The Pakistan Credit Rating Agency Limited

Rating Report

Jasons Commodities

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
31-Jan-2023	BBB-	A2	Stable	Maintain	-
31-Jan-2022	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% to GDP. Local consumption includes ~95% of basmati rice and ~5% non-basmati. During FY22, rice crop area increased to ~3.4mln Hec (FY21: ~3.3mln Hec), reflecting an increase of ~3%. Rice production increased by ~6%, standing at ~8.9mln MT in FY22 (FY21: ~8.4mln MT). New higher-yielding hybrid rice varieties, improved agronomic practices, and increased planting area, as farmers shift out of cotton, are factors driving the increased production. Around ~4mln MT of rice is consumed locally, while, the remaining is exported. During FY22, Pakistan exports increased to ~USD 2.5bln (FY21: ~USD 2bln). Going forward, 2022 floods are anticipated to cause ~12% loss to the forecasted rice production for FY23. The rupee depreciation is anticipated to compensate for the reduction in export volumes. However, with an increase in the policy rate and lately, in ERF rate, the interest cost is likely to be impacted. Cashflows and coverages of the industry may become stretched. Due to the current economic scenario, the outlook of the industry seems to be developing, going forward.

The ratings reflect the emergence of Jasons Commodities ('the Business') as a growing rice exporter. In line with the overall industry and its changing trend, the Business has expanded its export sales mix to China along with African countries in the recent past. The Business has marked its presence in African regions through strategic relationships and is committed to increase its foreign footing. Additionally, a forecast of decelerated competition on the African side, particularly from Thailand and Vietnam, backs up a stable outlook for Irri/non-basmati export. On the flip side, as crisis in the European countries have heightened, the export demand for basmati rice brinks on a blurred outlook and is expected to absorb an impact in the days to come. Currently, the Business has stable presence in the local market with adequate profits. However, revenue and in turns margins are expected to grow as envisioned expansion may streamline till Dec-22. Financial profile characterized by strong coverages on the back of minimal finance costs. The debt book of the Business solely comprises Export Refinancing Facility availed to fund its working capital needs. The financial risk profile of the Business is adequate, however, qualitative factors indicate room for improvement.

The ratings are dependent on the management's ability to materialize the envisioned strategies keeping costs in control and maintaining business margins. Significant improvement in business and financial profile would be good. Any significant and/or prolonged deterioration in revenues and/or coverages will adversely impact the ratings.

Disclosure

Name of Rated Entity	Jasons Commodities
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Rice(Oct-22)
Rating Analysts	Ahmad Faraz Arif | ahmad.faraz@pacra.com | +92-42-35869504

Profile

Legal Structure Jasons Commodities ('the Business') was incorporated in Dec-2012 as a Sole Proprietorship

Background Mr. Amin Jessani and his son, Danish Jessani, who had been involved in confectionary business previously entered the rice industry by establishing a rice mill with capacity processing 20MT of rice per hour and laid foundations for Jasons Commodities.

Operations Jasons Commodities is primarily engaged in the process processing semi-processed non-basmati rice and exporting it to China and Africa. The Business, still in its initial stages, has seen mixed success in recent years. During FY20, the business processed 94,000MT of rice per annum (FY19: 55,000MT) witnessing full capacity utilization.

Ownership

Ownership Structure The Business's ownership resides with the Mr. Danish Jessani, who is the sole proprietor.

Stability The Business is completely owned by the CEO, Mr. Danish Jessani, and the stability of the structure is considered adequate.

Business Acumen Mr. Danish and his family have been involved in the confectionary and export business for over 3 decades and have entered the rice sector recently. The family also has presence in plastic bag manufacturing.

Financial Strength The sponsor holds sufficient net worth to support the Business in times of distress.

Governance

Board Structure The Business, being sole proprietorship lacks formal governance framework.

Members' Profile Mr. Danish Jessani is the CEO and sole proprietor of the Business.

