The Pakistan Credit Rating Agency Limited

Rating Report

Engro Eximp Agriproducts (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
14-Oct-2022	A-	A2	Stable	Maintain	-
14-Oct-2021	A-	A2	Stable	Maintain	-
16-Oct-2020	A-	A2	Stable	Maintain	-
19-Nov-2019	A-	A2	Stable	Maintain	-
27-Jun-2019	A-	A2	Stable	Maintain	-
27-Dec-2018	A-	A2	Stable	Maintain	-
28-Jun-2018	A-	A2	Stable	Maintain	-
29-Dec-2017	A-	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. 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 cropped 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, rupee depreciation is expected to compensate the players for reduction in export volumes.
The ratings reflect the strength of the ownership structure of Engro Eximp Agriproducts (Pvt.) Ltd. ('Engro Eximp' or 'the Company"), a wholly owned subsidiary of Engro Corp Ltd., one of the largest conglomerates in Pakistan (rated AA+ by PACRA). The CEO of Engro Corp Ltd. is also the Chairman of Engro Eximp. Ratings take comfort from the strong corporate governance framework inherited from the parent company. The Company’s revenue continues to hold its position after successfully achieving its break even in CY18. Profits have sustained since then, after suffering from huge losses in the past. The Company faces stiff competition in the international markets in the basmati segment. However, the Company managed to sustain its profitability in CY21. The Company anticipates considerable improvement in its revenues during CY22; Margins have witnessed slight improvement and continued profitability will bode well for the Company. Rupee devaluation came in favorable, as dealing in a product – basmati - a high priced commodity assisted the Company in increasing its revenues. Engro Eximp's financial risk profile has also recovered adequately, while, slightly dwindling due to high-end debt profile. Moreover, coverages remain stressed. Going forward, the management anticipates that the Company will be able to improve its financial performance and position.

The ratings are dependent upon growth in business volume and redemption of profits. Adherence to sound financial discipline while strengthening debt servicing capacity through improved cash position is vital for the ratings. Positive outcome of future projects and sustainability of profits remains imperative for the sustenance of ratings.

Disclosure

Name of Rated Entity	Engro Eximp Agriproducts (Pvt.) Limited
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-21)
Rating Analysts	Ahmad Faraz Arif | ahmad.faraz@pacra.com | +92-42-35869504

Profile

Legal Structure Engro Eximp Agriproducts (Pvt.) Ltd. (herein referred to as "Engro Eximp" or "the Company") is a Private Limited Company.
Background The Company was incorporated in Nov-2009 as a Private Limited Company. It entered into the rice processing business in 2010 with a view to bring value addition to the agriculture sector of the country. The Company's inclusive business model concentrates on improving the competitiveness of Basmati rice for farmers to ensure enhanced yield/acre and reduction in cost of production/ton to benefit the farmers.
Operations The principal activity of the Company is processing, export and trade of rice. The Company procures high standard of paddy from the farmer and after processing those, exports the prepared rice to business to business customers across the globe. The Company operates with an advanced integrated processing plant having a design capacity of 144,000 tons for milling and 3 months design capacity of 270,000 tons for drying. During 6MCY22, the Company processed 46,500MT of basmati-rice and exported 33,399MT of basmati-rice.

Ownership

Ownership Structure Engro Eximp is a wholly owned subsidiary of Engro Corporation.
Stability Being a subsidiary of a renowned Multinational Corporation of Pakistan - Engro Corporation, is the key driving force of stability for the Company.
Business Acumen Engro Corporation, the parent company, is one of the largest conglomerates of Pakistan, having diversified businesses in fertilizer, food, chemical storage & handling, trading, digital technologies, mining, energy and petrochemicals sector.
Financial Strength Robust sponsorship continues to add strength to the financial muscle of the Company.

Governance

Board Structure The Company's Board includes three non-Executive Directors. Governance reflects status of a private limited entity which is necessitated to evolve as the business size grows.
Members' Profile Mr. Ghias Khan, serves as the Chairman of the board – and is also the CEO of Engro Corp. The other members on the Board are Mr. Khawaja Bilal Hassan, who holds Senior Vice President position at Engro Corp, and Mr. Sulaiman Ijaz, who is Vice President - Supply Chain at Engro Fertilizers.
Board Effectiveness The Board is currently aligned with the private status of the Company. Board meetings are conducted on a quarterly basis where company's financial performance and other pertinent matters are reviewed.
Financial Transparency AF Ferguson & Co. Chartered Accountants are the external auditors of the Company. Auditors gave an unqualified opinion and review report on financial statements for the year ended Dec-21.

