



The Pakistan Credit Rating Agency Limited

Rating Report

Sayban International

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Dec-2018	BB+	A3	Stable	Maintain	-
29-Jun-2018	BB+	A3	Stable	Maintain	-
30-Dec-2017	BB+	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Sayban operates in three segments: i) pesticides ii) seeds and bio fertilizer and ia a leading player in the former segment. It has laid the milestone of introducing 'bio fertilizer' in Pakistan. The Company has a sizeable turnover, with the contribution of each segment, while pesticide remains predominant segment in terms of revenue. Profitability of the company is sanguine. Sayban has managed to mark its presence in the marker through operational efficacy. The company is making efforts for improving its market share amidst the large fragmented industry. Sayban is still a partnership, to be converted into a private limited company in coming year. The governing structure is likely to improve as Sayban moves towards corporate structure. Company meets its working capital requirements through a mix of internal cashflows and short term borrowings. However, the financial risk remains good on account of low leveraged capital structure and adequate coverages. Going forward, the sustenance in bottom-line and cash flows, formalizing the governance and financial transparency is vital. The group has also set up another company under the brand of Comega to advance its business penetration.

The ratings are dependent on sustained business and financial profile of the company. Any deterioration to margins and/or cash flows remains critical to the ratings. The domino effect of restructuring is yet to materialize.

Disclosure

Name of Rated Entity	Sayban International
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Agriculture Input and Services(Jan-18)
Rating Analysts	Raniya Tanawar raniya.tanawar@pacra.com +92-42-35869504

Profile

Legal Structure Sayban International (Under Sayban Group) is a registered partnership company since 2005

Background Sayban International was established under the umbrella of Auriga Group. The agreement was signed to promote new products in the agricultural industry. Currently five companies are working under the umbrella of Sayban Group which are; Auriga Chemical, Bravo Crop Sciences, Auriga Seed Corporation, Roshan Crop Sciences and Sayban International. Sayban Zarai Markaz (Pvt.) Limited, currently (inactive/dormant), was formed to acquire Sayban International after restructuring the ownership

Operations The industrial complex based at Sayban, includes production facilities for Fungicides, Granules, Herbicides, Insecticides, PGR (Bio Gas) and Hybrid Seeds. The Company is doing Research & Development on different types of bacteria those are environment friendly and is involved in formulation and sale of Pesticides, manufacturing of PGR (Bio gas) and sales of Hybrid Seeds (Rice). The distribution network is widespread in the areas of southern Punjab, Gujranwala, sahiwal Faisalabad. During its course of time Sayban's franchise network has grown to 500 plus shops which is backed by 525 experienced & qualified sales team of permanent & contractual personnel. Company has an enhanced capacity of 312 metric tonnes.

Ownership

Ownership Structure At present, the company is under Auriga Group and is majorly held by individuals. After the ownership restructuring, Sayban will be a separate company from Auriga group, once legal formalities are cleared. Henceforth, major shareholding will move to Mr. Muhammad Azam Cheema and Mr. Shamsheer Hussain each 44.18% and remaining to Mr. Muhammad Tariq.

Stability Conglomerate structure and profound business model affirms consistency in the agriculture market.

Business Acumen Auriga group is one of the prominent names in pesticide sector with maximum market share (~6%). As soon as the legal formalities are closed Sayban International will fall under Sayban Group.

Financial Strength Transforming itself into a better structure under the umbrella of an agricultural group, Sayban, will be prospective for its financial arena

Governance

Board Structure Sayban, as a partnership, does not have a formal board structure. The Company is being run by seven (7) partners. According to the current restructuring going on, there will be only 3 partners, each of them will be engaged in management

Members' Profile Sayban has experienced professionals on board. Mr. Muhammad Azam Cheema, holding a master's degree in MSc Hon's Agriculture and Agronomy and holding vast business experience, is the Chairman & Chief Executive Officer of the Company

Board Effectiveness Company's oversight function – which is normally the role of the Board – is being exercised by two senior partners - namely Mr. Azam Cheema and Mr. Jamshed Iqbal and repetitive roles of partners in the management of the Company, reflects lack of independent direction.

Financial Transparency The auditors of the Company, Awan & Co. Chartered Accountants, not a member of SBP panel 2017, expressed an unqualified opinion on the financial statements of the Company for CY17. Hence Company's financial transparency needs improvement.

Management

Organizational Structure Sayban has a well demarcated organizational structure with defined functions. (i) Operations, (ii) Finance & Accounts, (iii) Administration & HR, (iv) Procurement (v) Development (vi) Marketing (vii) R & D and (viii) Internal Audit.

Management Team Sayban International has an experienced management team; a balanced blend of professional people from the industry. Majority of the senior management is associated with the Company for a long time. Mr. Aslam Javed, Chief Finance Office, holds a master's degree in finance and has been aptly deploying his valued expertise for more than a decade. Once the company's restructuring comes to a close, he will be the group CFO.

Effectiveness The Company currently has no formal structure of partners committees. However, an in-house internal audit department exist that is reporting to CEO demonstrating an informal culture within the company.

MIS Sayban has deployed an M/s Genie Clique, a general customized software, particularly for pesticide along with a real time management base. However, further improvement in the system will improve business process.

Control Environment Absence of formal committees along with concentrated reporting lines to CEO signifies lack of controls

Business Risk

Industry Dynamics Pakistan's agriculture sector plays a central role in the economy as it contributes 18.9 percent to GDP. Better yields of agriculture inputs are dependent on various factor and Pesticide is part of it. The use of Pesticide during the crop season marks inevitable importance in agricultural dimension.

