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
27-Dec-2018	BB+	A3	Stable	Maintain	-
12-Jun-2018	BB+	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect the strong experienced background of the partners. The partners of the business are well equipped with the related sector knowledge. The strategy of the partnership encompasses maximizing the returns through gaining new markets. Currently, Awami Agro is exporting non-basmati rice mainly to African countries. Turnover of the partnership had shown good growth in past couple of years with consistent generation of healthy margins. As Awami Agro is a partnership, governance structure reflects needs for improvement. Financial risk profile is driven by a bottom line centric approach with a good debt servicing capacity and a leverage capital structure. Debt profile entirely constitutes short term borrowings to manage working capital needs.

The ratings are dependent upon sustenance of margins and increase in revenue. Lack of proper board structure is a concern. Sustainable profits, adequate cash flows and working capital cycle are majorly backed by reasonable turnover.

Disclosure	
Name of Rated Entity	Awami Agro Commodities
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-18),Methodology | Criteria | Rating Modifier(Jun-18),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study | Rice(Dec-18)
Rating Analysts	Nadeem Sheikh | nadeem.sheikh@pacra.com | +92-42-35869504

Profile

Legal Structure Awami Agro Commodities is a Partnership, family owned business.

Background Awami Agro Commodities was established in 2012 by two brothers; Mr. Bhagwan Das and Mr. Sanjesh Kumar. Awami Agro Commodities is one of the sustainable companies of rice exports. The business holds the membership of Rice Export Association (REAP) and Karachi Chamber of Commerce & Industry (KCCI).

Operations Awami Agro's core operation involves the export of non-basmati rice and it has managed a viable footing in the market over the years. The business's focal attention is the quality of its product and its target market. Awami Agro successfully exports in various parts of the world, including Kenya, Mozambique, Uganda, Madagascar, UAE, Saudi Arabia, Bahrain, Morocco, Benin and other regions.

Ownership

Ownership Structure The shareholding of the business is shared between two brothers; Mr. Bhagwan Das and Mr. Sanjesh Kumar, holding 50% each.

Stability Awami Agro is not expecting any change in partnership structure in the coming future.

Business Acumen Mr. Bhagwan Das has three brothers: Sanjesh Kumar, Naresh Kumar and Govinda Kumar, all associated with Awami Agro. The entire family is in rice industry for over the past three decades and since 2010, Sanjesh Kumar has also joined the family business during his studies. Business understanding of the sponsor's is deemed good.

Financial Strength Financial strength of the sponsors is considered adequate.

Governance

Board Structure Awami Agro, being a partnership, does not have a formal Board of Directors (BoD) structure. The oversight function – which is normally the function of the Board – is being exercised by the sponsors of the company. All four brothers are responsible for the oversight of their respective departments.

Members' Profile Mr. Bhagwan Das leads the partnership. He is the most experienced of all. He has overall experience of more than ~18 years.

Board Effectiveness Currently, board does not has any formal committees. Governance structure needs improvement.

Financial Transparency Salahuddin & Co. Chartered Accountants are the auditors of Awami Agro Commodities. The audit firm does not satisfy the QCR ratings neither it is classified in any of the categories defined by the State Bank of Pakistan. The auditors issued an unqualified opinion for the year ended June-18.

Management

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

Management Team The management team mainly comprises five members while the four brothers oversee the entire business operations. The senior staff at the head office reports to Mr Govinda Kumar while factory team falls under Mr. Naresh Kumar's ambit.

Effectiveness Currently, Awami Agro does not have any formal management committees. Each department report to their respective director.

MIS Awami Agro 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 Awami Agro Commodities has a manufacturing plant located at Port Qasim, Industrial Area, in Karachi.The unit's production capacity is 260 M.Ton per day (10 M.Tons per hour). The business has latest imported machinery in place and the plant is a complete manufacturing composite that is capable to perform all production 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.

Business Risk

Industry Dynamics Rice industry constitute ~0.6% of the total GDP of the Pakistan. Most of the players in the sector are small corporates, partnership or sole proprietors as only 22 firms out of total 107 players have more than hundred employees, MATCO Foods Limited is the only listed company in the sector. Pakistan produced ~7.4mln tons of rice in FY18, out of which ~3.3mln tons was locally consumed and the remaining ~4.1mln tons were exported. Rupee depreciation against US Dollar and various incentives for exporters is expected to bode well for the export market. Water scarcity and other problems will persist to be the key challenge for the rice industry going forward.

Relative Position Awami Agro Commodities exports rice from the time of its commencement. Major revenue comes from African countries where non-basmati rice (IRRI 6) is preferred. The company is growing with good pace. Long term association with customer helps Awami Agro to retain its market share.