Board Effectiveness The Business lacks formal Board structure.

Financial Transparency The external auditors of the Company, Shah and Co. Chartered Accountants, have expressed an unqualified opinion on the financial statements of the Company for the year ended Jun-21. The firm is neither QCR rated nor in SBP's panel of auditors.

Management

Organizational Structure The Business has linear organizational structure and operates mainly through Production and Finance functions.

Management Team Mr. Danish Jessani, the CEO of the Business, has over been associated with the Business since inception and has over two decades of experience in rice and confectionary segments.

Effectiveness There are no management committees in place. Management meets on need basis to ensure efficiency of the Business's operations.

MIS The Business uses excel based reports which are prepared on need-basis for the management.

Control Environment The Business lacks the presence of 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% to GDP. 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. During FY22, rice crop area increased to ~3.4mln Hec (FY21: ~3.3mln Hec), reflecting an increase of ~3%. Rice production increased by ~6%, standing at ~8.9mln MT in FY22 (FY21: ~8.4mln MT). New higher-yielding hybrid rice varieties, improved agronomic practices, and increased planting area, as farmers shift out of cotton, are factors driving the increased production. Around ~4mln MT of rice is consumed locally, while, the remaining is exported. During FY22, Pakistan exports increased to ~USD 2.5bln (FY21: ~USD 2bln). Going forward, 2022 floods are anticipated to cause ~12% loss to the forecasted rice production for FY23. However, the rupee depreciation is anticipated to compensate for the reduction in export volumes. However, with an increase in the policy rate and lately, in ERF rate, the interest cost is likely to be impacted. Cashflows and coverages of the overall industry may become stretched. In the current economic scenario, the overall outlook of the industry seems to be developing, going forward.

Relative Position The Business is a growing player in the country's rice exporters market.

Revenues The Business mainly generates revenue by exporting non-basmati (IRRI 6) rice to China and African countries. During FY21, the Business generated revenue of PKR 3,553mln, witnessing decrease of 29% (FY20: PKR 5,036mln) mainly because of competitive export market.

Margins The Business is exposed to price changes risk because of the export-oriented nature. During FY21, the Business's gross margin decreased slightly YoY and stood at 6.6% (FY20: 6.8%) .On operational level, the Business's margins witnessed similar trend. Operating margin stood at 6.1% during FY21 (FY20: 6.5%). At net level, the Company's net income stood at PKR 145mln during FY21 (FY20: PKR 258mln) witnessing ~44% decrease YoY. Subsequently, the Company's net margin dipped and stood at 4.1% during FY21 (FY20: 5.1%).

Sustainability The sponsors are planning to enhance the capacity of the rice mill, going forward

Financial Risk

Working Capital The Business's inventory days were kept at 54 days in FY21 (FY20: 28 days) In terms of receivable days, the Business efficiently manages receivables cycle and receivable days have been kept at 52 days in FY21 (FY20: 31 days). The Business, by timely clearing payable dues has kept payable days to minimal. Overall, the Company's net cash cycle stood at 105 days in FY21 (FY20: 60 days). Furthermore, the Business also has limited room to borrow against short-term trade assets and total current assets. Short-term trade leverage stood at 26.3% in FY21 (FY20: 25.8%) and total short-term total leverage stood at 33.8% (FY20: 34.3%)

Coverages Interest cover is a function of free cash flows and finance cost. The Business's coverages have remained strong through the years based on higher free cash flows and lower finance costs. Free cash flows stood at PKR 147mln in FY21 (FY20: PKR 260mln). The finance cost stood at PKR 19mln in FY21 (FY20: PKR 19mln). As a result, interest cover stood at 7.6x in FY21 (FY20: 13.8x). Moreover, the Business does not have any long-term debt and hence the debt coverage ratio remains the same as interest coverage ratio.