Relative Position Sayban holds a market share of 4% in the pesticide industry which will further increase after the business restructuring is firmed. Sayban is the pioneers of introducing Micro fertilizer, with a brand name 'Charger', a unique yet value adding product in the fertilizer segment of the country. The Company is also involved in hybrid seed production (Rice) and one of the pioneers in the market. Aiming for a sustainable business model, launch of Omega Life Sciences will give an added advantage to the company as Sayban will be the suppliers of Omega.

Revenues Sayban's topline is on an upward trend for couple of years. (CY17: PKR 2.8bln, CY16: PKR 2.3bln). During 1HCY18, company earned a topline of PKR ~1.5bln which is improved by ~9% as compared to the corresponding period (1HCY17 PKR ~1.3bln). The most contribution towards the topline came from the pesticide segment (~64%) then Micro Fertilizer (~20), Seeds (~14) and Fertilizer (2.4%). The company is expected to surpass PKR~3bln mark in the coming closing period (CY18)

Margins The Company witnessed an improving trend in gross profit, the pre-tax profit amounted to PKR ~203mln in 1HCY18 (CY17: PKR 345mln, CY16: PKR 278mln). The finance cost witnessed a rise on YOY basis due to increased borrowing, PKR ~392mln by 1HCY18 (CY17: PKR 371mln, CY16: PKR 157mln). The net profit of Sayban was improved in contrast to the profit in previous year CY17: PKR 324mln (CY16: PKR 265mln; CY15: PKR 282mln) while for 1HCY18, it clocked in at PKR ~196mln

Sustainability The Company has enhanced its production capacity by 25 MT per day, of liquid formulation of pesticides which is expected to meet the existing & upcoming market demands. The company is in discussions with China to convert this facility into a Joint Venture with renowned manufacturers of Agro chemicals. Additionally, company is in the process of establishing 'Powder Formulation' facility, which will have a capacity of 07 MT per shift.

Financial Risk

Working Capital Sayban's operational management requirements remained on slightly upper edge (CY17: 138 days, CY 16: 136 days), as part of the business norm, minimum inventory holding period falls at 90 days. The working capital cycle got upset during 1HCY18 (172days), owing to delays in import shipments which led to accumulated payable PKR ~203mln (CY17: PKR ~160mln). The imports shipments have started to release and will be translating into company's book by the end of this year. The company meets its working capital requirements through a mix of internal cashflows and short term borrowings (1HCY18: 314mln, CY17: PKR ~270mln).

Coverages Sayban's financial position is strong due to better yield in profits that backed the company progress in free cashflows from its operations (CY17 PKR ~444mln, CY16 PKR ~315mln), while for the period 1HCY18 it stood at PKR ~255mln. Sayban's overall coverages witnessed fluctuation, as the borrowings took an upward pace. The interest coverage continued to be highly comfortable ~14x in 1HCY18 (CY17: ~9.7x, CY16: ~21x).

Capitalization Sayban has effectively managing its capital structure by maintaining its equity levels. Company has an approved limit of 750mln (non-funded facility-450mln) out of which the business has availed PKR ~314mln by 1HCY18. Although the overall total debt of the company has heaped over the years standing at PKR 394mln in 1HCY18 (CY17: PKR 371mln, CY16: PKR 157mln) the leveraging remained muted to 19.3% in 1HCY18 (CY17 19.8%, CY16: 11%).



Sayban International

BALANCE SHEET	30-Jun-18	30-Dec-17	30-Dec-16	31-Dec-15
	1H	Annual	Annual	Annual
Non-Current Assets	390	347	287	103
Investments (Incl. Associates)	-	-	-	-
Equity	-	-	-	-
Debt Securities	-	-	-	-
Investment Property	-	-	-	-
Current Assets	2,055	1,904	1,396	1,340
Inventory	712	580	381	281
Trade Receivables	956	990	734	778
Others	387	334	281	281
Total Assets	2,445	2,251	1,683	1,443
Debt	394	371	157	60
Short-Term	315	270	90	-
Long-term (Incl. Current Maturity of Long-Term Debt)	79	101	68	60
Other Short-Term Liabilities	400	375	239	114
Other Long-Term Liabilities	-	-	-	-
Shareholder's Equity	1,651	1,505	1,287	1,270
Total Liabilities & Equity	2,445	2,251	1,683	1,443

INCOME STATEMENT

Turnover	1,523	2,850	2,313	2,211
Gross Profit	442	877	676	667
Other Income	0	5	11	1
Financial Charges	(18)	(46)	(15)	(19)
Net Income	196	324	265	282

Cashflow Statement

EBITDA	258	456	326	334
Free Cashflow from Operations (FCFO)	255	444	315	323
Net Cash changes in Working Capital	(138)	(354)	66	(150)
Net Cash from Operating Activities	99	45	366	154
Net Cash from Investing Activities	(75)	(55)	(164)	1
Net Cash from Financing Activities	(44)	38	(203)	(187)
Net Cash Generated during the period	(21)	28	(1)	(31)

Ratio Analysis

Performance				
Turnover Growth (same period last year)	9.4%	23.2%	4.6%	5.3%
Gross Margin	29.0%	30.8%	29.2%	30.1%
Net Margin	12.9%	11.4%	11.5%	12.8%
ROE	23.8%	24.6%	22.2%	23.2%
Coverages				
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	7.0	4.6	6.5	6.0
Interest Coverage (x) (FCFO/Gross Interest)	14.4	9.7	21.1	17.4
Debt Payback (Years) (Total Lt. Debt (excluding Covered Short Term Borrow	0.2	0.3	0.2	0.2
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	172	138	136	121
Capital Structure (Total Debt/Total Debt+Equity)	19%	20%	11%	4%

Credit Rating Scale & Definitions

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 Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

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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

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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.
- (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)

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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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