



The Pakistan Credit Rating Agency Limited

Rating Report

Warble (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Aug-2019	BB+	A3	Stable	Maintain	-
25-Feb-2019	BB+	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Warble (Pvt.) Limited operates in three segments: i) pesticides ii) seeds and iii) fertilizer. The Company is one of the pioneer groups entered in this segment back in 1990s. The Company has reported adequate turnover, with good contribution of each segment, while pesticide remains predominant segment in terms of revenue. Profitability of the company is slight. Warble expanded its operations by entering into different businesses in agriculture industry and achieving operational efficiency. The company's plant is located at Khanewal; near the Company's home market (Multan) which benefits its cost structure. The ratings take into account the need for improvement in the control environment of the company with emphasis on quarterly accounts. The company has secured its sales by franchise network named "AGROMART" and interacting end consumers. It meets its working capital requirements through a mix of internal cashflows and short term borrowings. However, the financial risk remains good on account of low long term finance and adequate coverages. Going forward, the improvement in bottom-line and cash flows, standardization in governance structure and financial transparency is vital. The ratings also take into account the sponsor strength as AllahDin group has interests in diversified segments of agriculture for more than 2 decades.

The ratings are dependent on improvement in business and financial profile of the company. Any deterioration to topline, margins and/or cash flows remains critical to the ratings. The company's sustained business performance in current stretched economic scenario - remains vital for ratings. The control environment needs improvement. This has been incorporated in the rating.

Disclosure

Name of Rated Entity	Warble (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Criteria_LT ST Relationship_FY19(Jun-19)
Related Research	Sector Study Pesticides(Feb-19)
Rating Analysts	Muhammad Usman muhammad.usman@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 AllahDin Group – is a private limited company. Warble is engaged in pesticides formulation, seeds and fertilizer sales in Pakistan and primarily deals through franchise network by the name AGROMART.

Background Warble is one of the main pesticides companies in Pakistan which came into existence in 1995, established as the second company by AllahDin Group. In the 1980's, the sponsoring family was engaged in construction business whereas one brother was associated with the Agriculture industry, having the required knowledge of the industry. Before its incorporation, the sponsoring family built the first company by the name of Welcon Chemicals to break monopoly of multinational companies along with other companies like Ali Akber Group and 4 Brothers (4B) group.

Operations Warble's head office is located in Lahore. The formulation facility is at Jhanian Multan (Heart of Cotton Belt) equipped with Chinese machinery and technology. It is spread over 4 acres. Currently, the company is operating with ~501 employees, mainly consisting of sales & marketing teams, given its importance in the pesticides business.

Ownership

Ownership Structure The company is equally owned by two brothers. Majority stake is with Mr. Atta ur Rehman 50.8%. Chaudhry Iftikhar Nazir holds 45.2%, rest is held by his wife Mrs. Ghazala Asmat and son.

Stability According to succession planning being followed by the sponsoring family, the ownership of Warble will eventually be transferred to Mr. Zain Iftikhar.

Business Acumen Allahdin Group family has been associated with the Agriculture sector for a considerable amount of time. The Group has vested interests through a number of companies in its ambit.

Financial Strength The Group history goes back to 1990's. Allahdin Group has reported turnover of PKR 4.4bln at Jun-18. It has vested business interests in Agriculture, Bottling plants, and the Pharmaceutical industry.

Governance

Board Structure The overall board vests with only three members who are also owners of the company. Mr. Atta Ur Rehman and Ch. Iftikhar Nazir hold executive positions on board while Ghazala Asmat Ghazali, wife of Ch. Iftikhar Nazir, is a non-executive member.

Members' Profile Board members carry adequate skill mix. Ch. Iftikhar Nazir and Mr. Atta Ur Rehman have been in this business for almost two decades.

Board Effectiveness There are no formal board committees in place. The meetings of the board with senior management are conducted on frequent basis. Same is stored in ERP system for which proper record is kept in hard files too

Financial Transparency M/s. Tabussum Saleem and Co., Chartered Accountants, the external auditor, QCR rated, has given unqualified opinion on the company's financial statements for the year ended June-18. Overall the financial transparency of the company has room for improvement.

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. Each function reports to COO and CEO who ultimately reports to chairman.

