



The Pakistan Credit Rating Agency Limited

**Rating Report**

**Awan Trading Company (Pvt.) Limited**

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**Rating History**

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
19-Aug-2023	A-	A2	Stable	Upgrade	-
19-Aug-2022	BBB+	A2	Positive	Maintain	-
20-Aug-2021	BBB+	A2	Stable	Maintain	-
21-Aug-2020	BBB+	A2	Stable	Maintain	Yes
22-Aug-2019	BBB+	A2	Stable	Maintain	-
20-Feb-2019	BBB+	A2	Stable	Initial	-

**Rating Rationale and Key Rating Drivers**

The rating upgrade depicts the Company’s notable operating history along with its ability and commitment to perform during the ongoing economic slowdown. Awan Trading Company holds a significant market share in providing imported coal to local players in the cement, textile, steel and power sector. The Company has arrangements with various global suppliers of Indonesian, South African and Russian coal. Recently, the Company has also supplied Afghan coal to local power plants. Being comparatively inexpensive than other imported coal, the trend of using Afghan coal for power generation in the industry is on the rising trend. The Company maintains adequate stock of coal in rented/custom bonded warehouses to meet the demand of the consumers. Currency fluctuation and pricing of coal in the international market impact the Company’s risk profile which is mitigated through passing on the price impact to the consumers. The local economy reported a significant decline in coal imports (9MFY23: 6mln MT, 9MFY22: 12mln MT, FY22: 32mln MT) owing to a ~32% decline in coal consumption of the country. Alternatively, the Company’s coal imports increased ~15% from ~0.843mln MT during FY22 to ~0.973mln MT during FY23. There has been a stable rise in sales volume of the Company (FY23: 1.035mln MT, FY22: 0.905mln MT, FY21: 0.870mln MT) with growing demand of Afghan coal in the industry. Net Revenues of the Company reported an increase of ~101% (9MFY23: PKR 46,339mln, 9MFY22: PKR 23,005mln) as a result of price hikes in the global market of the commodity which was successfully passed on to the local consumers. Furthermore, the Company has reported impressive gross margins that are on a growing trend. The company has moderately utilized sizable lines (funded and un-funded) available from different banks to cater to suppliers’ demand. To further support the liquidity position, the Company has made short term investments in TDRs (March 2023: PKR 532mln, June 2022: PKR 370mln) with the intention to enhance it in the future.

Stable growth in sale volumes of the Company over the years backed by positive impact from the pricing of the commodity leading to noteworthy margins has contributed towards the rating upgrade. Furthermore, with growing potential use of Afghan coal in the power and cement sector and expected economic recovery, the coal consumption in the local market will revert. Hence, making room for the Company to further boost its sales volume. Thus, further strengthening the performance of the Company.

**Disclosure**

<b>Name of Rated Entity</b>	Awan Trading Company (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Coal Mining and Trading(Jul-23)
<b>Rating Analysts</b>	Hashim Yazdani   hashim.yazdani@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Awan Trading Company (Pvt.) Limited was incorporated in Pakistan under the Companies Ordinance, '2015. The Company is engaged in import and trading of coal.

**Background** Awan Trading after establishment in October 1992, remained dormant for several years till 2002. In 2003, the first coal vessel which reached at Karachi Port brought coal for Awan Trading. The Company is also first among industry players to enter into a ten year agreement with Pakistan Railway for transportation of coal to northern areas of the country.

**Operations** The company is currently in business with various IPPs, cement, steel and textile entities. To fulfil the needs of customers, the company has warehouses (stock piles) at four different locations. The location of warehouses are at Port Qasim and near PIBTL in Sindh and at Taxila and Chicho ki Maliyan in Punjab. Awan Trading has experience of importing and trading coal from Indonesia, South Africa, Russia and United States of America. The company has agreements with major suppliers from all over the world including Glencore International AG, Mercuria Energy Trading PTE Limited, Swiss Singapore Overseas Enterprises PTE Limited, Itochu Corporation (Japan), London Commodity Brokers and IMR Metallurgical Resources AG (IMR).

## Ownership

**Ownership Structure** The current shareholding of Awan Trading lies with two families and Tekwani & Awan. Ownership structure observed few changes that Mr. Mohamad Aslam (Late) owns 4% and his two grandsons Mr. Syed Mustafa Ahmed and Mr. Syed Murtaza Ahmed owns 14% and 8% respectively. Mr. Govind Ram has transferred his 12% stake to his son Mr. Nikhil Kumar. Collectively, Tekwani family owns 74% and remaining 26% owns by Awan Family.

**Stability** Considering the strategic importance of the Company in coal industry, stability is considered adequate.

**Business Acumen** Company's sponsors have an extensive industry experience with major concentration in energy, coal, logistics and tyre industry. Majority shareholder Mr. Bhoool Chand & Mr. Govind Ram, both have almost 20 years of experience in coal trading sector.

