



The Pakistan Credit Rating Agency Limited

## Rating Report

### Warble (Pvt.) Limited

#### Report Contents

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
31-Mar-2022	BBB-	A3	Stable	Maintain	-
26-Aug-2021	BBB-	A3	Stable	Maintain	-
26-Aug-2020	BBB-	A3	Stable	Upgrade	-
27-Aug-2019	BB+	A3	Stable	Maintain	-
25-Feb-2019	BB+	A3	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Warble (Pvt.) Limited's (herein referred to as 'Warble' or 'the Company') rating is underpinned by the consistent support it receives, owing to the synergistic benefits from the Group. The Company's prudent decision making framework, in tandem with its adequate topline growth, is reflected in the entity's ratings. The growth in revenue can be attributed to the inflationary pressure, coupled with higher volumetric sales. Further, operational synergies have led to increased margins and augmented profitability. Additionally, the adverse impacts of the Pandemic'19 on the financial performance of the Company are gradually diminishing, as can be witnessed by the contraction in the net working capital requirement of the Company, in conjunction with an increase in the net profit margin. Warble primarily engages in the production and sale of three different segments of agri-based products, namely i) Pesticides ii) Fertilizers iii) Seeds. While the raw materials for pesticides are essentially procured predominantly from China, India and Europe, raw materials for fertilizers are procured from LayallPur Chemicals at dealer rate. The Company maintains a well-integrated network of over 750 franchises spread across the country. Moreover, in lieu of relying heavily on imported products, the Company expanded its product portfolio by incorporating locally produced biofertilizers that are a cost effective and efficient substitute for urea-and-DAP-based fertilizers. The ratings further factor in stable coverages and adequate liquidity levels maintained by the Company.

The ratings assigned to Warble take into account a moderate business risk profile; the sponsor strength emanates from Allahdin Group's vast and prolonged business interests in fertilizers, pesticides and other commodities. Going forward, ratings remain sensitive to the achievement of projected revenues, maintenance of debt servicing ability and enhancement in coverages.

#### Disclosure

<b>Name of Rated Entity</b>	Warble (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Pesticides(Feb-22)
<b>Rating Analysts</b>	Maryam Arshad   maryam.arshad@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Warble (Pvt.) Limited (herein referred to as 'Warble' or 'the Company'), one of the pioneer companies of the AllahDin Group, is a private limited Company. Warble is engaged in pesticide formulation, seed and fertilizer sales in the country. It primarily deals through the franchise network, called 'AgroMart'.

**Background** Warble is one of the main pesticide companies in Pakistan which came into existence in 1995, established as the second Company by the AllahDin Group. In the 1980s, the sponsoring family was mainly engaged in the construction business, while one sibling was associated with the agriculture industry, having the required knowledge of the sector.

**Operations** Warble's head office is located in Lahore. The formulation facility is at Jhanian Multan (referred to as the Heart of Cotton Belt) equipped with Chinese machinery and technology. It is spread over 4 acres of land. Currently, the Company is operating with over 500 employees.

## Ownership

**Ownership Structure** There was a shift in the ownership structure of the Company. Shareholding of the founding generation comprising Ch. Ifitikhar Nazir, the Group Chairman, and his brother Mr. Atta Ur Rehman, the CEO of Warble, has been transferred to their respective sons. The Company is now majority owned by the two cousins, Mr. Masood Ur Rehman (51.0%) and Mr. Zain Ifitikhar (47.5%), while the rest of the ownership is held by Ch. Ifitikhar's wife, Mrs. Ghazala Asmat Ghazali.

**Stability** As evident from the above, clear succession lines have been drawn and implemented, throughout the Allahdin Group.

**Business Acumen** The Allahdin Group family has been associated with the agriculture sector for a considerable amount of time. The Group encompasses a number of companies in its ambit.

**Financial Strength** The history of the Allahdin Group dates back to the 1990's. The Group reported a turnover of PKR ~4bln in FY20. It has vested business interests in Agriculture, Bottling, and the Pharmaceutical industry.

## Governance

**Board Structure** The overall control vests with a three-member Board of Directors. Mr. Masood Ur Rehman and Mr. Zain Ifitikhar hold executive positions on the Board while Mrs. Ghazala Asmat Ghazali, the wife of Ch. Ifitikhar Nazir, is a non-executive member.

**Members' Profile** The Board members carry adequate skills, competence and knowledge

**Board Effectiveness** There are no formal board committees in place. The meetings of the Board with senior management are conducted on a frequent basis. Proper record is kept, in hard files and the ERP system of the Company

**Financial Transparency** M/s. Tabussum Saleem and Co., Chartered Accountants, a QCR rated firm, is the external auditor of the company. It has given an unqualified opinion on the Company's financial statements for the year ended June'21.