Revenues Revenue for the period ending on End-June 18 was PKR 1,311mln with a 41% growth YOY (FY17: PKR 930mln). The revenue is expected to increase further in coming period; support will come from good demand and depreciation of local currency.

Margins Awami Agro has healthy gross profit margin as the GP margin at the End-FY18 stood at 20% (FY17: 17%). Improved gross margin translated into improved operating margin which reached 8% in FY18 (FY17: 5%). Net margin culminated to ~5%.

Sustainability Awami Agro is eyeing to increase its geographical out-reach and has purchased land in FY18 to increase its capacity.

Financial Risk

Working Capital Net working capital days of Awami Agro increased during FY18 to ~49 days (FY17: 22 days). The sharp increase in working capital days is being led by increased inventory because most of the rice players opt to stock up rice in anticipation of devaluation of PKR against US Dollar.

Coverages Interest coverage decreased due to increase in interest expense. Overall coverages of the entity are still strong due to zero long term debt and sanguine generation of free-cash flows.

Capitalization Capital structure is highly leveraged as the gearing ratio of the partnership stood at 72% at End-June18. Total debt of the company stood at PKR 446mln at End-FY18 and consist of only short term liabilities. Cautious management approach is necessitated.

Awami Agro Commodities

BALANCE SHEET	30-Jun-18	30-Jun-17	30-Jun-16	30-Jun-15
	Annual	Annual	Annual	Annual
Non-Current Assets	**80**	**28**	**28**	**33**
Investments (Incl. associates)	-	-		
Equity	-	-		
Debt				
Investment property	-	-		
Current Assets	**563**	**205**	**67**	**59**
Inventory	**257**	**78**	31	18
Trade Receivables	**294**	**90**	33	32
Others	**12**	**37**	3	10
Total Assets	**643**	**233**	**96**	**93**
Debt	**446**	**130**	-	-
Short-term	446	130	-	
Long-term (Inlc. Current Maturity of long-term debt)	-	-		
Other shortterm liabilities	25	2	-	
Other Longterm Liabilities				
Shareholder's Equity	**173**	**101**	**93**	**90**
Total Liabilities & Equity	**643**	**233**	**94**	**91**
INCOME STATEMENT				
Turnover	**1,311**	**930**	**521**	**560**
Gross Profit	259	154	96	123
Net Other Income				
Financial Charges	(11)	(3)	(1)	(2)
Net Income	**78**	**39**	**27**	**20**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	82	44	32	25
Net Cash changes in Working Capital	(45)	25	(15)	(46)
Net Cash from Operating Activities	37	69	17	(21)
Net Cash from InvestingActivities	(56)	(5)	-	(39)
Net Cash from Financing Activities	(7)	(31)	(24)	70
Ratio Analysis				
Performance				
Turnover Growth	41%	79%	-7%	8%
Gross Margin	20%	17%	18%	22%
Net Margin	6%	4%	5%	3%
ROE	90%	77%	30%	1%
Coverages				
Interest Coverage (FCFO/Gross Interest)	7	16	30	10
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	7	16	30	10
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	7	16	30	10
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interes	0	0	0	0
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	48	22	36	172
Capital Structure (Total Debt/Total Debt+Equity)	72%	56%	0%	0%

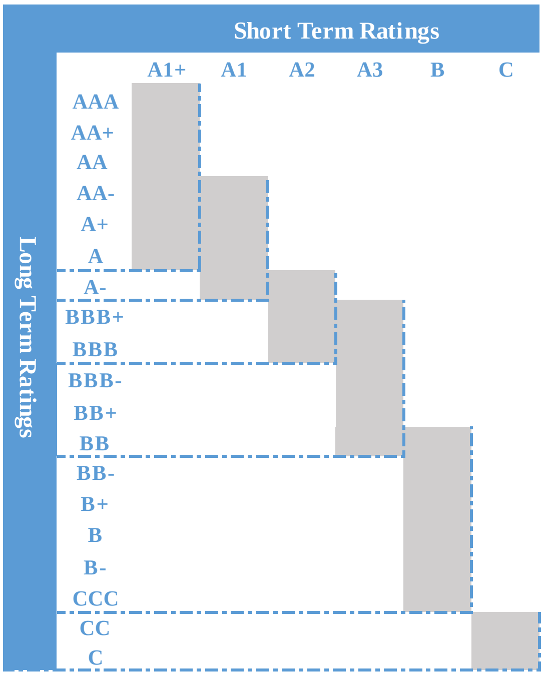
Rating Scale

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	
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 Ratings	
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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 surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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.
(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