



The Pakistan Credit Rating Agency Limited

Rating Report

Jhulay Lal Parboiled Rice Mill

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Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|--------------------|------------------|-------------------|---------|---------|--------------|
| 18-Feb-2019 | BBB | A2 | Stable | Initial | - |

Rating Rationale and Key Rating Drivers

The ratings reflect Jhulay Lal's emerging position in the rice export market. Jhulay Lal (JL) has expanded its capacity over the last couple of years; the two new lines have been commissioned. This has strengthened the business profile of Jhulay Lal. The growth in topline and profitability is widened. The equity been due to internal generation of funds has also improved. Jhulay Lal has a good track record of building sales volume. The sponsors have a good understanding of the business. The second generation is playing a vital role in the growth of Jhulay Lal. The CEO is dynamic and has built expertise in the international trade, by virtue of his business in Hong Kong. The challenge is the cyclical nature of the rice business. The management is concentrated in family's hand. The corporate structure is lacking. The working capital cycles is long, creating need for short term borrowing over a relatively a longer horizon.

The ratings are dependent on sustained business and financial profile of the rated entity. Any dilution in business volume and profits would be considered negative. The financial disciplines including coverages need to be upheld.

Disclosure

| | |
|------------------------------|--|
| Name of Rated Entity | Jhulay Lal Parboiled Rice Mill |
| Type of Relationship | Solicited |
| Purpose of the Rating | Entity Rating |
| Applicable Criteria | Methodology Corporate Ratings(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18) |
| Related Research | Sector Study Rice(Dec-18) |
| Rating Analysts | Nadeem Sheikh nadeem.sheikh@pacra.com +92-42-35869504 |

Profile

Legal Structure Jhulay Lal Parboiled Rice Mills (Jhulay Lal) is a partnership firm established in 2011.

Background Mr. Gurmukh Das-one of the two sponsors of Jhulay Lal, served as the AVP of Faysal bank. Back in 2010, he realized the growth potential in rice export market. After that, he resigned from his job and entered into a partnership business with his brother, Mr. Ramesh Kumar. Jhulay Lal was formerly operated by Mr. Megho Mal, the father of Mr. Gurmukh Das and Mr. Ramesh Kumar. Presently, Mr. Gurmukh Das and Mr. Ramesh Kumar are two owners of Jhulay Lal having equal stake in Jhulay Lal.

Operations The primary business of Jhulay Lal is processing and sale of rice. Jhulay Lal has two facilities of husking, polishing and processing of rice paddy. One facility is in Golarchi, Badin, which is a paddy processing plant and second is in Port Qasim Karachi which has a facility to process both paddy and processed rice.

Ownership

Ownership Structure Jhulay Lal is a partnership firm. There are two partners, having equal stakes, Mr. Gurmukh Das and Mr. Ramesh Kumar.

Stability There is no change in ownership structure of Jhulay Lal since its inception. Ownership structure is expected to remain stable going forward.

Business Acumen Both Mr. Gurmukh Das and Mr. Ramesh Kumar are experienced professionals of the industry. Mr Gurmukh has developed strong understanding of the exports market as they have presence in ~11 countries whereas Mr. Ramesh Kumar is responsible for looking into the matters pertaining to Jhulay Lal's plant site and the management of Jhulay Lal.

Financial Strength Owners of Jhulay Lal also own CNG stations, agricultural land and property in different cities. The other investment ventures are producing good cash flow streams for the sponsors. Owner's ability and willingness to support the business in time of need is considered adequate.

Governance

Board Structure As a partnership firm, Jhulay Lal does not have formal governance structure. Absence of formal governance framework poses significant risk to sustainability and reflects lack of independent oversight.

Members' Profile As mentioned earlier, both owners of Jhulay Lal are experienced professionals and have been involved in the same business for decades.

Board Effectiveness Jhulay Lal does not have any board committees. Establishment of the board committees is essential for improvement of overall governance structure of Jhulay Lal.

Financial Transparency Syed Hassan & Co. Chartered Accountants are the auditors for Jhulay Lal. Neither does the Audit firm satisfy the QCR ratings nor it is listed in the list for audit firms by the State Bank of Pakistan. In Dec 18, the auditors issued an unqualified opinion on Jhulay Lal's financial statements for the year ended June 30, 2018.

