



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
13-Nov-2019	BBB	A2	Stable	Maintain	-
20-Aug-2019	BBB	A2	Stable	Maintain	-
18-Feb-2019	BBB	A2	Stable	Initial	-
13-Nov-2019	BB+	A3	Stable	Suspended	-

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 few years; the two new lines have been commissioned which have strengthened the business profile of the company. The company's topline has increased significantly, though net profit margins declined in percentage terms due to the higher cost of sales. The company witnessed an enormous increase in equity due to an internal generation of funds. The company has a good track record of building sales volume and 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 has built expertise in international trade by virtue of his business in Hong Kong. The challenge is the cyclical nature of the rice business. The global trade market is gradually being dominated by Thai rice exports, posing tough competition for the regional players. Pakistan exports relatively small volume, which shows a reduction, now recently has improved capacity in basmati. The corporate structure of the company is limited as the business is family-owned and the management of the company is supervised by the family members. The working capital cycle is long, creating a need for short term borrowing over a relatively long horizon. During FY19, the rice crop area stood at 2.8 million hectares. The production stood at 7.2 million tonnes as against 7.5 million tonnes last year, short by ~3.3%. Pakistan exported ~4 million metric tons of rice, almost the same as FY18, though the amount in rupee terms was significantly high due to currency depreciation against USD.

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-19),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria Rating Modifier(Jun-19)
Related Research	Sector Study Rice(Nov-19)
Rating Analysts	Muhammad Usman muhammad.usman@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. He resigned from the job and entered into a partnership business with his brother, Mr. Ramesh Kumar, later in 2010. The company was formerly operated by their father Mr. Megho Mal.

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 Mr. Gurmukh Das and Mr. Ramesh Kumar are the two owners of Jhulay Lal having an equal stake in the company.

Stability There is no change in the ownership structure of Jhulay Lal since its inception. The ownership structure is expected to remain stable for a foreseeable period.

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

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 the time of need is considered adequate

Governance

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

Members' Profile The owners of the company are experienced professionals and have been involved in the same business for decades.

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

Financial Transparency The company's external auditors are Syed Hassan & Co. Chartered Accountants. Neither does the Audit firm satisfy the QCR ratings nor it has a listing in the State Bank of Pakistan's Panel of Auditors. The auditors issued an unqualified opinion on Jhulay Lal's financial statements for FY18.

Management

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

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, the company does not have any formal management committees. All pertinent issues are resolved by the partners themselves.

MIS The 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 the management of the operations. Strong counter check and supervision is needed to improve the overall control environment.

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

Business Risk

Industry Dynamics Pakistan's rice industry is an instrumentalist segment in the overall economy as it is one of the five major crops of the country and a contributor to the national exports revenue. After wheat, it is Pakistan's second main staple food crop. Major factors affecting rice production include water availability, area of cultivation, crop yield and the governing policies. During FY19, rice crop area decreased by ~3.1% to 2.8 million hectares as compared to last year. The production stood at 7.2 million tonnes as against 7.5 million tonnes last year, short by ~3.3%, mainly due to a decrease in area cultivated. The maximum contribution from the Rice sector in country's foreign exchequer is from non-basmati rice exports, as basmati rice is locally consumed and minimal quantity is exported.

Relative Position The company has a strong presence in the country's rice market. The company is committed to improving its foothold in foreign countries.

Revenues Jhulay Lal's revenue almost doubled in FY19. Topline clocked in at ~PKR 8,456 million during FY19 (FY18: PKR~4,051 million). Growth in revenue came on the backdrop of strong demand from African countries. Jhulay Lal sales mix comprises ~80% of IRR1-6 non-basmati rice and ~20% basmati rice.

Margins The company's gross margin decreased to ~12% during FY19 (FY18: ~21%). Overall, Jhulay Lal has strong margins as compared to the industry average. Strong gross profit margins translated into healthy net profit margins which stood at ~7% during FY19 (FY18: ~16%)

Sustainability Jhulay Lal is committed to strengthening its distribution network in the African market. The company already has a presence in ~11 countries, including a separate distribution company named Monarda in Hong Kong. Furthermore, the company 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 decreased to ~45 days during FY19 (FY18: ~92 days). The decrease in inventory days coupled with the decrease in receivable days, net working capital days of Jhulay Lal decreased to ~161 days during FY19 as compared to ~202 days in FY18.

