The Pakistan Credit Rating Agency Limited

Rating Report

Hassan Ali Rice Export Company

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-Oct-2022	BBB+	A2	Stable	Upgrade	-
14-Oct-2021	BBB	A2	Stable	Maintain	-
14-Oct-2020	BBB	A2	Stable	Maintain	-
19-Dec-2019	BBB	A2	Stable	Maintain	-
27-Jun-2019	BBB	A2	Stable	Maintain	-
27-Dec-2018	BBB	A2	Stable	Maintain	-
27-Jun-2018	BBB	A2	Stable	Maintain	-
12-Jan-2018	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% 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 incorporate the strength of the Sponsors of Hassan Ali Rice Export Company ('Hassan Ali' or 'the Business') as reflected in the business structure of the group (Hashwani Group of Companies) and its overall governance principles. With a prominent presence in the market, Hassan Ali holds a strong position among the biggest rice exporters in the country, with customers spreading over multiple countries. During FY21, Hassan Ali observed substantial growth, wherein rupee devaluation also favored the topline. The topline was also supported by wheat and maize trading. While gross margins remain stable supported by effective cost management. Bottom-line, however, remained stable. There is no long-term debt on Hassan Ali's balance sheet. Working capital borrowings are aligned with the business cycle, whilst the trade leverage position has stabilized. Coverages remain strong. Hassan Ali is a sole proprietorship hence, room for improvement in its governance structure continues to be significant.

The ratings are dependent upon the Business' ability to sustain its volumes, margins, and, in turn, profitability. Meanwhile, positive trade leverage to avoid asset-liability mismatch and continued adherence to sound financial discipline including debt servicing capacity remains imperative for ratings. Strengthening of governance structure will benefit the ratings.

Disclosure

Name of Rated Entity	Hassan Ali Rice Export Company
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 Hassan Ali Rice Export Company ('Hassan Ali' or 'the business') is a sole proprietorship, incorporated in 1994.

Background Hashwani Group has been in trading business since 1960s. Previously, Hassan Ali & Cotton (Pvt.) Limited was engaged in cotton trading. Later, when local cotton crop trading viability suffered due to crop issues, the Group entered into rice trading and established Hassan Ali Rice Export Company. The Group's business portfolio spans across various sectors including commodity trading, textile, real estate, mining, processing and marketing of no. of minerals.

Operations Hassan Ali processes different grades of rice and exports to the international market. The business is one of the largest exporters of rice and is among the founding members of Rice Export Association (REAP). The business has entered into rice polishing by setting up rice polishing units at SITE Karachi. The Group's current total operational capacity of polishing ~450,000 MT of rice per annum. One mill, under the umbrella of Hassan Ali, has an installed capacity of ~ 72,000 MT per annum. While, the other mill has been set up utilizing the group concern, Hassan Ali Rice Export Co. Ltd. (previously known as Regent Textile Industries Ltd.), and has an annual capacity of ~378,000 MT per annum.

Ownership

Ownership Structure Hassan Ali is a sole proprietorship and is owned by Mr. Abdullah Akbar Ali Hashwani.

Stability Ownership structure of the business is seen as stable as no changes in ownership are expected. The second generation is gradually being inducted in the business. However, transition to next generation remains to be seen.

Business Acumen Mr. Abdullah Hashwani has been in the business arena for the past 42 years. He has two daughters and a younger son. Both the daughters have lately joined the business after completing their education and currently overseeing marketing operations. Hashwani Group is a well-known name in the Agriculture sector of Pakistan.

Financial Strength Hassan Ali is a stable business entity. The Sponsors have substantial financial strength to support the business, if needed.

Governance

Board Structure As a sole proprietorship, there exists no formal board structure in Hassan Ali.

Members' Profile Mr. Abdullah Akbar Ali Hashwani who belongs to an entrepreneurial background, solely heads the overall operations. This implies a high degree of single man risk.

Board Effectiveness Absence of formal governance framework poses significant risk to management decisions and lack of independent oversight.

Financial Transparency M/s. Daudally Lalani & Co. Charetered Accountants have been appointed as the auditors of Hassan Ali. The firm is QCR rated, however, is not on SBP panel of auditors. This bodes concern over the financial accuracy of the firm and its audit opinion. The firm has issued an unqualified opinion on Hassan Ali's financial statements for the year ended Jun-21.

Management

Organizational Structure Hassan Ali Rice has a lean but defined organizational structure. There are well-demarcated reporting lines and segregation of duties. There are five key functions reporting to GM and/or Director. These include: (i) Logistics, (ii) Marketing, (iii) Exports, (iv) Finance & Accounts, and (v) R&D.