## Management

**Organizational Structure** Warble has a lean organizational structure, divided into four key functions, namely (i) Sales & Marketing, (ii) Finance, (iii) HR & IT and (iv) Taxation & Accounts. The reporting lines converge to the CEO.

**Management Team** Mr. Masood Ur Rehman is CEO of the Company. Mr. Zain Ifitikhar Chaudhry, son of Ch. Ifitikhar Nazir, the pioneer of the group, is COO of Warble. He is a graduate in Financial Management Services, from York University, Toronto. He has been following the footsteps of his father and has started looking after the family businesses.

**Effectiveness** Meetings of management are conducted on a frequent basis, depending upon the requirement. Senior management gives input in the decision making while Ch. Ifitikhar Nazir is the final authority for all decision-making processes.

**MIS** The Company deploys an ERP system and generates reports on daily, weekly and monthly basis.

**Control Environment** Warble's plant is located in the hub of Agriculture, Jhanian Multan while its head office is based in Lahore. In order to avoid freight charges the Company followed a strategy to locate the plant in the center of Punjab.

## Business Risk

**Industry Dynamics** Pakistan's agricultural sector holds a ~19% contribution to its GDP, showcasing its importance to the economy. The pesticide industry is an important segment of agriculture, since it is one of the major crop inputs. Pakistan's pesticides Industry is estimated at USD~484mln in FY22 (USD~422mln) in FY21, with a YoY increase of ~15%, owing to the overall growth in crops sector. The growth is also led by rising prices of pesticide products. A large majority of the raw materials are imported from China. Pakistan largely depends upon imports to meet the local demand of the pesticides industry.

**Relative Position** In peer comparison of Warble, Welcon and Syban, Warble has the highest revenue.

**Revenues** In FY21, the Company reported a topline of PKR~2278mln (FY20: PKR~2254mln), depicting an increase of 1.1%. The increasing trend in revenues continued during 1HFY22, as the company earned a revenue of PKR 1437mln. The cost of goods sold, similarly followed an uptrend, with the amount clocking in at PKR 1171mln in the recent quarter (COGS: FY21: 1848; FY20: 1832). The increase in revenues can be attributed to the augmented demand for pesticides, and related products. The bottom-line for Warble escalated considerably during FY21, increasing from PKR 52mln in FY20 to PKR 151mln in FY21. The net profit for 1HFY22 clocked in at PKR 78mln. Operating expenses stayed in line, falling slightly from PKR 245mln in FY20 to PKR 210mln in FY21.

**Margins** The prices are decided by the supply demand gap in the industry. The company has been able to secure its margins by controlling its costs. Gross profit margins have remained fairly stable during the period from FY20 to FY21 (Gross Profit Margin: FY21: 18.8%; FY20: 18.6%). On the contrary, the net profit margin for the aforementioned period underwent a more pronounced increase, soaring from 2.3% in FY20 to 6.7% in FY21. The gross and net profit margins for 1HFY22 can also be seen following the uptrend. (1HFY22: Gross Profit Margin: 18.5%; Net profit Margin: 5.4%).

**Sustainability** Going forward, the management will keep its focus on sustaining its cost leadership and performance uptrend. The Company is offering biofertilizers, which are an effective and inexpensive alternative for urea-based fertilizers. The product array adds to the sustainability of Warble.

## Financial Risk

**Working Capital** The Company's networking capital requirements is a function of inventory, receivables and payables. The net working capital cycle increased from -130 days to 225 days. This sharp rise was caused by a drastic increase in the trade receivables during the period, as they escalated from PKR 104mln in FY20 to PKR 620mln in FY21. The Company meets working capital requirements through a mix of internal cashflows and Short-Term Borrowings (STBs). The asset turnover for the Company has also shown a considerable increase, spiking up to 129.2% in 1HFY22, depicting an improvement in the performance of the Company. (Asset Turnover: FY21: 97.8%; FY20: 97.1%). The current ratio, while remaining fairly consistent during the period from FY20 to FY21, experienced an increase and clocked in at 4.6x (Current Ratio: FY21: 2.2x; FY20: 2.3x).

**Coverages** During 1HFY22, the Company's EBITDA amounted to PKR~147mln (FY21: PKR~239mln; FY20: PKR~196mln). The company was also able to sustain its FCFO at healthy levels, as the FCFO during 1HFY22 amounted to PKR~147mln (FY21: PKR~218mln; FY20: PKR~136mln). The EBITDA / Finance Cost also improved during 1HFY22, and clocked in at 4.4, reinforcing an enhanced financial performance achieved by the Company in the recent quarter (EBITDA / Finance Cost: FY21: 3.0x; FY20: 2.9x). Similarly, FCFO / Finance Cost further depicts an overall improved performance as the ratio augmented to 4.4x (FCFO / Finance Cost: FY21: 2.8x; FY20: 2.4x).

