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
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% in GDP. Pakistan cultivates both basmati and non-basmati rice, most of which is exported. 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. Pakistan locally consumes Basmati Rice, which is a long, thin aromatic type of rice, considered premium and luxury category across the globe. 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. Thailand's 'Jasmine' rice has emerged lately as high-price premium rice. During FY21, the rice cropped area increased to ~3.33MH (FY20: ~3.03MH), reflecting an increase of ~10%. Consequently, the production of rice witnessed an increase of ~13% and stood at ~8.4MT (FY20: ~7.4MT). Out of this, around 3.5mln MT of rice is consumed locally. While ~3.7mln MT is exported (Closing stock: 1.2mln MT) to generate ~ PKR 325bln of export revenue. The maximum contribution is from non-basmati rice (72%) exports, as basmati rice is locally consumed and minimal quantity (28%) is exported. During FY21, rice exports deteriorated to ~USD 2,041mln (FY20: ~USD 2,175mln) owing to the Indian strategy of dumping the commodity in the international market at cheaper rates.
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. However, lately, India adopted a dumping strategy after re-entering the international market following facing complete curtailment from Covid-19 imposed lockdown within. As a result, Awami Agro's profitability was impacted, while the margins remained stable due to better pricing in the local and international markets. As a forecast of decelerated competition on the African side, particularly from Thailand and Vietnam, backs up a stable outlook for Irri/non-basmati export. The same proxy is used to develop a comfort on the business sustainability of Awami Agro, as it only deals in Irri/non-basmati rice. Awami Agro's financial risk profile has reflected sanguine debt servicing capacity. Obligations are majorly short-term in nature (Export Refinance Facility), therefore, borrowing costs remain modest. Going forward, rupee depreciation and recovery in prices globally is expected to hamper exports.

The ratings are dependent upon 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-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Rice(Nov-20)
Rating Analysts	Shayan Farooq | shayan.farooq@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 manufacturing facility located at Port Qasim, Industrial Area, in Karachi. The unit's processing capacity is 240 MT per day (10 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 ~18 years.

Board Effectiveness Currently, the Board 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-21.

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 reports to their 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 falls under Mr. Naresh Kumar's ambit.

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. Pakistan cultivates both basmati and non-basmati rice, most of which is exported. 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. Pakistan locally consumes Basmati Rice, which is a long, thin aromatic type of rice, considered premium and luxury category across the globe. 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. Thailand's 'Jasmine' rice has emerged lately as high-price premium rice. During FY21, rice cropped area increased to ~3.33MH (FY20: ~3.03MH), reflecting an increase of ~10%. Consequently, the production of rice witnessed an increase of ~13% and stood at ~8.4MT (FY20: ~7.4MT). Out of this, around 3.5mln MT of rice is consumed locally. While, ~3.7mln MT is exported to generate ~ PKR 325bln of export revenue. The maximum contribution is from non-basmati rice (72%) exports, as basmati rice is locally consumed and minimal quantity (28%) is exported. During FY21, rice exports deteriorated to ~USD 2,041mln (FY20: ~USD 2,175mln) owing to the Indian strategy of dumping the commodity in international market at cheaper rates.

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.

Revenues Awami Agro generates revenue from rice exports (~81%) and only ~19% through local sales. During FY21, revenues of the business clocked in at ~ PKR 1,613mln (FY20: ~ PKR 3,253mln), posting a dip of 50%. This was due to slow down in exports, as India dumped the commodity in the international market at a lower price. Going forward, revenue growth is expected to be supported through recovery in demand and depreciation of local currency.

Margins Awami Agro posted a gross profit margin of 19% in FY21 (FY20: 18%). Operating margins remained stable at 7% during FY21 (FY20: 7%), due to lower operating expenses (FY21: PKR 205mln, FY20: PKR 352mln), mostly freight expense. Finance cost remained low at PKR 36mln (FY20: PKR 41mln) on the back of Export Refinance Facility availed from SBP. Net profit margins posted a dip (FY21: 4%, FY20: 5%). Net income stood at ~PKR 58mln during FY21 (FY20: ~ PKR 149mln).

Sustainability Awami Agro is planning to enhance the capacity of its existing operations, to commence exports to China. 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 receivables and inventory days. Cash conversion cycle is linked to the rice seasonality element. Net working capital days deteriorated during FY21 to 201 days (FY20: 73 days). The change in working capital days is being led by higher inventory days (FY21: 104 days, FY20: 33 days) owing to slow rice offtake. Late receipts also constituted to long receivable days (FY21: 105 days, FY20: 43 days). Strict working capital discipline is required to improve the borrowing buffer, as the trade and total leverage position also deteriorated.

Coverages Interest coverage (FY21: 2.1x, FY20: 6.3x) significantly dipped due to a lower FCFO of PKR 62mln during FY21 (FY20: PKR 154mln) from lower profitability. Finance cost reduced marginally to PKR 36mln, (FY20: PKR 41mln). Resultantly, total and core coverage stood at 1.6x at FY21 (F20: 6.3x).

