The Pakistan Credit Rating Agency Limited

Rating Report

Awami Agro Commodities

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	Upgrade	-
08-May-2020	BB+	A3	Stable	Maintain	-
13-Nov-2019	BB+	A3	Stable	Maintain	-
27-Jun-2019	BB+	A3	Stable	Maintain	-
27-Dec-2018	BB+	A3	Stable	Maintain	-
12-Jun-2018	BB+	A3	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% to 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 crop 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, the rupee depreciation is anticipated to compensate for the reduction in export volumes.
The ratings reflect the proficient background of the partners of Awami Agro Commodities ('Awami Agro'). Growth centric strategy encompasses maximizing returns through expansion in export destinations, which is achieved through entering the West African region leading to a stable revenue stream. Awami Agro's profitability and in turn, margins improved due to better pricing in the local and international markets. A forecast of decelerated competition on the African side, particularly from Thailand and Vietnam, backs up a stable outlook for Irri/non-basmati export. However, recent floods in the country may impact the overall production of non-basmati rice leading to increased prices, both locally and internationally. Awami Agro's financial risk profile has reflected sanguine debt servicing capacity. Obligations are majorly short-term in nature (Export Refinance Facility - Part II), therefore, borrowing costs remain modest. Going forward, rupee depreciation and recovery in prices globally is expected to hamper exports.

The ratings are dependent upon the improvement of business volumes under the current challenging environment. As rice exporters undergo distress, business sustainability emerges as the key challenge. Lack of governance framework remains a concern. Meanwhile, keeping up with a stable financial risk profile is imperative.

Disclosure

Name of Rated Entity	Awami Agro Commodities
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	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure Awami Agro Commodities ("Awami Agro" or "the Business") is a family owned partnership concern.

Background Awami Agro was established in 2012 by Mr. Bhagwan Das and his brother, Mr. Sanjesh Kumar. Awami Agro is among the well established Businesses of rice export. The Business holds the membership of Rice Export Association of Pakistan (REAP) and Karachi Chamber of Commerce & Industry (KCCI).

Operations Core operations of the business includes export of non-basmati rice. The processing facility is located at Port Qasim, Industrial Area, in Karachi. The unit's processing capacity is 260 MT per day (~11 MT per hour). The plant has setup latest machinery and is a composite unit capable to perform all processing stages: pre cleaning, de-stoning and silking. There are five silking machines, each produces 1.5-2 tons/hr of full silky and 2.5-3 tons/hr of normal silky rice. The Business mainly export rice to Kenya, Mozambique, Madagascar, Benin, Tanzania and other African regions.

Ownership

Ownership Structure Ownership of the Business resides equally (50%) between Mr. Bhagwan Das and his brother, Mr. Sanjesh Kumar.

Stability Equal partnership stake with no expectation of change in the short horizon adhere to stability in the structure.

Business Acumen The sponsoring family is associated with the rice industry for over the past three decades. Mr. Bhagwan Das and his brothers, Mr. Sanjesh Kumar, Mr. Naresh Kumar and Mr. Govinda Kumar, are all associated with Awami Agro. Mr. Sanjesh Kumar joined the family business during 2010.

Financial Strength Financial strength of the sponsors is considered adequate.

Governance

Board Structure Awami Agro, being a partnership business, does not have a formal governance structure. The oversight function – which is normally the function of the Board – is being exercised by the Sponsors. All four brothers are responsible for the oversight of their respective departments.

Members' Profile Mr. Bhagwan Das heads the Business with an overall experience of more than ~19 years.

Board Effectiveness Currently, the Business does not have any formal committees.

Financial Transparency Imran Hasan & Co. Chartered Accountants are appointed as the auditors of Awami Agro. The firm is neither QCR rated nor classified in SBP panel of auditors and has issued an unqualified opinion for the year ended Jun-22.

Management

Organizational Structure Awami Agro has an experienced team with defined reporting lines and segregation of duties. The managerial staff at the head office and factory report to the respective Directors.