Management

Organizational Structure Jhulay Lal has a lean and limited organizational structure. Sponsors of Jhulay Lal are actively involved in management of the business. Their father, Mr. Megho Mal, is actively engaged in the business separately at the plant, though he does not hold any formal position in the organogram.

Management Team Both directors are assisted by Mr. Fakhruddin Majal and Mr. Shakeel Ahmed who are designated as Head of Accounts and Head of Exports respectively.

Effectiveness Currently, Jhulay Lal does not have any formal management committees. All pertinent issues are resolved by partners themselves.

MIS Overall structure of Jhulay Lal is divided into two main departments i.e. finance & accounts and exports. One individual at each site is responsible for management of the operations. Strong counter check and supervision is needed to improve overall control environment of Jhulay Lal.

Control Environment Jhulay Lal uses internally generated software as its main software for preparation of financial accounts. Jhulay Lal needs to focus on deploying a software solution with proper technology framework.

Business Risk

Industry Dynamics Pakistan's Rice industry was instrumental in 2018. The total contribution to the GDP is clocking in at 0.6%. Only one Jhulay Lal named MATCO Foods Limited is listed on the Pakistan Stock Exchange. The Rice cultivation area was 2.9 million Hectors in 2018. Sindh specializes in production of non-basmati rice whereas Punjab producing world class Basmati rice. Production of rice was ~7 million Tons and the local consumption was ~3 million Tons, the share of basmati and non-basmati rice in total production is 45% and 55% respectively. Most of the basmati rice consumed locally as the non-basmati rice is composed of more than 80% of total rice export.

Relative Position Jhulay Lal has strong presence in importing countries. It is further committed to improve its foothold in foreign countries.

Revenues Jhulay Lal's revenue almost doubled in FY18. Topline clocked in at PKR~4,051 million during FY 18 (FY17: PKR~2,045 million). Growth in revenue came on the backdrop of strong demand from African countries. Jhulay Lal sales mix comprises ~80% of IRRI-6 non-basmati rice and ~20% basmati rice. Jhulay Lal's exports increased in line with the industry which grew by ~17% in FY18.

Margins Jhulay Lal's gross margin slightly decreased to ~19% in 1HFY19 (FY18: ~21%). Overall, Jhulay Lal has strong margins as compared to industry average. Strong gross profit margins translated into healthy net profit margins which stood at ~13% during 1HFY19 (FY18: 16%).

Sustainability Jhulay Lal is committed to strengthen its distribution network in the African market. Jhulay Lal already has presence in ~11 countries, including a separate distribution company named Monarda in Hong Kong. Further, Jhulay Lal is also planning to export by-products by converting them into value added products to lift its revenue further.

Financial Risk

Working Capital Jhulay Lal's working capital requirement emanates from financing inventories and trade receivables for which Jhulay Lal relies on both internal cash flows as well as short term borrowings, particularly Export Refinancing Facility (ERF). Average inventory days increased to ~120 days during 1HFY19 (~92 days FY18). Increase in inventory days coupled with increase in receivable days, net working capital days of Jhulay Lal increased to ~243 days during 1HFY19 as compared to ~202 days in FY18. Receivable days increased in the recent years due to increase in exports to African markets as compare to China, which have a larger cash conversion cycle.

Coverages Jhulay Lal generated PKR ~528 million of Free cash flow from operations (FCFO) in 1HFY19 as compared to PKR ~815 million FCFO in FY18. Improved profitability translated into improved cash flows for Jhulay Lal. Interest coverage of Jhulay Lal at end of 1HFY19 stood at ~4.6 times (FY18: 5.6 times).

Capitalization Jhulay Lal has a leveraged capital structure. Gearing ratio of Jhulay Lal stood at 67% for the period ending Dec-18. Total debt of Jhulay Lal at the end of 1HFY19 clocked in at PKR~3,715 million as compared to PKR~2,884 million in FY18. All the liabilities are short term ERF to fund working capital needs.



