The Pakistan Credit Rating Agency Limited

Rating Report

Jhulay Lal Parboiled Rice Mill

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
14-Oct-2021	BBB	A2	Positive	Maintain	-
19-Apr-2021	BBB	A2	Stable	Maintain	-
08-May-2020	BBB	A2	Stable	Maintain	-
13-Nov-2019	BBB	A2	Stable	Maintain	-
20-Aug-2019	BBB	A2	Stable	Maintain	-
18-Feb-2019	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Rice is among the five major crops of Pakistan and is the second main staple food, after wheat. The segment contributes about 3.5% in agriculture value addition and 0.7% in GDP. Pakistan cultivates both basmati and non-basmati rice, most of which is exported. In Pakistan, rice is grown in most of the Sindh and Punjab Province. Sindh specializes in producing the long grains white rice IRRI-6 and IRRI-9, while Punjab produces world-class Basmati rice. Pakistan locally consumes Basmati Rice, which is a long, thin aromatic type of rice, considered premium and luxury category across the globe. Local consumption includes ~95% of basmati rice and ~5% non-basmati. The major players in rice exports include Pakistan, India, Thailand, and Vietnam. Pakistan is in direct competition with India, while Thailand and Vietnamese rice are considered premium. Thailand's 'Jasmine' rice has emerged lately as high-price premium rice. During FY21, the rice cropped area increased to ~3.33MH (FY20: ~3.03MH), reflecting an increase of ~10%. Consequently, the production of rice witnessed an increase of ~13% and stood at ~8.4MT (FY20: ~7.4MT). Out of this, around 3.5mln MT of rice is consumed locally. While ~3.7mln MT is exported (Closing stock: 1.2mln MT) to generate ~ PKR 325bln of export revenue. The maximum contribution is from non-basmati rice (72%) exports, as basmati rice is locally consumed and minimal quantity (28%) is exported. During FY21, rice exports deteriorated to ~USD 2,041mln (FY20: ~USD 2,175mln) owing to the Indian strategy of dumping the commodity in the international market at cheaper rates.

The ratings reflect Jhulay Lal's ('the business') prominent position in the rice export market with a sizable business volume. The business has expanded its capacity over the last few years and strengthened its profile. Jhulay Lal strategizes on adopting a topline centric approach mainly targeting the African region to explore growth avenues. Margins, and in turn profitability witnessed two-fold increase during FY21. The CEO has built expertise in international trade by virtue of his business in Hong Kong. The ratings derive comfort from the progress in financial performance as indicated in adequate margins over the periods. Sponsor's invested efforts are reflected in the development of a corporate culture through enhanced business practices & clarity on the succession to the next generations. Furthermore, positive outlook has been assigned to the entity based on the sound financial performance in the business. Sponsor's other ventures have also witnessed improved performance over the years providing comfort to the ratings.

The ratings are dependent upon sustenance of business volumes under the current challenging environment. As global economy undergoes distress, business sustainability emerges as the key challenge for the Exporters. Meanwhile, keeping up with a stable financial risk profile, particularly debt servicing capacity, is imperative.

Disclosure

Name of Rated Entity	Jhulay Lal Parboiled Rice Mill
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Rice(Nov-20)
Rating Analysts	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure Jhulay Lal Parboiled Rice Mills (Jhulay Lal or 'the business') 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 business 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 business.

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 Jhulay Lal'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 business 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 Jhulay Lal'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 FY20.

Management

Organizational Structure Jhulay Lal has a lean and limited organizational structure. Sponsors of the business 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. Fakhrudin 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 the partners themselves.

MIS Jhulay Lal uses internally generated software as its main software for the preparation of financial accounts.

Control Environment The business does not have an internal audit function.