Management Team The Group Chairman & CEO, Ch. Iftikhar Nazir is the pioneer of AllahDin Group of companies. Mr. Atta Ur Rehman (other brother) is CEO of the company. Mr. Zain Iftikhar Chaudhry, son of Ch. Iftikhar Nazir is COO of the company. He is a graduate in Financial Management Services from York University, Toronto. He started looking after the Agro businesses and has been following footsteps of his father.

Effectiveness Meetings of management are conducted on frequent basis depending upon the requirement. Senior management gives input in the decision making but Ch. Iftikhar Nazir is the man at the last mile for all decision making processes.

MIS The company deploys ERP system and generates reports on daily, weekly and monthly basis

Control Environment Warble plant is located in the hub of Agriculture, Jhanian Multan and its head office is based in Lahore. In order to avoid the freight charges the company has followed a strategy to locate the plant in the center of Punjab. There is room for improvement in internal controls and systems, particularly in terms of adopting good governance practices and management of timely financial reporting.

Business Risk

Industry Dynamics Pakistan Agricultural sector holds ~18% contribution to its GDP. Pesticides Industry is an important segment of agriculture, as it is one of the major crop inputs. The size of the pesticides market is estimated to be in the range of PKR 60-75bln. Pakistan pesticide market is import dependent, with 20% to 30% of the pesticide cost component being imported to the country, majorly from China. In terms of crop usage, cotton is considered the most pesticide hungry crop in the country. On the pricing front, the recent rupee devaluation has resulted in an upward trend in the prices, directly affecting the industry and overall margins of the market players. The upcoming trends in the market are for specialized products which led to introduction of new products like Bio-fertilizers, Soil Improving Fertilizers and Micronutrients. The pesticide market is fragmented, comprising MNCs and local Companies. Major players (11) make up ~81% of the total pesticide market.

Relative Position AllahDin Group overall holds ~7% market share in the Industry and is 4th largest group in pesticides after Syngenta, Ali Akber and Sun Crop. Warble as an entity consist only 2.6% of total Industry. As a group it holds strong position and brand name in the industry.

Revenues During FY18, the Company reported a revenue of PKR 1,982mln (FY17: PKR 2,126), demonstrating a decline mainly due to the supply demand gap in the industry as one of the main supplier of Pesticide formulate (China) decreased its capacity utilization. Analysis of revenue mix revealed that majority contributor to sales, is the Pesticides category, in which Insecticides are the top sellers. These products are used upon cotton crop mainly. There is no other income of the company in form of investment except of minuscule investment in bank deposits. As the company has short term borrowings in its profile, the company reported a finance cost of PKR 50mln (FY17: 52mln). Hence, the company was able to make net profit PKR 34mln (FY17: PKR 56mln) owing to declined volumetric sales and low prices discussed previously.

Margins In recent years, the uptick in technical prices (raw material) had an effect on the company's sales, the prices are decided by the supply demand gap which ultimately effected the margins; Gross and EBITDA margins, resulting at 15.8% (FY17: 15.8%) and 6.4% (FY17: 7.2%) respectively.

Sustainability Going forward, management will keep its focus on sustaining its cost leadership and performance uptrend. The company is securing its business by registering its farmers and providing them pesticides and in return purchasing their crops. The idea was implemented in cotton and wheat.

Financial Risk

Working Capital During FY18, company's networking capital requirements, represented by net cash cycle (net working capital days) have decreased to 82 days (End-Jun'17: 93 days). The company meets its working capital requirements through a mix of internal cashflows and short term borrowings (STBs). The quantum of STBs stood at PKR~178mln at End-Jun'18 (End-Jun'17: PKR~98mln, End-Jun'16: PKR 50mln). Current ratio remained good (End-Jun'18: ~1.84x; end-Jun'17:~1.72x).

Coverages During FY18, the company's EBITDA was at PKR~127mln (End-Jun'17: PKR~154mln) which is lower due to lower profits during the year. FCFO of the company increased slightly (FY18: PKR~108mln) but remained low when compared with peers. Interest coverage improved slightly to 2.3x (End-Jun'17: ~2.1x). Core coverage ratio clocked in at ~1.5x at End-Jun'18 (End-Jun'17: 1.3x).