Management Team The management team comprises five members while the four brothers oversee the entire business operations. The senior staff at the head office reports to Mr Govinda Kumar and the factory team is managed by Mr. Naresh Kumar.

Effectiveness There are no formal management committees in place of Awami Agro. However, each department reports to its respective Director, who makes pertinent decisions.

MIS The business has deployed an in-house Accounting Management Software, implemented by a Sole proprietor. Being a partnership business, there are no formal reporting timelines in place.

Control Environment There is no internal audit function in place at Awami Agro.

Business Risk

Industry Dynamics 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, ~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 15% of the nation's rice crop. However, the rupee depreciation is expected to compensate for reduction in export volumes.

Relative Position Awami Agro exports rice from the time of its commencement. Major revenue comes from African countries where non-basmati rice (IRRI 6) is preferred. The Business is a small player in industry with ~2% of market share.

Revenues Awami Agro generates revenue from non-basmati rice exports (~78%) and only ~22% through local sales. During FY22, revenues of the business clocked in at ~ PKR 2,520mln (FY21: ~ PKR 1,613mln), posting an increase of ~56%. This was due to increase in exports. Going forward, revenue growth is expected to be supported through recovery in demand and depreciation of local currency.

Margins During FY22, Awami Agro posted a gross profit of PKR 566mln (FY21: PKR 312mln), translating into a margin of 22.5% (FY21: 19.3%). However, Operating margins witnessed a slight decrease of ~6.2% during FY22 (FY21: ~6.6%), due to a proportionate increase in operating expenses (FY22: PKR 409mln, FY21: PKR 205mln). At a net level, the Business posted a net income of PKR 138mln during FY22 (FY21: PKR 58mln) resulting in increased profit margins to ~6% from ~4%. Going forward, the margins are expected to remain similar.

Sustainability Awami Agro is planning to increase the efficiency of its existing operations. Moreover, the Business is eyeing to increase its geographical outreach by establishing associate companies in Madagascar and Benin. The sustenance of revenue growth is essential considering the competitiveness of rice market.

Financial Risk

Working Capital Working capital needs are derived from inventory days, receivable and payables cycle. The net working capital days witnessed improvement and stood at 137 days in FY22 (FY21: 201 days) owing to inventory days standing at 79days (FY21: 104 days). Receivable days stood at 58 days (FY21: 105 days). The Business's short-term trade leverage and total leverage remain stretched as of FY22 indicating limited room to borrow against trade assets and total current assets.

Coverages Free cash flow from operations (FCFO) increased as of FY22 and clocked in at PKR ~147mln (FY21: PKR ~62mln) as a result of an increase in profitability. Subsequently, the interest coverage ratio increased to 3.0x in FY22 (FY21: 2.1x). However, finance costs also increased to PKR 49mln as of FY22 (FY21: PKR 29mln). Similarly, the debt coverage ratio increased to 2.6x (FY21: 3.1x).

Capitalization The Business has leveraged capital structure (FY22: 64%, FY21: 75%) dominated by Export Refinance Facility. The total debt of Awami Agro as of FY22 clocked in at ~ PKR 907mln as compared to ~ PKR 1,195mln as of FY21 against a relatively higher equity base (FY22 PKR 515mln, FY21 PKR 398mln).