Business Risk

Industry Dynamics Rice is among the five major crops of Pakistan and is the second main staple food, after wheat. The segment contributes about 3.5% in agriculture value addition and 0.7% in GDP. Pakistan cultivates both basmati and non-basmati rice, most of which is exported. In Pakistan, rice is grown in most of the Sindh and Punjab Province. Sindh specializes in producing the long grains white rice IRRI-6 and IRRI-9, while Punjab produces world-class Basmati rice. Pakistan locally consumes Basmati Rice, which is a long, thin aromatic type of rice, considered premium and luxury category across the globe. Local consumption includes ~95% of basmati rice and ~5% non-basmati. The major players in rice exports include Pakistan, India, Thailand, and Vietnam. Pakistan is in direct competition with India, while Thailand and Vietnamese rice are considered premium. Thailand’s ‘Jasmine’ rice has emerged lately as high-price premium rice. During FY21, the rice cropped area increased to ~3.33MH (FY20: ~3.03MH), reflecting an increase of ~10%. Consequently, the production of rice witnessed an increase of ~13% and stood at ~8.4MT (FY20: ~7.4MT). Out of this, around 3.5mln MT of rice is consumed locally. While ~3.7mln MT is exported (Closing stock: 1.2mln MT) to generate ~ PKR 325bln of export revenue. The maximum contribution is from non-basmati rice (72%) exports, as basmati rice is locally consumed and minimal quantity (28%) is exported. During FY21, rice exports deteriorated to ~USD 2,041mln (FY20: ~USD 2,175mln) owing to the Indian strategy of dumping the commodity in the international market at cheaper rates.

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

Revenues During FY21, Jhulay Lal's revenue witnessed a considerable decline (~20%) and clocked in at ~PKR 5,888mln (FY20: ~PKR 8,456mln). Decline is mainly attributable to lower volumetric sales due to increased prices compared to India. Jhulay Lal sales mix comprises ~80% of IRRI-6 non-basmati rice and ~20% basmati rice

Margins Jhulay Lal’s gross margin improved to ~18% (FY20: ~7%) on the back of higher selling price. Similarly, operating margin improved to ~17.9% (FY20: ~5.3%). Jhulay Lal posted net profit of ~PKR 852mln in FY21 (FY20: ~PKR 198mln) as the business has not provisioned for taxation. Consequently, net margin improved to 14.2% (FY20: ~2.7%).

Sustainability Jhulay Lal is committed to strengthening its distribution network in the African market. The business already has a presence in ~11 countries, including a separate distribution company named Monarda in Hong Kong. Furthermore, 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). During FY21, the net working capital days of the business declined significantly to ~368 days (FY20: 248 days) on the back of magnified receivable cycle (FY21: 270 days, FY20: 200 days). Meanwhile, Jhulay Lal had a short term trade leverage of ~38.6% (FY20: ~27%), showing ample room to borrow against working capital.

Coverages During FY20, the FCFO of the business deteriorated to ~PKR 444mln (FY19: ~PKR 918mln) due to lower profitability. Resultantly, the interest coverage and debt coverage slipped to 2.6x (FY19: 3.9x) and 2.6x (FY19: 3.9x), respectively.

Capitalization Jhulay Lal has a leveraged capital structure. The gearing ratio of the business stood at 53% for the period ending Jun-21. Short term borrowings made up ~100% (FY20: ~100%) of the total borrowings. Borrowings of the business have been availed at the SBP’s concessionary rates.