**Financial Strength** Sponsors have a good financial strength on account of profitable offshore business namely International Energy Resources & based on significant industry experience, sponsors have acumen and the ability to understand & control business risks arising from the unforeseen conditions.

## Governance

**Board Structure** The overall control of the company vests in four-member board of directors (BoD) including the Chief Executive – Mr. Govind Ram. All board members are also shareholders. Mr. Kamlesh Kumar and Mr. Govind Ram hold executive position on board. The board members' have adequate business acumen on the back of local industry exposure. The board meetings minutes are maintained reflecting adequate participation by the members.

**Members' Profile** All board members are qualified and competent enough for effective leadership. They have long standing experience and knowledge of coal industry.

**Board Effectiveness** The experiences of board will help in providing useful insight into coal, energy & logistic sector guiding the management in developing effective operational and financial policies.

**Financial Transparency** Hashmi & Co., Chartered Accountants conduct the external audit services for the company. The aforementioned audit firm is not in the list of SBP pertaining names of audit firms defining categories of external audit firms. They have expressed unqualified opinion on the financial statements for the year ended 30th June, 2022.

## Management

**Organizational Structure** Company has a lean organizational structure with each function headed by a capable personnel, reporting to CEO. The organizational structure is divided into five functional departments, namely: (1) Finance, (2) Marketing, (3) Operations, (4) Purchase and (5) Shipping and Chartering.

**Management Team** Mr. Govind Ram, the CEO, is associated with the company since its inception. Each function is headed by senior individual having designation of director. The senior management has long association with the company. The overall control of management vests with the CEO, who is supported by a team of experienced professionals at key management positions.

**Effectiveness** To oversee the management of the company, Company has constituted three committees comprising various members of the management team. The committees include i) Audit Committee, ii) Purchase Committee and iii) Sales Committee.

**MIS** Monthly and weekly reports including the aging analysis, stock keeping, budgeting controls and key performance indicators are reviewed by top management which results in optimal monitoring.

**Control Environment** Awan Trading has adequate technology infrastructure with defined policies and procedures. The company has developed a software for operational modules include marketing, purchase and financial modules.

## Business Risk

**Industry Dynamics** Pakistan has an estimated ~186bln MT of coal reserves as of 9MFY23, with ~99% coal reserves of the country found in Sindh. During the 9MFY23 period, the import of coal stood at ~6mln MT. The share of imported coal has significantly decreased in the supply mix of the country from ~33mln MT in FY22 to ~6.6mln MT in 9MFY23 (9MFY22: ~12mln MT), in percentage terms the decline from FY22 to 9MFY23 is ~80%, largely owing to high coal prices and PKR devaluation, in addition to import restrictions imposed by the SBP during the said period.

**Relative Position** Awan & Group (which includes off shore company namely International Energy Resources (IER) and Awan trading Company. The Company's coal imports increased ~15% from ~0.843mln MT during FY22 to ~0.973mln MT during FY23. The Company holds a stable 6% market share in supplying coal.

**Revenues** During FY23 the Company sold 1.035mln MT of coal in the local market. Hence, net revenue for nine month ended March 2023 stood at PKR 46,339mln (9MFY22: PKR 23,005mln), with a substantial increase of 101%. However, increase in topline is mainly owing to coal price impact. The increase in price during the recent years is mainly attributed to increase in international coal prices.

**Margins** During 9MFY23, company's gross margin has been reported at 18.4% in comparison to 15.2% during the same period last year. The improvement in margins represent better pricing factor. Alternatively, net margin has remained somewhat stable at 6.4% during 9MFY23 (9MFY22: 6.9%) representing the Company's stable performance under the country's economic constraints.

**Sustainability** With growing potential use of Afghan coal in the power and cement sector along with expected economic recovery, the coal consumption in the local market will revert. Hence, making room for the Company to recover its sold volumes.. The company has an investment portfolio of PKR 596mln at end-Mar23 which is investment in term deposit receipts. The company is gradually increasing its investment portfolio.

## Financial Risk

**Working Capital** Awan Trading manages its working capital cycle through mix of internal cashflows and short term borrowings. During 9MFY23, the Company's reliance on short term borrowings stands at PKR 6,918mln (FY22: 7,598mln). Net working capital days decreased to 65 days (FY22: 79 days). The increase in STB is because of increase in import of Coal and the same is used to support the LCs.

**Coverages** FCFO of the Company have remained impressive throughout the period with improvement from the past reporting periods. During 9MFY23, FCFO is reported at PKR 4,964mln (9MFY22: PKR 2,225mln). However with rising interest rates, Interest Coverage (EBITDA/Finance Cost) has declined slightly from 6.9 to 5.0 in the latest nine months ended March 2023.