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Financial Summary
PKR mln

Awami Agro Commodities	Jun-22	Dec-21	Jun-21	Dec-20	Jun-20
Rice	12M	6M	12M	6M	12M
A BALANCE SHEET					
1 Non-Current Assets	406	387	383	81	83
2 Investments	-	-	-	-	-
3 Related Party Exposure	-	-	-	-	-
4 Current Assets	1,017	1,288	1,210	1,311	906
a Inventories	*527*	*676*	*565*	*486*	*351*
b Trade Receivables	*300*	*440*	*495*	*517*	*434*
5 Total Assets	1,422	1,675	1,593	1,392	989
6 Current Liabilities	-	-	-	53	32
a Trade Payables	-	-	-	*53*	*32*
7 Borrowings	907	1,233	1,195	931	567
8 Related Party Exposure	-	-	-	-	-
9 Non-Current Liabilities	-	-	-	-	-
10 Net Assets	515	443	398	409	390
11 Shareholders' Equity	515	443	398	409	390
B INCOME STATEMENT					
1 Sales	2,520	1,014	1,613	880	3,253
a Cost of Good Sold	*(1,953)*	*(800)*	*(1,301)*	*(697)*	*(2,683)*
2 Gross Profit	566	214	312	182	569
a Operating Expenses	(360)	(159)	(205)	(133)	(352)
3 Operating Profit	206	55	107	50	217
a Non Operating Income or (Expense)	-	-	-	-	-
4 Profit or (Loss) before Interest and Tax	206	55	107	50	217
a Total Finance Cost	*(49)*	*(0)*	*(36)*	*(8)*	*(41)*
b Taxation	*(19)*	*(6)*	*(13)*	*(7)*	*(28)*
6 Net Income Or (Loss)	138	49	58	34	149
C CASH FLOW STATEMENT					
a Free Cash Flows from Operations (FCFO)	*147*	*55*	*62*	*36*	*154*
b Net Cash from Operating Activities before Working Capital Changes	*147*	*55*	*62*	*36*	*154*
c Changes in Working Capital	*(26)*	-	*256*	*(31)*	*(115)*
1 Net Cash provided by Operating Activities	121	55	318	5	39
2 Net Cash (Used in) or Available From Investing Activities	(31)	-	(304)	-	-
3 Net Cash (Used in) or Available From Financing Activities	(20)	-	(50)	(18)	(40)
4 Net Cash generated or (Used) during the period	69	55	(36)	(13)	(1)
D RATIO ANALYSIS					
1 Performance					
a Sales Growth (for the period)	56.2%	25.7%	-50.4%	-45.9%	18.9%
b Gross Profit Margin	22.5%	21.1%	19.3%	20.7%	17.5%
c Net Profit Margin	5.5%	4.8%	3.6%	3.9%	4.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	4.8%	5.4%	19.7%	0.6%	1.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shc*	30.1%	23.3%	14.7%	17.0%	44.4%
2 Working Capital Management					
a Gross Working Capital (Average Days)	137	196	209	185	76
b Net Working Capital (Average Days)	137	196	201	177	73
c Current Ratio (Current Assets / Current Liabilities)	N/A	N/A	N/A	25.0	28.3
3 Coverages					
a EBITDA / Finance Cost	3.4	545.4	2.6	5.3	7.5
b FCFO / Finance Cost+CMLTB+Excess STB	2.6	7.9	1.6	4.4	6.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.1	0.3	0.8	0.0	0.0
4 Capital Structure					
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	63.8%	73.6%	75.0%	69.5%	59.3%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	4.4%	0.0%	3.2%	2.2%	4.8%

Credit Rating

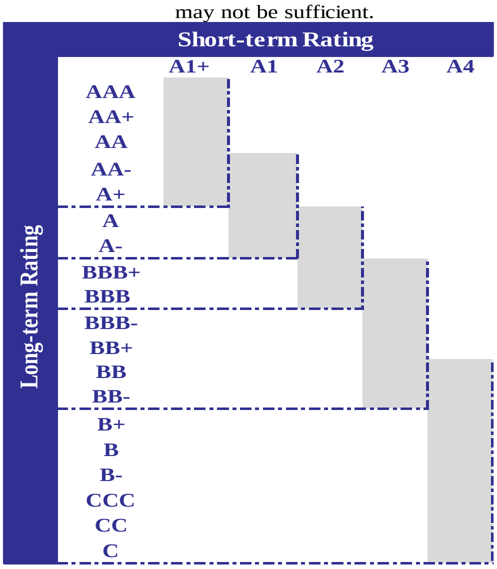
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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