PKR mln

Jhulay Lal Parboiled Rice Mill Rice	Jun-21 12M	Jun-20 12M	Jun-19 12M	Jun-18 12M	Jun-17 12M
A BALANCE SHEET					
1 Non-Current Assets	742	540	556	1,304	403
2 Investments	112	-	-	-	-
3 Related Party Exposure	-	-	-	-	-
4 Current Assets	6,833	6,018	5,532	3,542	2,483
a Inventories	*2,286*	*979*	*986*	*1,098*	*945*
b Trade Receivables	*4,366*	*4,359*	*3,730*	*1,685*	*825*
5 Total Assets	7,687	6,558	6,088	4,846	2,886
6 Current Liabilities	177	21	20	32	61
a Trade Payables	*119*	*4*	*6*	*25*	*44*
7 Borrowings	3,963	3,874	3,584	2,884	1,551
8 Related Party Exposure	-	-	-	-	-
9 Non-Current Liabilities	-	-	-	-	-
10 Net Assets	3,547	2,663	2,485	1,930	1,273
11 Shareholders' Equity	3,547	2,663	2,485	1,930	1,273
B INCOME STATEMENT					
1 Sales	5,888	7,394	8,456	4,051	2,045
a Cost of Good Sold	*(4,793)*	*(6,907)*	*(7,482)*	*(3,186)*	*(1,680)*
2 Gross Profit	1,094	487	975	864	365
a Operating Expenses	(38)	(96)	(113)	(52)	(40)
3 Operating Profit	1,057	391	862	813	325
a Non Operating Income or (Expense)	*15*	*2*	*3*	*1*	*0*
4 Profit or (Loss) before Interest and Tax	1,072	393	864	814	325
a Total Finance Cost	*(219)*	*(171)*	*(236)*	*(145)*	*(50)*
b Taxation	-	*(25)*	*(21)*	*12*	*32*
6 Net Income Or (Loss)	852	198	607	681	308
C CASH FLOW STATEMENT					
a Free Cash Flows from Operations (FCFO)	*852*	*444*	*918*	*828*	*339*
b Net Cash from Operating Activities before Working Capital Changes	*852*	*273*	*682*	*828*	*339*
c Changes in Working Capital	-	*(506)*	*(1,386)*	*(1,046)*	*(1,172)*
1 Net Cash provided by Operating Activities	852	(233)	(704)	(218)	(833)
2 Net Cash (Used in) or Available From Investing Activities	-	(34)	(47)	(809)	1,272
3 Net Cash (Used in) or Available From Financing Activities	-	271	677	1,227	(280)
4 Net Cash generated or (Used) during the period	852	4	(74)	200	159
D RATIO ANALYSIS					
1 Performance					
a Sales Growth (for the period)	-20.4%	-12.6%	108.8%	98.1%	-40.7%
b Gross Profit Margin	18.6%	6.6%	11.5%	21.3%	17.9%
c Net Profit Margin	14.5%	2.7%	7.2%	16.8%	15.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	14.5%	-0.8%	-5.5%	-5.4%	-40.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	25.9%	7.7%	27.2%	44.2%	31.1%
2 Working Capital Management					
a Gross Working Capital (Average Days)	416	248	162	205	387
b Net Working Capital (Average Days)	412	248	161	202	384
c Current Ratio (Current Assets / Current Liabilities)	38.6	290.1	279.0	110.5	40.4
3 Coverages					
a EBITDA / Finance Cost	3.9	2.6	3.9	5.7	6.8
b FCFO / Finance Cost+CMLTB+Excess STB	3.9	2.6	3.9	5.7	6.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0	0.0	0.1
4 Capital Structure					
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	52.8%	59.3%	59.1%	59.9%	54.9%
b Interest or Markup Payable (Days)	70.5	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	5.6%	4.6%	7.0%	6.6%	4.8%

Credit Rating

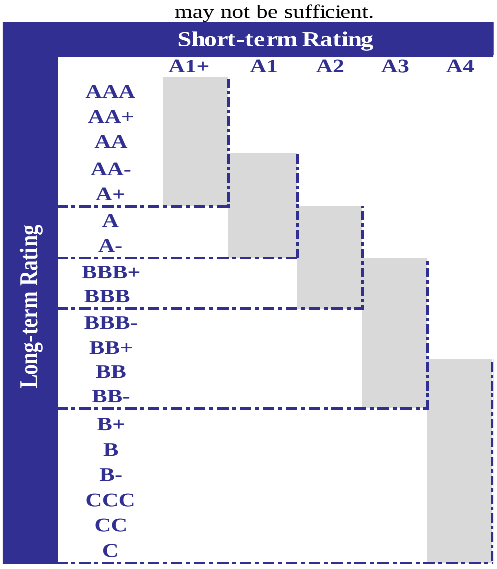
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
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.
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.
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+ 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.
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.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



The correlation shown is indicative and, in certain cases, may not hold.

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

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

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(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)

Independence & Conflict of interest

(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)

Proprietary Information