**Capitalization** Over last few years, the company's equity base got supported by consistent profits and stands at PKR 8,301mln whereas total debt of the company stands at PKR 3,198mln as on March 2023. The debt to equity ratio stands at ~45.8% (FY22: 59.1%).



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

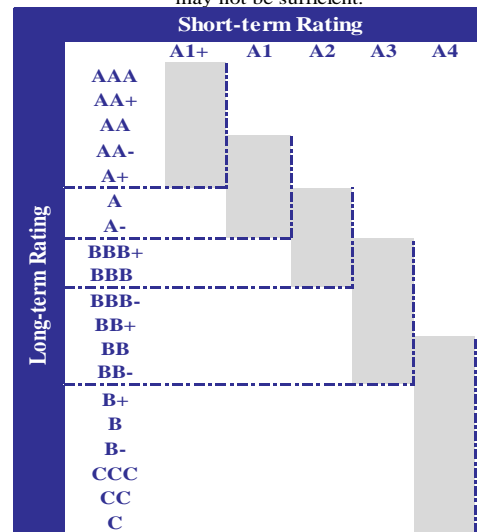
Awan Trading Company (Pvt) Limited	Mar-23	Jun-22	Jun-21	Jun-20
Energy	9M	12M	12M	12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	428	365	84	88
2 Investments	596	434	975	641
3 Related Party Exposure	180	129	119	135
4 Current Assets	17,316	14,455	10,193	4,758
a Inventories	10,857	8,554	5,762	1,489
b Trade Receivables	4,163	3,168	1,809	964
5 Total Assets	18,519	15,383	11,371	5,621
6 Current Liabilities	3,166	2,295	3,827	1,492
a Trade Payables	2,867	2,036	3,593	1,466
7 Borrowings	7,003	7,708	3,862	1,431
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	50	40	30	21
10 Net Assets	8,301	5,341	3,653	2,677
11 Shareholders' Equity	8,301	5,341	3,653	2,677
<b>B INCOME STATEMENT</b>				
1 Sales	46,339	31,551	16,027	8,305
a Cost of Good Sold	(37,814)	(25,318)	(13,080)	(6,862)
2 Gross Profit	8,525	6,233	2,947	1,443
a Operating Expenses	(2,738)	(1,717)	(1,054)	(689)
3 Operating Profit	5,788	4,516	1,893	755
a Non Operating Income or (Expense)	(444)	(1,124)	136	(53)
4 Profit or (Loss) before Interest and Tax	5,344	3,393	2,029	702
a Total Finance Cost	(1,175)	(607)	(198)	(226)
b Taxation	(1,209)	(894)	(690)	(142)
6 Net Income Or (Loss)	2,960	1,891	1,141	334
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	4,964	2,834	1,726	456
b Net Cash from Operating Activities before Working Capital Changes	3,946	2,312	1,528	232
c Changes in Working Capital	(2,612)	(5,996)	(3,609)	308
1 Net Cash provided by Operating Activities	1,334	(3,684)	(2,081)	540
2 Net Cash (Used in) or Available From Investing Activities	(252)	397	(20)	(7)
3 Net Cash (Used in) or Available From Financing Activities	(765)	3,553	2,127	(51)
4 Net Cash generated or (Used) during the period	317	265	26	482
<b>D RATIO ANALYSIS</b>				
1 Performance				
a Sales Growth (for the period)	95.8%	96.9%	93.0%	-21.5%
b Gross Profit Margin	18.4%	19.8%	18.4%	17.4%
c Net Profit Margin	6.4%	6.0%	7.1%	4.0%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	5.1%	-10.0%	-11.7%	9.2%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity) ]	57.9%	42.1%	36.1%	13.5%
2 Working Capital Management				
a Gross Working Capital (Average Days)	79	112	114	114
b Net Working Capital (Average Days)	65	79	57	58
c Current Ratio (Current Assets / Current Liabilities)	5.5	6.3	2.7	3.2
3 Coverages				
a EBITDA / Finance Cost	5.0	6.2	10.4	3.2
b FCFO / Finance Cost+CMLTB+Excess STB	4.5	4.9	8.0	1.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0	0.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	45.8%	59.1%	51.4%	34.8%
b Interest or Markup Payable (Days)	62.5	63.2	39.0	43.0
c Entity Average Borrowing Rate	19.1%	11.3%	8.8%	15.2%

### 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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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	<b>Good credit quality.</b> 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	<b>Moderate risk.</b> 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	<b>High credit risk.</b> 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	<b>Very high credit risk.</b> 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)

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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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(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)

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(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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(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)

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(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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