Management

Organizational Structure The Company has an optimized organizational structure, reporting lines, and segregation of duties. All departmental heads report to the CEO.
Management Team The CEO – Mr. Mohsin Hassan, before being appointed as the CEO, held several roles across the Group, most recently being the Head of Specialty Fertilizers Business at Engro Fertilizers Limited. Mr. Tariq Zafar holds the position of Chief Financial Officer. He is a Chartered Accountant and has been associated with the Group for 5 years and worked in the Business Division at Engro Fertilizers, lately.
Effectiveness In pursuance of effective business management, Engro Eximp has a culture of weekly management committee meetings, which comprises all Departmental Heads and the CEO. A Corporate planning meeting is also held every year for ensuring performance management.
MIS The Company has an ERP software implemented for their safety management, financial management and inventory management.
Control Environment Engro Eximp being a subsidiary of Engro Corp, follows the best practices and has a robust control environment and an inhouse internal audit function.

Business Risk

Industry Dynamics During FY22, rice cropped 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, ~5.2mln MT is exported. During FY22, Pakistan exports increased to ~USD 2.5bln (FY21: ~USD 2bln). Going forward, 2022 floods are expected to have destroyed approximately 12% of the nation's rice crop. However, the rupee depreciation is expected to compensate for reduction in export volumes.
Relative Position The years prior to CY18 have been difficult for Engro Eximp as it was recovering from the after effects of over trading. CY18 brought fortune for the Company as it returned to stability. The Company is still in the growth phase; therefore, market share is relatively very small (less than ~5%) in terms of production and revenues.
Revenues During CY21, the topline of the Company observed a slight decrease ~8% and stood at ~PKR 4,309mln (CY20: ~PKR 4,703mln). The decrease was primarily due to decrease in exports (CY21: ~PKR 3,111mln, CY20: ~PKR 3,914mln) amidst competitive prices of basmati-rice, internationally. During 1HCY22, the Company's revenue witnessed significant increase and stood at ~PKR 4,631mln (1HCY21: ~PKR 2,392mln), depicting two-folds increase, primarily aided by volumetric increase in sales and rupee devaluation.
Margins During CY21, the Company's gross margin witnessed improvement and stood at ~13.8% aided by slight decrease in material costs. Operating profit margin witnessed similar trend (CY21: ~7.6%, CY20: ~6.2%). The Company's net profit dipped to PKR 6mln during CY21 (CY20: PKR 33mln) resulting in net profit margin of ~0.2% (CY20: ~0.7%). During 1HCY22, gross margin witnessed improvement and stood at ~15.7% (1HCY21: ~14.8%). Similarly, at operational level, the margin stood at ~11.7% (1HCY21: ~8.4%). The Company's net profit witnessed significant improvement during 1HCY22 and stood at PKR 227mln (1HCY21: PKR 23mln) resulting in net profit margin of ~4.9% (1HCY21: ~0.9%) aided by the two-folds increase in revenue.
Sustainability As the Company turned around to stable financial results, it is now expected to explore new business ventures. With an idea of diversification, the Company also plans to test export trade of maize.

Financial Risk

Working Capital In CY21, the net working capital days of the Company deteriorated to 392 days (CY20: 247 days). The increase is because of elevated inventory days (CY21: 354 days, CY20: 225 days) and receivable cycle (CY21: 43 days, CY20: 27 days). The short-term trade leverage stood at ~6% (CY20: ~7%), reflecting little room to borrow against trade assets. During 1HCY22, the Company's net working capital cycle remained elongated at 201 days (1HCY21: 288 days).
Coverages The return of profits enabled the Company to produce positive FCFO of ~PKR 406mln in CY21 (CY20: ~PKR 359mln). The finance cost of the Company stood at ~PKR 257mln (CY20: ~PKR 201mln). As a result, the interest coverage ratio stood at 1.5x in CY21 (CY20: 1.6x) and debt coverage ratio remained stable at 1.4x. During 1HCY22, interest cover ratio improved to 2.3x (1HCY21: 1.5x) and debt coverage ratio improved to 2.1x (1HCY21: 1.4x) on the back of higher free cash flows. The debt payback period also improved and stood at 0.2x (1HCY21: 1.1x).
Capitalization Engro Eximp's capital structure is dominated by short-term borrowings -particularly ERF-Part II and running finance obtained from a consortium of banks to support working capital management. The Company's equity is undermined due to previous years' loss adjustments. Subsequently, the Company's debt to debt plus equity ratio has remained on a relatively higher end (1HCY22: 76.4%, CY21: ~80%, CY20: ~75%).