Management Team The department heads are seasoned with relevant experience. They are associated with the Group / proprietary concern for long; hence possess in-depth knowledge of the business.

Effectiveness The entire operational management and decision making is concentrated into the hands of Mr. Abdullah A. Hashwani, holding the position of Chief Executive / Director and is assisted by Mr. M. Munir Dandia who is designated as the General Manager.

MIS The business has deployed an in-house ERP Solution since July 2014.

Control Environment Although business KPIs are continuously monitored through regular reporting, a single line of management bodes control risk.

Business Risk

Industry Dynamics Rice is among the five major crops of Pakistan and is the second main staple food, after wheat. In Pakistan, rice is grown in most of the Sindh and Punjab Province. Sindh specializes in producing the long grains white rice IRRI-6 and IRRI-9, while Punjab produces world-class Basmati rice. The major players in rice exports include Pakistan, India, Thailand, and Vietnam. During FY22, the rice crop area reflected an increase of 6% (FY22: ~3.5mln hec, FY21: ~3.3mln hec). This led to an increase in rice production by ~6% (FY22: ~8.9mln MT, FY21: ~8.4mln MT). Out of this, around 4mln MT of rice is consumed locally, while, ~4.9mln MT is exported. The maximum contribution is from non-basmati rice (~85%) exports; while, basmati rice is majorly consumed locally and a minimal quantity (~15%) is exported. The industry's cashflows remain afloat. However, going forward, floods may impact the overall industry's production level.

Relative Position The product does not itself offer a lot of variation in terms of features, therefore, quality processing remains critical. Hassan Ali uses its international office and contacts to secure maximum orders during season. It was among the list of top 50 exporters of the country in FY22 with USD 134mln exports.

Revenues Hassan Ali majorly generated revenue by rice processing and trading (~61%), followed by wheat and maize trading (~39%). During FY21, Hassan Ali's topline surged and stood at ~PKR 20.5bln (FY20: ~PKR 11.6bln). The surge was attributable to the increased price of rice in the export market. Moreover, as exports opened up post-Covid-19, more orders were received from Africa and China, the main export regions. Sales during Dec-21 stood at PKR 9.6bln (2QFY21: PKR 11bln), stabilizing back to pre-covid periods.

Margins During FY21, the gross profit improved and clocked in at ~PKR 1.3bln (FY20: ~PKR 1.1bln) owing to higher sales. However, gross margin dipped (FY21: ~6.4%, FY20: ~9.1%) on the back of higher cost of raw of raw materials. Similarly, the operating expenses margin plunged to ~2.5% (FY20: ~3.4%). The finance cost stood at ~PKR 197mln in FY21 (FY20: ~PKR 146mln). Resultantly, net profit margin dropped to ~1% in FY21 (FY20: ~1.5%). During Dec-21, gross margins posted a surge to 6.8% (2QFY21: 3.5%) on the back of dollar appreciation. Resultantly, net profit margin also surged to 1.1% (2QFY21: 0.8%).

Sustainability Going forward, the management intends to enhance its business margins benefitting from lately converted associated concern for rice polishing. This while providing backward integration, would help in reducing its reliance on external suppliers for rice processing /polishing. Moreover, it is diversifying its product portfolio and planning towards organic solutions in the rice industry for the US/EU markets. Hassan Ali is also working with COFCO group-Thailand based on multiple projects around the globe. Moreover, the Business is planning to penetrate in the wheat segment.

Financial Risk

Working Capital Hassan Ali finances its working capital needs through the export refinance facility (ERF II), a performance-based facility by SBP. The cash conversion cycle of the business is linked to the rice seasonality element. During FY21, the net working capital days improved to 61 days (FY20: 95 days) on the back of the improved inventory cycle (FY21: 50 days, FY20: 87 days). Moreover, the business has improved its borrowing cushion against trade and total assets (FY21: 12.5% and 25%, FY20: 2% and 23%). Working capital days deteriorated to 70 days, from 64 days in Dec-20. This was due high inventory levels maintained comparatively.

Coverages During FY21, the FCFO improved to ~PKR 402mln (FY20: PKR 326mln) on the back of better profitability. However, the finance cost of the business increased and stood at ~PKR 197mln in FY21 (FY20: ~PKR 146mln) despite lower total borrowings. Consequently, the interest coverage posted a dip at ~3.5x (FY20: 4.2x), though remaining strong. Interest coverage as at Dec-21 remained strong at 4.6x (2QFY21: 4.8x), on the back of stable finance cost (2QFY22: PKR 67mln, 2QFY21: PKR 62mln) and FCFO (2QFY22: PKR 180mln, 2QFY21: PKR 157mln).