Coverages The company generated ~PKR 528 million 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 at the end of 1HFY19 stood at ~4.6 times (FY18: 5.6 times).

Capitalization Jhulay Lal has a leveraged capital structure. The gearing ratio of the company stood at 59% for the period ending Jun-19. Total debt of Jhulay Lal at the end of FY19 clocked in at PKR~3,584 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

PKR mln

Jhulay Lal Parboiled Rice Mill Rice	Jun-19 12M	Jun-18 12M	Jun-17 12M
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A BALANCE SHEET

1 Non-Current Assets	450	1,198	403
2 Investments	106	106	-
3 Related Party Exposure	-	-	-
4 Current Assets	5,532	3,542	2,483
<i>a Inventories</i>	986	1,098	945
<i>b Trade Receivables</i>	3,730	1,685	825
5 Total Assets	6,088	4,846	2,886
6 Current Liabilities	20	32	61
<i>a Trade Payables</i>	6	25	44
7 Borrowings	3,584	2,884	1,551
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	-	-	-
10 Net Assets	2,485	1,930	1,273
11 Shareholders' Equity	2,485	1,930	1,273

B INCOME STATEMENT

1 Sales	8,456	4,051	2,045
<i>a Cost of Good Sold</i>	(7,482)	(3,186)	(1,680)
2 Gross Profit	975	864	365
<i>a Operating Expenses</i>	(113)	(52)	(66)
3 Operating Profit	862	813	299
<i>a Non Operating Income or (Expense)</i>	3	1	0
4 Profit or (Loss) before Interest and Tax	864	814	299
<i>a Total Finance Cost</i>	(236)	(145)	50
<i>b Taxation</i>	(21)	(12)	(32)
6 Net Income Or (Loss)	607	657	317

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	108	815	231
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	108	670	231
<i>c Changes in Working Capital</i>	-	(1,046)	(1,172)
1 Net Cash provided by Operating Activities	108	(376)	(941)
2 Net Cash (Used in) or Available From Investing Activities	-	(809)	1,272
3 Net Cash (Used in) or Available From Financing Activities	-	1,227	(280)
4 Net Cash generated or (Used) during the period	108	42	51

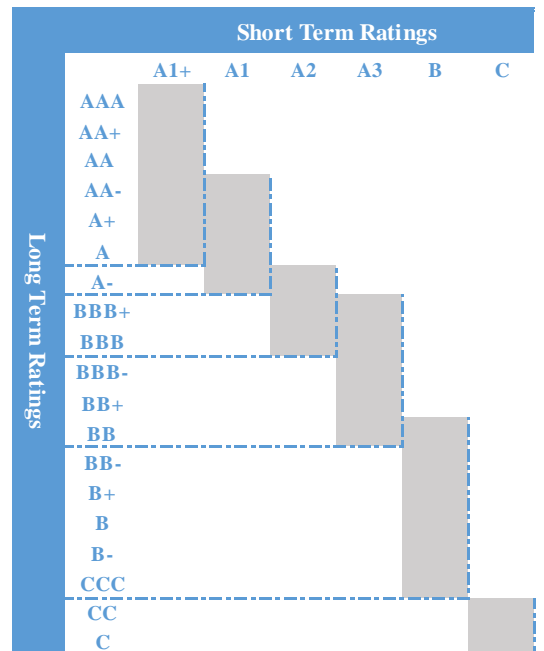
D RATIO ANALYSIS

1 Performance			
<i>a Sales Growth (for the period)</i>	108.8%	98.1%	--
<i>b Gross Profit Margin</i>	11.5%	21.3%	17.9%
<i>c Net Profit Margin</i>	7.2%	16.2%	15.5%
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	1.3%	20.1%	13.7%
<i>e Return on Equity (ROE)</i>	27.5%	41.0%	27.1%
2 Working Capital Management			
<i>a Gross Working Capital (Average Days)</i>	162	205	241
<i>b Net Working Capital (Average Days)</i>	161	202	237
<i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>	279.0	110.5	40.4

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.

Disclaimer: PACRA’s ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA’s opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security’s market price or suitability for a particular investor.

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)

Monitoring and review

- (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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