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Financial Summary
PKR mln

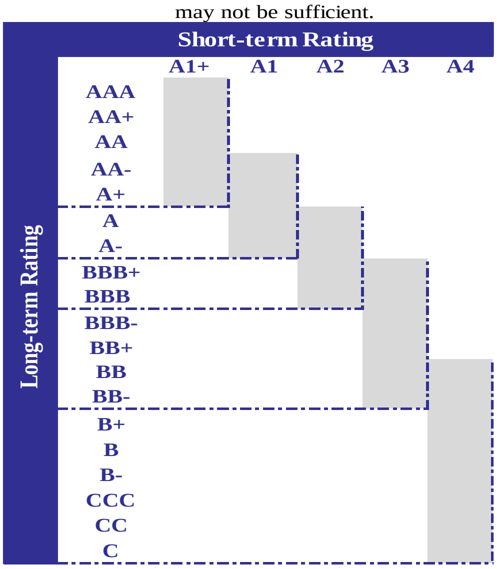
Engro Eximp Agriproducts (Pvt.) Limited	Jun-22	Dec-21	Jun-21	Dec-20	Dec-19
Rice	6M	12M	6M	12M	12M
A BALANCE SHEET					
1 Non-Current Assets	1,101	1,150	1,106	1,121	1,166
2 Investments	-	-	-	-	-
3 Related Party Exposure	2	2	10	10	30
4 Current Assets	5,976	6,032	4,485	4,492	3,061
a Inventories	*4,225*	*5,005*	*3,522*	*3,352*	*2,457*
b Trade Receivables	*579*	*472*	*345*	*546*	*145*
5 Total Assets	7,079	7,184	5,601	5,623	4,256
6 Current Liabilities	246	205	217	208	178
a Trade Payables	*63*	*40*	*142*	*81*	*64*
7 Borrowings	5,221	5,594	3,985	4,038	2,734
8 Related Party Exposure	1	0	-	-	-
9 Non-Current Liabilities	-	-	-	-	-
10 Net Assets	1,612	1,384	1,400	1,378	1,345
11 Shareholders' Equity	1,612	1,384	1,400	1,378	1,345
B INCOME STATEMENT					
1 Sales	4,631	4,309	2,392	4,703	3,659
a Cost of Good Sold	*(3,904)*	*(3,713)*	*(2,037)*	*(4,152)*	*(3,185)*
2 Gross Profit	727	595	355	551	474
a Operating Expenses	(187)	(268)	(155)	(262)	(216)
3 Operating Profit	540	328	200	289	258
a Non Operating Income or (Expense)	*(20)*	*(28)*	*(23)*	*(11)*	*40*
4 Profit or (Loss) before Interest and Tax	520	300	177	278	298
a Total Finance Cost	*(242)*	*(257)*	*(133)*	*(201)*	*(251)*
b Taxation	*(51)*	*(36)*	*(21)*	*(44)*	*(34)*
6 Net Income Or (Loss)	227	6	23	33	14
C CASH FLOW STATEMENT					
a Free Cash Flows from Operations (FCFO)	*519*	*368*	*195*	*311*	*365*
b Net Cash from Operating Activities before Working Capital Changes	*274*	*133*	*70*	*91*	*140*
c Changes in Working Capital	*672*	*(1,596)*	*22*	*(1,279)*	*(967)*
1 Net Cash provided by Operating Activities	946	(1,463)	92	(1,189)	(827)
2 Net Cash (Used in) or Available From Investing Activities	(6)	(63)	(30)	(99)	(36)
3 Net Cash (Used in) or Available From Financing Activities	(373)	1,557	(53)	1,304	2,734
4 Net Cash generated or (Used) during the period	567	30	9	16	1,871
D RATIO ANALYSIS					
1 Performance					
a Sales Growth (for the period)	114.9%	-8.4%	1.7%	28.5%	--
b Gross Profit Margin	15.7%	13.8%	14.8%	11.7%	12.9%
c Net Profit Margin	4.9%	0.2%	0.9%	0.7%	0.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	25.7%	-28.5%	9.1%	-20.6%	-16.4%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	30.4%	0.5%	3.2%	2.4%	1.0%
2 Working Capital Management					
a Gross Working Capital (Average Days)	203	397	296	252	260
b Net Working Capital (Average Days)	201	392	288	247	253
c Current Ratio (Current Assets / Current Liabilities)	24.3	29.5	20.7	21.6	17.2
3 Coverages					
a EBITDA / Finance Cost	2.5	1.7	1.7	1.8	1.6
b FCFO / Finance Cost+CMLTB+Excess STB	2.1	1.4	1.4	1.4	1.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.2	1.0	1.1	1.1	0.7
4 Capital Structure					
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	76.4%	80.2%	74.0%	74.6%	67.0%
b Interest or Markup Payable (Days)	46.0	91.4	65.5	71.8	86.8
c Entity Average Borrowing Rate	9.2%	5.3%	7.0%	6.3%	10.3%

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

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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)
(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)
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