

## Jamshoro Joint Venture Limited

Chairman & Chief Executive: Mr. Iqbal Z. Ahmed

March 20, 2015

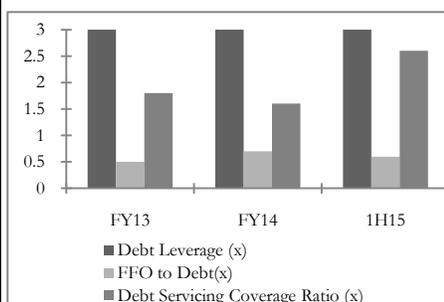
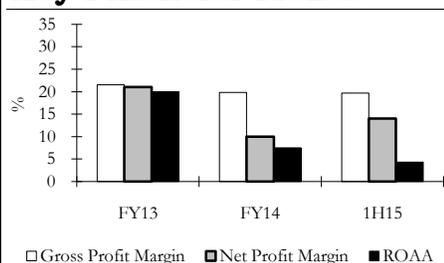
**Analysts:** Waqas Munir, FRM  
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Category	Latest	Previous
Entity	A+ / A-1 March 20'15	A+ / A-1 Dec 31'13
Outlook	Positive March 20'15	Rating Watch Dec 31'13

### Rating Rationale

The rating action takes into account settlement of issues on Gas Supply Arrangements (GSA) reflecting positively on the business risk profile of JJVL. The previous implementation agreement between JJVL and SSGCL was declared void by the Supreme Court of Pakistan (SCP) and JJVL was required to pay additional royalty amounting to Rs. 4.2b which was settled by the company. Under the new arrangement, JJVL has been granted processing rights by SSGCL to process and extract LPG and NGL from the gas being delivered from various fields. LPG produced is equally distributed between JJVL and SSGC. JJVL also holds a contract to procure and export 100% of the NGL produced. This arrangement will continue till the time SSGCL develops its own extraction plant on gas fields or otherwise. Earning profile of the company under new arrangements is projected to improve, going forward.

### Key Financial Trends



(Rs. billion)	FY13	FY14	1H15
Net Sales	9.9	11.8	6.4
Net Profit	2.0	1.2	0.9
Equity	0.2	1.4	2.3
Total Debt	2.5	1.9	1.9
Gearing (x)	11.8	1.4	0.85
Debt Leverage (x)	52.2*	10.6*	6.9*
FFO	1.2	1.2	1.1
FFO/Total Debt (x)	0.5	0.7	0.6
ROAE	-	147%	49.3%
ROAA	20%	7.5%	4.3%

\* Adjusted for royalty charges

Total payables to SSGCL at end-FY14 amounted to 14.7b (FY13: 7.3b). This includes royalty amounting to Rs. 5.0b; Rs. 4.2b of which has already been settled. Outstanding SSGCL bills stood at Rs. 4b which will be paid in quarterly installment beginning 2HFY15. Remaining payables to SSGCL of Rs. 5.6b will be off-set against the gas processing bill; thus resulting in a net liability on account of JJVL amounting to Rs. 2.9b at end-FY14. Future cash flows are considered adequate to meet contractual payments.

With the commissioning of Unit-II in October'14, installed capacity of JJVL increased to 345 mmscfd. Operation and maintenance agreements for both plants are with Exterran Services (UK) Limited; a reputable operator in oil and gas production and processing, with operations in more than 30 countries. Availability of gas has improved, reflecting positively on the capacity utilization.

JJVL's market share in domestic LPG production increased to 28% during FY14 (FY13: 21%). While lower gas was processed during FY14, LPG and NGL production increased on account of higher propane recovery (FY14: 95%; FY13: 89%). Improvement in sales primarily pertained to higher processing income and increased sales volumes. With new arrangements in place, JJVL's gross margin declined moderately during FY14 which remained largely unchanged during 1HFY15. JJVL posted higher profit before tax attributable to increase in sale volumes and reduction in finance cost on account of reduced funding requirements. Going forward, positive momentum in earnings is likely to continue attributable to higher installed processing capacity, however will remain dependent on availability of uninterrupted gas supply.

Funds from Operations (FFO) remained largely unchanged while FFO to debt improved to 0.7x (FY13: 0.5x). The debt service ratio exhibited decline to 1.6x at end-FY14 (FY13: 1.8x), however remains strong. Moreover, leverage indicators are likely to improve on account of positive momentum in earnings and reduced CAPEX requirements.

Non-earning assets comprise 49.3% of asset base at end-FY14 (FY13: 48.4%) and comprise loans and receivables from associated companies and investment in PGPL. Recovery of loans extended to associated companies has seen delays; partial provisioning has been made against these loans. Meanwhile, prospects of company's investment in PGPL depend upon its successful execution to provide LNG storage and re-gasification services.

### Overview of the Institution

JJVL is a public limited, unlisted company incorporated in 2002. JJVL is one of the largest private sector producers of Liquefied Petroleum Gas (LPG) and Natural Gas Liquid (NGL) in the country. JJVL is the flagship company of Associated Group (AG). The group includes two LPG marketing companies - Lub Gas (Pvt.) Limited and Mehran LPG (Pvt.) Limited. AG also has presence in media, design and aviation sector JCR-VIS