Capitalization The Business has a highly leveraged Capital Structure. In FY21, the leveraging stood at ~66% (FY20: ~68%). Hassan Ali capital structure mainly comprises short term borrowings and equity. The equity (FY21: PKR 1.6bln, FY20: PKR 1.5bln) is supplemented by the unappropriated profit during the period. There is no long-term debt on the books of the Business at present, therefore, 100% debt comprises the short-term borrowings (FY21: PKR 3,118mln, FY20: PKR 3,306mln). The Business uses SBP's export refinance facility at concessionary rates to finance working capital requirement. Leverage during 2QFY22 stood at 70% (FY20: 73%).

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Hassan Ali Rice Export Company	Dec-21	Jun-21	Jun-20	Jun-19
Rice	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	185	115	111	118
2 Investments	460	-	5	270
3 Related Party Exposure	416	416	411	335
4 Current Assets	4,468	4,273	4,432	4,773
a Inventories	*2,993*	*2,794*	*2,805*	*2,724*
b Trade Receivables	*874*	*808*	*600*	*315*
5 Total Assets	5,529	4,804	4,958	5,495
6 Current Liabilities	36	83	95	337
a Trade Payables	*20*	*49*	*71*	*292*
7 Borrowings	3,870	3,118	3,306	3,656
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	1,623	1,603	1,557	1,502
11 Shareholders' Equity	1,623	1,603	1,557	1,502
B INCOME STATEMENT				
1 Sales	9,604	20,539	11,645	18,638
a Cost of Good Sold	*(8,951)*	*(19,232)*	*(10,581)*	*(17,104)*
2 Gross Profit	653	1,307	1,064	1,534
a Operating Expenses	(386)	(796)	(666)	(972)
3 Operating Profit	267	510	398	562
a Non Operating Income or (Expense)	*5*	*23*	*72*	*28*
4 Profit or (Loss) before Interest and Tax	272	534	470	590
a Total Finance Cost	*(67)*	*(197)*	*(146)*	*(214)*
b Taxation	*(97)*	*(142)*	*(153)*	*(190)*
6 Net Income Or (Loss)	108	196	171	186
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*180*	*402*	*326*	*315*
b Net Cash from Operating Activities before Working Capital	*113*	*206*	*180*	*195*
c Changes in Working Capital	*(704)*	*77*	*325*	*(179)*
1 Net Cash provided by Operating Activities	(591)	283	505	16
2 Net Cash (Used in) or Available From Investing Activities	(460)	(5)	245	(222)
3 Net Cash (Used in) or Available From Financing Activities	(512)	(188)	(467)	835
4 Net Cash generated or (Used) during the period	(1,563)	90	283	629
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-6.5%	76.4%	-37.5%	--
b Gross Profit Margin	6.8%	6.4%	9.1%	8.2%
c Net Profit Margin	1.1%	1.0%	1.5%	1.0%
d Cash Conversion Efficiency (FCFO adjusted for Working C	-5.5%	2.3%	5.6%	0.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	13.4%	12.4%	11.2%	12.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	71	62	101	60
b Net Working Capital (Average Days)	70	61	95	54
c Current Ratio (Current Assets / Current Liabilities)	124.3	51.3	46.6	14.2
3 Coverages				
a EBITDA / Finance Cost	7.1	4.8	6.1	4.2
b FCFO / Finance Cost+CMLTB+Excess STB	4.6	3.5	4.2	2.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	0.0	0.0	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equit	70.4%	66.0%	68.0%	70.9%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	2.1%	3.2%	2.3%	3.3%

Credit Rating

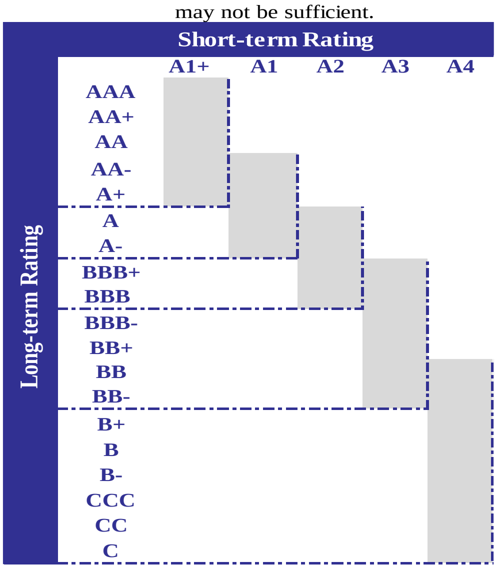
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(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)

Independence & Conflict of interest
(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)
Proprietary Information