**Capitalization** As at 1HFY22 the Company's total borrowings stood at PKR~698mln (FY21: PKR~470mln; FY20: PKR~580mln). The Company's exposure is mainly in short term borrowing. Warble's equity stands at PKR~1064mln (FY21: PKR~987mln; FY20: PKR~835mln) which has increased due to a rise in the unappropriated profits. Gearing ratio increased to 39.6% (FY21: 32.3%; FY20: 41.0%).



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Warble (Pvt.) Ltd. Agri & Allied   Pesticides	Dec-21 6M	Jun-21 12M	Jun-20 12M	Jun-19 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	353	341	300	330
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,781	1,976	2,033	1,970
<i>a Inventories</i>	721	1,122	1,585	1,658
<i>b Trade Receivables</i>	827	620	104	73
<b>5 Total Assets</b>	<b>2,134</b>	<b>2,317</b>	<b>2,333</b>	<b>2,299</b>
6 Current Liabilities	391	881	884	1,250
<i>a Trade Payables</i>	242	581	745	1,036
7 Borrowings	698	470	580	247
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	(20)	(20)	33	19
<b>10 Net Assets</b>	<b>1,064</b>	<b>987</b>	<b>835</b>	<b>783</b>
<b>11 Shareholders' Equity</b>	<b>1,064</b>	<b>987</b>	<b>835</b>	<b>783</b>
<b>B INCOME STATEMENT</b>				
1 Sales	1,437	2,274	2,249	2,171
<i>a Cost of Good Sold</i>	(1,171)	(1,848)	(1,832)	(1,795)
<b>2 Gross Profit</b>	<b>266</b>	<b>427</b>	<b>418</b>	<b>376</b>
<i>a Operating Expenses</i>	(130)	(210)	(245)	(231)
<b>3 Operating Profit</b>	<b>137</b>	<b>217</b>	<b>173</b>	<b>145</b>
<i>a Non Operating Income or (Expense)</i>	(7)	(6)	(6)	(4)
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>129</b>	<b>211</b>	<b>167</b>	<b>141</b>
<i>a Total Finance Cost</i>	(34)	(78)	(67)	(61)
<i>b Taxation</i>	(18)	19	(47)	(27)
<b>6 Net Income Or (Loss)</b>	<b>78</b>	<b>151</b>	<b>52</b>	<b>53</b>
<b>C CASH FLOW STATEMENT</b>				
<i>a Free Cash Flows from Operations (FCFO)</i>	147	218	165	139
<i>b Net Cash from Operating Activities before Working Capital</i>	181	140	98	78
<i>c Changes in Working Capital</i>	(287)	41	(433)	(43)
<b>1 Net Cash provided by Operating Activities</b>	<b>(106)</b>	<b>181</b>	<b>(335)</b>	<b>35</b>
<b>2 Net Cash (Used in) or Available From Investing Activities</b>	<b>-</b>	<b>9</b>	<b>(0)</b>	<b>10</b>
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>200</b>	<b>(186)</b>	<b>336</b>	<b>(49)</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>94</b>	<b>5</b>	<b>1</b>	<b>(4)</b>
<b>D RATIO ANALYSIS</b>				
<b>1 Performance</b>				
<i>a Sales Growth (for the period)</i>	26.4%	1.1%	3.6%	--
<i>b Gross Profit Margin</i>	18.5%	18.8%	18.6%	17.3%
<i>c Net Profit Margin</i>	5.4%	6.7%	2.3%	2.4%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working C</i>	-9.7%	11.4%	-11.9%	4.4%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (1</i>	15.2%	16.6%	6.5%	6.8%
<b>2 Working Capital Management</b>				
<i>a Gross Working Capital (Average Days)</i>	209	331	N/A	N/A
<i>b Net Working Capital (Average Days)</i>	157	225	-130	-162
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	4.6	2.2	2.3	1.6
<b>3 Coverages</b>				
<i>a EBITDA / Finance Cost</i>	4.4	3.0	2.9	2.8
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	3.0	1.7	1.8	1.4
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi</i>	0.3	0.5	0.4	1.0
<b>4 Capital Structure</b>				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equi</i>	39.6%	32.3%	41.0%	24.0%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	0.0	10.3
<i>c Entity Average Borrowing Rate</i>	13.2%	16.7%	16.3%	24.6%

**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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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.
AA-	
A+	
A	<b>High credit quality.</b> 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.
A-	
BBB+	
BBB	<b>Good credit quality.</b> 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.
BBB-	
BB+	<b>Moderate risk.</b> 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.
BB	
BB-	
B+	
B	<b>High credit risk.</b> 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.
B-	
CCC	<b>Very high credit risk.</b> 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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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(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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- (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)

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- (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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