



The Pakistan Credit Rating Agency Limited

Rating Report

Jasons Commodities

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
31-Jan-2024	BBB	A2	Stable	Upgrade	-
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 FY23, rice crop area decreased to ~3.2mln Hec (FY22: ~3.4mln Hec), reflecting a decrease of ~6%. Rice production decreased by ~17%, standing at ~7.4mln MT in FY23 (FY22: ~8.9mln MT). Floods during Aug-22 razed rice crops, causing an average crop loss of ~20-25%. New higher-yielding hybrid rice varieties and improved agronomic practices are factors minimizing the production loss. Around ~4mln MT of rice is consumed locally, while, the remaining is exported. During FY23, Pakistan exports decreased to ~USD 2.1bln (FY22: ~USD 2.5bln). Thus, impacting the industry's overall topline. However, rupee depreciation provided some cushion to the export players. The industry's overall margins and cashflows may become stretched. Industry poses a developing outlook for the ongoing year.

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. 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. The recent ban on Indian rice exports, India, being the second-largest producer of rice and the largest exporter since 2012, has opened an opportunity for Pakistan's rice exporters to capitalize on this situation by increasing both sales volume and prices. Currently, the Business has posted revenue of (FY23: 12,175mln, FY22: 9,385mln). The Business profit margins improved and stood at (FY23: 4.2%, FY22: 1.6%) 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 strong; 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. The management has undertaken to improve audit quality and financial transparency in the coming period is also an important factor for the rating. 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(Jul-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Rice(Oct-23)
Rating Analysts	Muhammad Zain Ayaz zain.ayaz@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.

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 Dec-23. 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 FY23, the Business generated revenue of PKR 12,175mln, witnessing more than two-folds increase (FY22: PKR 9,385mln) mainly because of volumetric increase and rupee devaluation. Going forward, the revenues are expected to remain high in PKR terms despite volumetric losses.

Margins During FY23, the gross margin decreased YoY and stood at 6.4% (FY22: 3.7%). On operational level, the margins witnessed increasing trend. Operating margin dipped to 5.9% (FY22: 2.9%). At net level, the net income stood at PKR 563mln (FY22: PKR 152mln). Subsequently, the net margin increased and stood at 4.6% (FY22: 1.6%).

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

Financial Risk

Working Capital The working capital management of the Business is supported through short-term Export Refinancing Facility- Part II. The inventory days were kept at 20 days in FY23 (FY22: 18 days) amidst higher sales. In terms of receivable days, the Business efficiently manages receivables cycle and receivable days have been kept at 22 days (FY22: 52 days). The Business, by timely clearing payable dues has kept payable days to minimal. Overall, the Company's net cash cycle stood at 41 days (FY22: 105 days). Short-term trade leverage remained negative during FY23 (FY22: -32.0%) and total short-term total leverage stood at 32.2% (FY22: 15.5%).

Coverages The coverages of the Business have remained strong through the years based on higher free cash flows. Free cash flows stood at PKR 600mln in FY23 (FY22: PKR 179mln). The finance cost stood at PKR 36mln (FY22: PKR 25mln). As a result, interest cover stood at 7.0x (FY21: 8.6x). 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 Business comprises of 100% short-term ERF facility – Part II. Total debt stood at PKR 1,271mln as at FY23 (FY22: PKR 1,324mln) against an equity base of PKR 670mln (FY22: PKR 300mln). Debt to debt plus equity ratio remains on the higher side, however, and stood at ~82% as at FY23 (FY22: ~81.5%).



The Pakistan Credit Rating Agency Limited

Jasons Commodities	Jun-23	Dec-22	Jun-22	Jun-21
Rice	12M	6M	12M	12M

A BALANCE SHEET

1 Non-Current Assets	54	54	54	56
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,914	2,060	1,583	1,253
a Inventories	309	502	344	585
b Trade Receivables	625	964	618	536
5 Total Assets	1,968	2,114	1,638	1,309
6 Current Liabilities	27	17	14	2
a Trade Payables	14	-	-	-
7 Borrowings	1,271	1,617	1,324	827
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	670	480	300	480
11 Shareholders' Equity	670	480	300	480

B INCOME STATEMENT

1 Sales	12,175	7,566	9,385	3,553
a Cost of Good Sold	(11,398)	(7,220)	(9,036)	(3,320)
2 Gross Profit	778	345	349	234
a Operating Expenses	(57)	(41)	(78)	(17)
3 Operating Profit	721	304	271	217
a Non Operating Income or (Expense)	-	-	-	-
4 Profit or (Loss) before Interest and Tax	721	304	271	217
a Total Finance Cost	(36)	(15)	(25)	(19)
b Taxation	(122)	(76)	(94)	(53)
6 Net Income Or (Loss)	563	213	152	145

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	600	176	179	166
b Net Cash from Operating Activities before Working Capital	565	160	153	147
c Changes in Working Capital	(28)	(506)	(10)	(197)
1 Net Cash provided by Operating Activities	536	(345)	143	(50)
2 Net Cash (Used in) or Available From Investing Activities	-	-	-	-
3 Net Cash (Used in) or Available From Financing Activities	(446)	293	165	55
4 Net Cash generated or (Used) during the period	90	(52)	308	5

D RATIO ANALYSIS

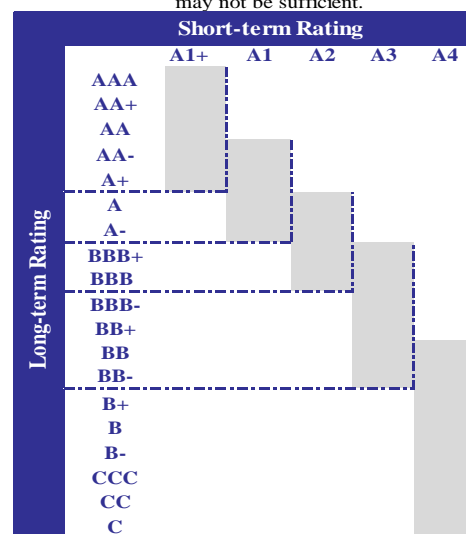
1 Performance				
a Sales Growth (for the period)	29.7%	61.2%	164.1%	-29.4%
b Gross Profit Margin	6.4%	4.6%	3.7%	6.6%
c Net Profit Margin	4.6%	2.8%	1.6%	4.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital / Net Profit Margin)	4.7%	-4.4%	1.8%	-0.9%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets / Equity)]	116.1%	109.3%	38.9%	32.2%
2 Working Capital Management				
a Gross Working Capital (Average Days)	38	29	41	105
b Net Working Capital (Average Days)	38	N/A	N/A	N/A
c Current Ratio (Current Assets / Current Liabilities)	71.0	121.4	115.1	600.1
3 Coverages				
a EBITDA / Finance Cost	20.1	19.9	10.7	11.3
b FCFO / Finance Cost+CMLTB+Excess STB	16.7	11.4	7.0	8.6
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)	65.5%	77.1%	81.5%	63.3%
b Interest or Markup Payable (Days)	104.3	91.5	88.6	0.0
c Entity Average Borrowing Rate	2.6%	2.1%	2.4%	2.6%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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

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(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 | 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)

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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)
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- (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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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