Capitalization The debt of the Company comprises of 100% short-term ERF facility. Total debt of the Company stood at PKR 827mln in FY21 (FY20: PKR 688mln) against an equity base of PKR 480mln (FY20: PKR 419mln). Debt to debt plus equity ratio remains on the higher side, however, and stood at ~63% as of FY21 (FY20: ~62%).

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Jasons Commodities Rice	Jun-21 12M	Jun-20 12M	Jun-19 12M	Jun-18 12M
A BALANCE SHEET				
1 Non-Current Assets	56	58	60	61
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,253	1,054	836	465
a Inventories	*585*	*460*	*321*	*184*
b Trade Receivables	*536*	*468*	*398*	*227*
5 Total Assets	1,309	1,112	895	526
6 Current Liabilities	2	4	3	1
a Trade Payables	-	-	-	-
7 Borrowings	827	688	638	319
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	480	419	254	206
11 Shareholders' Equity	480	419	254	206
B INCOME STATEMENT				
1 Sales	3,553	5,036	2,599	2,158
a Cost of Good Sold	*(3,320)*	*(4,693)*	*(2,440)*	*(2,026)*
2 Gross Profit	234	343	158	131
a Operating Expenses	(17)	(16)	(12)	(12)
3 Operating Profit	217	327	146	120
a Non Operating Income or (Expense)	-	-	-	-
4 Profit or (Loss) before Interest and Tax	217	327	146	120
a Total Finance Cost	*(19)*	*(19)*	*(13)*	*(9)*
b Taxation	*(53)*	*(50)*	*(26)*	-
6 Net Income Or (Loss)	145	258	107	111
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*147*	*260*	*109*	*112*
b Net Cash from Operating Activities before Working Capital Changes	*147*	*260*	*109*	*112*
c Changes in Working Capital	*(197)*	*(208)*	*(311)*	*(170)*
1 Net Cash provided by Operating Activities	(50)	51	(202)	(59)
2 Net Cash (Used in) or Available From Investing Activities	-	-	-	-
3 Net Cash (Used in) or Available From Financing Activities	55	(43)	261	46
4 Net Cash generated or (Used) during the period	5	8	59	(12)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-29.4%	93.8%	20.4%	0.0%
b Gross Profit Margin	6.6%	6.8%	6.1%	6.1%
c Net Profit Margin	4.1%	5.1%	4.1%	5.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-1.4%	1.0%	-7.8%	-2.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	32.2%	76.6%	46.5%	53.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	105	60	115	38
b Net Working Capital (Average Days)	N/A	N/A	N/A	N/A
c Current Ratio (Current Assets / Current Liabilities)	600.1	257.8	307.1	345.1
3 Coverages				
a EBITDA / Finance Cost	10.3	16.4	10.5	12.3
b FCFO / Finance Cost+CMLTB+Excess STB	7.6	13.8	8.5	12.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	63.3%	62.2%	71.5%	60.8%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	2.6%	2.8%	2.7%	2.8%

PACRA

Corporate Rating Criteria

Scale

Credit Rating

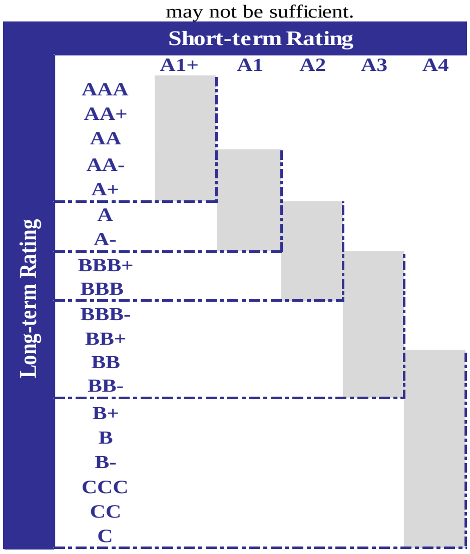
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies 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 | Clause 11-(A)(p).
(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