17 comprising "A" class ordinary shares and "B" class ordinary shares carrying no voting rights. With profit retention, total equity of the company increased to Rs. 4.4b (FY16: Rs. 3.2b) by end-FY17 and increased further to Rs. 4.7b by end-1QFY18.

Total debt increased to Rs. 6.96b (FY16: Rs. 6.16b) by end-FY17 and stood at Rs. 6.88b at end-1QFY18. Short-term debt represented around 71% of the total debt. Short term borrowing increased to Rs. 4.9b (FY16: Rs. 2.4b) while long term borrowing (including the current portion) decreased to Rs. 2.04b (FY16: Rs. 3.79b). Long-term debt also included SSGC bills outstanding on account of LPG and NGL as finalized between the company and SSGC. These carry markup at three months KIBOR plus 1% per annum payable on the outstanding amount.

Despite increase in debt levels, gearing of the company decreased to 1.45x (FY17: 1.58x; FY16: 1.92x) on account of notable increase in equity base. However, debt leverage, remained high at 2.83x (FY17: 2.92x; FY16: 2.89x) mainly due to considerable increase trade and other payables.

**Liquidity and Cash Flows:** Total current assets were reported higher at Rs. 10.9b (FY16: Rs. 6.4b) by end-FY17 mainly on the back of higher trade debts, loans & advances and cash & bank balances. Trade debts increased to Rs. 4.8b (FY16: Rs. 2.8b) mainly on account of increase in processing fee due from SSGC. Trade debts pertaining to sale of LPG and NGL constituted 62% (FY16: 83%) of total while the remaining was related to the processing fee. Resultantly, debtors' turnaround time has increased to 182 days (FY16: 106 Days) during FY17. By end-1QFY18, current assets increased to Rs. 11.8b mainly owing to increase in trade debts and loans to suppliers.

Current liabilities were also reported higher at Rs. 10.6b (FY16: Rs. 5.9b) primarily on account of higher short term borrowing and increase in trade payables. Trade payables stood higher at Rs. 3.2b (FY16: Rs. 1.5b) which mainly consisted payables to SSGC against purchase of LPG and NGL. Current ratio remained largely stable at 1.1x (FY17: 1.0x; FY16: 1.0x) at end-1QFY18. Days for accounts payable increased to 175 days (FY16: 161 Days). Current liabilities increased to Rs. 11.2b by end-1QFY18 mainly due to further increase in trade payables. According to the management, increasing trade debt and trade payables are mainly SSGC related, which are expected to be settled shortly.

Despite lower profitability, Funds from Operations (FFO) stood higher at Rs. 1.83b (FY16: Rs. 1.67b) on account of lower mark-up and tax related payments during FY17. Given increase in debt levels, FFO to total debt remained at 0.26x (FY16: 0.27x). With declining long-term debt and the related repayments, debt service coverage remained strong at 3.17x (FY17: 2.83x; FY16: 1.76x) at end-1QFY18.

**Corporate Governance:** The Board of Directors (BoD) remained unchanged. Overall, corporate governance practices of the company have room for improvement.

## Jamshoro Joint Venture Limited

**Annexure-I**

### FINANCIAL SUMMARY *(amounts in PKR millions)*

| **BALANCE SHEET** | **30-Sep-17** | **30-Jun-17** | **30-Jun-16** |
|---|---|---|---|
| Fixed Assets | 4,427 | 4,480 | 4,293 |
| Long Term Investment | 1,073 | 1,073 | 965 |
| Trade Debts | 5,378 | 4,775 | 2,749 |
| Loans and Advances | 2,788 | 2,442 | 1,544 |
| Other Receivables - *unsecured considered good* | 296 | 342 | 518 |
| Advance Income Tax | 1,359 | 1,335 | 1,101 |
| Cash & Bank Balances | 1,799 | 1,745 | 139 |
| Non-Current Assets held for sale | 825 | 825 | 825 |
| Other Assets | 231 | 295 | 310 |
| **Total Assets** | **18,176** | **17,312** | **12,444** |
| Trade and Other Payables | 3,727 | 3,219 | 1,508 |
| Short Term Debt | 4,929 | 4,918 | 2,368 |
| Long Term Debt *(*incl. current maturity)* | 1,953 | 2,041 | 3,791 |
| Deferred Liabilities | 1,672 | 1,664 | 1,180 |
| Other Liabilities | 1,152 | 1,055 | 396 |
| **Total Equity** | **4,743** | **4,415** | **3,201** |

| **INCOME STATEMENT** | **30-Sep-17** | **30-Jun-17** | **30-Jun-16** |
|---|---|---|---|
| Net Sales | 1,452 | 7,545 | 9,481 |
| Gross Profit | 495 | 2,613 | 2,782 |
| Other Income | 115 | 214 | 501 |
| Operating Expenses | 85 | 467 | 772 |
| Operating Profit | 525 | 2,361 | 2,511 |
| Finance Cost | 121 | 553 | 586 |
| Profit After Tax | 328 | 1,212 | 1,329 |

| **RATIO ANALYSIS** | **30-Sep-17** | **30-Jun-17** | **30-Jun-16** |
|---|---|---|---|
| Gross Margin (%) | 34.1 | 34.6 | 29.3 |
| Net Working Capital | 656 | 357 | 415 |
| Funds From Operations (FFO) | 1,861 | 1,827 | 1,671 |
| FFO to Total Debt (x) | 0.27 | 0.26 | 0.27 |
| FFO to Long Term Debt (x) | 0.95 | 0.90 | 0.44 |
| Debt Servicing Coverage Ratio (x) | 3.17 | 2.83 | 1.76 |
| Gearing | 1.45 | 1.58 | 1.92 |
| Leverage | 2.83 | 2.92 | 2.88 |
| ROAA (%) | 7.4 | 8.2 | 10.0 |
| ROAE (%) | 28.7 | 31.8 | 49.5 |

## 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.

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**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**

| Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
|---|---|---|---|---|
| RATING TYPE: ENTITY | | | | |
| 03/28/2018 | A+ | A-1 | Stable | Maintain |
| 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 |

| | |
|---|---|
| **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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