The Pakistan Credit Rating Agency Limited

Jhulay Lal Parboiled Rice Mills

PKR mln

BALANCE SHEET

| | Dec-18 6M | Jun-18 12M | Jun-17 12M | Jun-16 12M |
|--|--------------|---------------|---------------|---------------|
| Non-Current Assets | 1,152 | 1,198 | 403 | 385 |
| Investments (Incl. Associates) | 106 | 106 | - | - |
| Equity | - | - | - | - |
| Fixed Income | 106 | 106 | - | - |
| Current Assets | 4,314 | 3,542 | 2,483 | 1,224 |
| Inventory | 1,998 | 1,098 | 945 | 700 |
| Trade Receivables | 1,533 | 1,685 | 825 | 227 |
| Others | 784 | 759 | 713 | 298 |
| Total Assets | 5,572 | 4,846 | 2,886 | 1,609 |
| Debt/Borrowings | 3,715 | 2,884 | 1,551 | 520 |
| Short-Term | 3,715 | 2,884 | 1,510 | 520 |
| Long-Term (Incl. Current Maturity of Long-Term Debt) | - | - | 41 | - |
| Other Short-Term Liabilities | 13 | 32 | 61 | 25 |
| Other Long-Term Liabilities | - | - | - | - |
| Shareholder's Equity | 1,844 | 1,930 | 1,273 | 1,064 |
| Total Liabilities & Equity | 5,572 | 4,846 | 2,886 | 1,608 |

INCOME STATEMENT

| | | | | |
|---------------------|--------------|--------------|--------------|--------------|
| Turnover | 2,359 | 4,051 | 2,045 | 3,450 |
| Gross Profit | 454 | 864 | 365 | 403 |
| Net Other Income | 0 | 1 | 0 | - |
| Financial Charges | (115) | (145) | (50) | - |
| Net Income | 314 | 657 | 217 | 263 |

CASH FLOW STATEMENT

| | | | | |
|---------------------------------------|-------|---------|---------|-------|
| Free Cash Flow from Operations (FCFO) | 528 | 815 | 231 | 275 |
| Total Cashflows (TCF) | 528 | 815 | 231 | 275 |
| Net Cash changes in Working Capital | (798) | (1,046) | (1,172) | (748) |
| Net Cash from Operating Activities | (386) | (376) | (941) | (473) |
| Net Cash from Investing Activities | (479) | (809) | 1,272 | - |
| Net Cash from Financing Activities | 831 | 1,227 | (280) | 485 |
| Net Cash generated during the period | (34) | 42 | 51 | 13 |

RATIO ANALYSIS

Performance

| | | | | |
|---------------------------|------|-----|------|-----|
| Turnover Growth (vs SPLY) | 133% | 98% | -41% | 49% |
| Gross Margin | 19% | 21% | 18% | 12% |
| Net Margin | 13% | 16% | 11% | 8% |
| ROE | 33% | 41% | 19% | 25% |

Coverages

| | | | | |
|--|-----|-----|-----|-----|
| Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+Uncovered STB) | 4.6 | 5.6 | 4.6 | N/A |
| Interest Coverage (X) (FCFO/Gross Interest) | 4.6 | 5.6 | 4.6 | N/A |
| Debt Payback (Years) (Total Debt (excluding Covered Short Term Borrowings) / FCFO) | 4.5 | 4.3 | 8.6 | 1.9 |

Capital Structure (Total Debt/Total Debt+Equity)

| | | | | |
|--|-----|-----|-----|-----|
| Net Cash Cycle (Inventory Days + Receivable Days - Payable Days) | 243 | 202 | 237 | 63 |
| Capital Structure (Total Debt/Total Debt+Equity) | 67% | 60% | 55% | 33% |

The Pakistan Credit Rating Agency Limited

Feb-19

Note: Dec-18 Financial Accounts are un-audited.

Credit Rating Scale & 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 | | Short Term Ratings | |
|--|---|--------------------|--|
| AAA | Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments | A1+ | The highest capacity for timely repayment. |
| 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. | A1 | A strong capacity for timely repayment. |
| 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. | A2 | A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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 and in economic conditions are more likely to impair this capacity. | A3 | An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions. |
| 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 | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. |
| 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. | C | An inadequate capacity to ensure timely repayment. |
| CCC CC C | Very high credit risk. Substantial 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. | | |



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'.

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. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

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, the 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, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) 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 fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is 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 | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

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- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) 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 | Chapter III | 14-(F-VII)

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