Capitalization During the year, the company's total leveraging stood at PKR~227mln (FY17: PKR~153mln). The company's exposure is in short term. Equity stands at PKR~730mln (FY17: PKR~696mln) which has increased slightly due to increase in unappropriated profits. Debt to debt plus equity ratio increased to ~24% (FY17: ~18%) primarily due to higher short term borrowings.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Warble (Pvt.) Limited Pesticides	Jun-18 12M	Jun-17 12M	Jun-16 12M	Jul-15 12M
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A BALANCE SHEET

1 Non-Current Assets	294	294	194	170
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,551	1,453	1,691	1,976
<i>a Inventories</i>	985	891	1,222	1,359
<i>b Trade Receivables</i>	312	321	200	338
5 Total Assets	1,845	1,746	1,885	2,146
6 Current Liabilities	870	874	1,118	1,437
<i>a Trade Payables</i>	803	819	726	687
7 Borrowings	227	153	107	95
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	18	23	20	34
10 Net Assets	730	696	641	580
11 Shareholders' Equity	730	696	641	580

B INCOME STATEMENT

1 Sales	1,982	2,126	1,919	1,587
<i>a Cost of Good Sold</i>	(1,668)	(1,790)	(1,628)	(1,278)
2 Gross Profit	314	336	291	309
<i>a Operating Expenses</i>	(208)	(202)	(172)	(187)
3 Operating Profit	105	134	119	122
<i>a Non Operating Income or (Expense)</i>	(4)	(6)	(5)	(5)
4 Profit or (Loss) before Interest and Tax	102	128	114	117
<i>a Total Finance Cost</i>	(50)	(52)	(47)	(49)
<i>b Taxation</i>	(18)	(22)	(7)	(21)
6 Net Income Or (Loss)	34	54	60	47

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	115	108	104	149
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	65	56	57	99
<i>c Changes in Working Capital</i>	(110)	81	(32)	(81)
1 Net Cash provided by Operating Activities	(45)	138	25	18
2 Net Cash (Used in) or Available From Investing Activities	6	(87)	(2)	0
3 Net Cash (Used in) or Available From Financing Activities	43	(40)	(30)	(20)
4 Net Cash generated or (Used) during the period	4	11	(7)	(2)

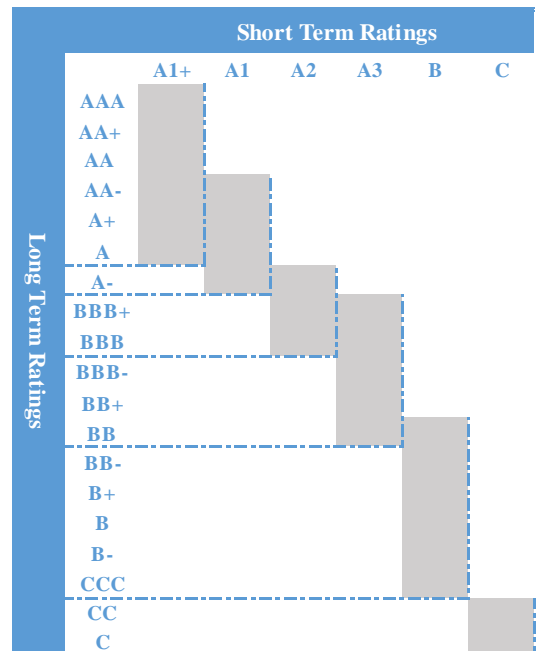
D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	-6.8%	10.8%	20.9%	--
<i>b Gross Profit Margin</i>	15.8%	15.8%	15.2%	19.5%
<i>c Net Profit Margin</i>	1.7%	2.6%	3.1%	2.9%
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	6.4%	7.2%	7.2%	10.7%
<i>e Return on Equity (ROE)</i>	4.8%	8.2%	9.8%	8.0%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	231	226	485	127
<i>b Net Working Capital (Average Days)</i>	82	93	351	-31
<i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>	1.8	1.7	1.5	1.4
3 Coverages				
<i>a EBITDA / Finance Cost</i>	2.5	3.0	2.9	3.5
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.5	1.3	1.4	2.2
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.8	1.0	1.0	0.5
4 Capital Structure (Total Debt/Total Debt+Equity)				
<i>a Total Borrowings / Total Borrowings+Equity</i>	23.7%	18.0%	14.3%	14.1%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	0.0	0.0
<i>c Average Borrowing Rate</i>	26.4%	39.7%	46.6%	51.5%

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		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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 surveil the opinion due to lack of requisite information.

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

Disclaimer: PACRA’s ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA’s opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security’s market price or suitability for a particular investor.

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)

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