Capitalization The business model is designed around securing short term Export Refinance Facility (ERF) to fuel working capital needs. Leveraging rose during FY21, moving to 75% (FY20: 59%). Before FY17 the firm mainly operated on internal cash generation. Total debt clocked in at PKR 1,195mln as at FY21 and consists of PKR 1,169mln short term liabilities (FY20: PKR 567mln). The remaining PKR 26mln is used for leasing vehicles.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Awami Agro Commodities Rice	Jun-21	Jun-20	Jun-19	Jun-18	Jun-17
	12M	12M	12M	12M	12M
A BALANCE SHEET					
1 Non-Current Assets	383	83	88	80	28
2 Investments	-	-	-	-	-
3 Related Party Exposure	-	-	-	-	-
4 Current Assets	1,210	906	661	563	205
a Inventories	*565*	*351*	*246*	*257*	*78*
b Trade Receivables	*495*	*434*	*324*	*294*	*90*
5 Total Assets	1,593	989	749	643	233
6 Current Liabilities	-	32	25	25	2
a Trade Payables	-	*32*	*25*	*25*	*2*
7 Borrowings	1,195	567	443	446	130
8 Related Party Exposure	-	-	-	-	-
9 Non-Current Liabilities	-	-	-	-	-
10 Net Assets	398	390	281	173	101
11 Shareholders' Equity	398	390	281	173	101
B INCOME STATEMENT					
1 Sales	1,613	3,253	2,736	1,311	930
a Cost of Good Sold	*(1,301)*	*(2,683)*	*(2,226)*	*(1,052)*	*(775)*
2 Gross Profit	312	569	509	259	154
a Operating Expenses	(205)	(352)	(336)	(157)	(105)
3 Operating Profit	107	217	173	103	50
a Non Operating Income or (Expense)	-	-	-	-	-
4 Profit or (Loss) before Interest and Tax	107	217	173	103	50
a Total Finance Cost	*(36)*	*(41)*	*(14)*	*(13)*	*(3)*
b Taxation	*(13)*	*(28)*	*(24)*	*(12)*	*(8)*
6 Net Income Or (Loss)	58	149	134	78	39
C CASH FLOW STATEMENT					
a Free Cash Flows from Operations (FCFO)	*62*	*154*	*156*	*82*	*52*
b Net Cash from Operating Activities before Working Capital (	*62*	*154*	*140*	*69*	*44*
c Changes in Working Capital	*256*	*(115)*	*(48)*	*(32)*	*25*
1 Net Cash provided by Operating Activities	318	39	92	37	70
2 Net Cash (Used in) or Available From Investing Activities	(304)	-	(14)	(56)	(5)
3 Net Cash (Used in) or Available From Financing Activities	(50)	(40)	(26)	(7)	(31)
4 Net Cash generated or (Used) during the period	(36)	(1)	52	(25)	34
D RATIO ANALYSIS					
1 Performance					
a Sales Growth (for the period)	-50.4%	18.9%	108.7%	41.0%	78.5%
b Gross Profit Margin	19.3%	17.5%	18.6%	19.8%	16.6%
c Net Profit Margin	3.6%	4.6%	4.9%	6.0%	4.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Ca	19.7%	1.2%	3.9%	3.8%	8.3%
*e Return on Equity [Net Profit Margin * Asset Turnover * (To*	17.9%	43.4%	51.5%	66.4%	54.7%
2 Working Capital Management					
a Gross Working Capital (Average Days)	209	76	75	100	49
b Net Working Capital (Average Days)	201	73	71	96	48
c Current Ratio (Current Assets / Current Liabilities)	N/A	28.3	26.4	22.5	91.0
3 Coverages					
a EBITDA / Finance Cost	2.6	7.5	12.7	7.1	18.4
b FCFO / Finance Cost+CMLTB+Excess STB	1.6	6.3	11.0	6.2	18.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fin	0.8	0.0	0.0	0.0	0.0
4 Capital Structure					
a Total Borrowings / (Total Borrowings+Shareholders' Equity	75.0%	59.3%	61.2%	72.1%	56.3%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	3.2%	4.8%	3.8%	5.6%	2.2%

Credit Rating

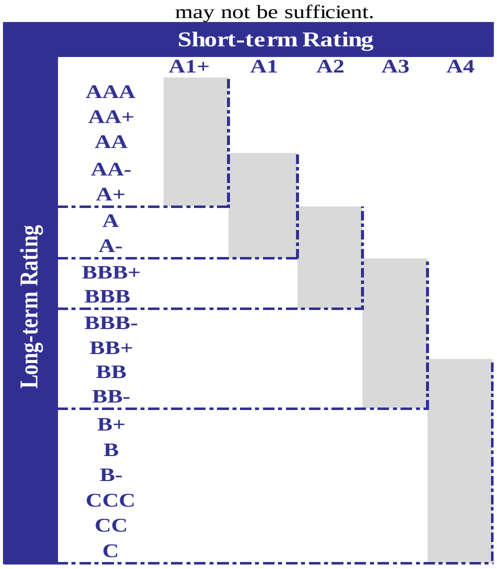
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

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

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

Entities

a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

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(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)

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(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
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