The Pakistan Credit Rating Agency Limited

Rating Report

Allah Tawaqal Metals (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-Jan-2022	BB	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Founded in September 2019, Allah Tawaqal Metals (Pvt.) Limited (ATM) is involved in recycling of metals in Pakistan. It imports metals scrap for recycling to export Copper and Aluminium alloys ingots. It also trades secondary and semi-finished nonferrous and ferrous metals in local market. Pakistan's exports of Copper and Aluminium has seen significant increase. This is largely due to increase in exports of these products for which final destination is China, largest importer of refined Copper, Copper alloys and unwrought Aluminium in particular. With respect to exports, Copper and Aluminium ingots exported to China reached a value of USD~730mln during 2020 on the back of zero rating by China under the free trade agreement signed between the two countries. Recycling of Copper and Aluminium without taking appropriate measures can be harmful for the environment. While increasing awareness about the environment may lead to more stringent regulations in the future, it could be a risk to manage. Requisite clearance is pending from Provincial Environment Protection Agency (EPA) and Ministry of Climate Change.
In 2021, Allah Tawaqal Metals (Pvt.) Ltd posted topline and net margins of PKR 2.9 billion and PKR 267 million respectively. It has an equity base of PKR 439 million due to the reported profits and total borrowings of PKR 431mln (Short term only). The market share is expected to stand around 15%. On the other hand, ATM is a family owned and operated business which exposes it to risks of having same management and ownership. The overall governance framework is at very initial stages. Company is led by young and enthusiastic management. Financial transparency needs improvement. Business is also vulnerable to regulatory disruptions owing to its pending state of affairs with Provincial Environment Protection Agency (EPA) and Ministry of Climate Change.

Adherence to environmental protection regulations, financial transparency, customer stickiness and a credit policy are imperative for the ratings in future. Improving management, governance and control environment are also very important.

Disclosure

Name of Rated Entity	Allah Tawaqal Metals (Pvt.) Limited
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 | Steel(Sep-21)
Rating Analysts	Uswa Sikandar | uswa.sikandar@pacra.com | +92-42-35869504

Profile

Legal Structure Allah Tawaqal Metals (Pvt.) Ltd. is a private limited company incorporated in Pakistan on September 11, 2019 under the Companies Act 2017. The principal activities of company arc recycling copper and aluminium ingots from dismantling of compressors and other imports. The Company's registered office is situated at Opp. Kotli Shahan. G.T. Road. Gujranwala, Punjab 52250. Pakistan

Background Founded in September 2019, Allah Tawaqal Metals (Pvt.) Limited is involved in the manufacturing and recycling of metals in Pakistan and is the fastest-growing company in its field in the country.

Operations Allah Tawaqal Metals is a committed ecofriendly business and a well-recognized recycler. It imports/Buys metals for further manufacturing to export metal alloys ingots. It also trades secondary and semi-finished nonferrous and ferrous metals in local market. Company's main exporter is the auto industry in China. It sources raw materials from suppliers across the globe, largely from the USA and Europe, up to 60000MT of raw material per annum.

Ownership

Ownership Structure The current shareholding of Allah Tawaqal is divided among three family members, Mr. Muhammad Mubeen Arif, the eldest brother and CEO of ATM holds 34%, while Mr. Muhammad Muneeb Arif (younger brother) and Mr. Muhammad Umair (brother-in-law) hold 33% each.

Stability ATM needs to have formal succession planning in place so that future prospects are taken care of in the hour of need with respect to the management of the Company.

Business Acumen The family has been operating this business since decades. Mr. Arif Hussain started it in 80's and registered it as sole proprietorship. Earlier the business nature was limited to importing raw materials and trading it locally in Pakistan. However, after registration of company in 2019, recycling and exporting were added to the already existing model.

Financial Strength The financial strength of sponsors needs improvement.

Governance

Board Structure The overall control of the company vests in three-member board of directors (BoD) including Chief Executive – Mr. Mobeen Arif. All 3 members of board are also shareholders of the company. There are no independent directors in the board.

Members' Profile Mr. Mubeen has done Bachelors in Accounts and Finance from Brunel University London and has an overall experience of 5 years. Mr. Muneeb Arif is 3rd year student of Bachelors in Business Management in Regent University London and has an overall experience of 2 years while Mr. Umair has done Masters in Mass communication and has an overall experience of 3 years.

Board Effectiveness The Board has only three members and in comparison, to established corporates, the governance model is weak and needs improvement. There are no board committees in place.

Financial Transparency The company has recently switched to QCR rated auditors, Hassan Farooq & Co. and the current year audit engagement is being performed by them. This audit firm is not in the list of SBP pertaining to names of audit firms defining categories of external audit firms. The company is only making annual financial statements at the moment but plans to make quarterly accounts starting next year. Management represented that financial statement discussed in report are final on which auditor report is being finalized in couple of days.

Management

Organizational Structure Company has an adequate organizational structure. Currently, the organizational structure is divided into five main functions namely; 1) Sales 2) Production 3) Finance, Accounts & Taxation 4) Import and 5) Export.

Management Team Mr. Mubeen Arif Jutt is the CEO of the company since its incorporation in 2019. He is looking into Finance and Compliance function. His younger brother Mr. Muhammad Amin Arif is the GM finance and has done Bachelors in Business Management from UCL. Reporting of all other functions is done to him. Mr. Muhammad Irfan heads Import and Export departments.

Effectiveness Since the company is family-owned business and has relatively flat organizational structure with the sponsors looking after the day-to-day operations, ATM needs to have formal management committees in place which can monitor performance and assure the adherence to the policies and procedures.

MIS The company is currently using Quick Books Enterprise Solutions- Accountant Edition 18.0 for financial reporting. However, its inventory module is not used since it is not suitable for ATM inventory the details of which are managed manually. The company is in the process of implementing customized ERP software system called Business Management System and has hired Crox Avenue Solutions for the related services.

Control Environment The company currently has no certification on health, safety and quality control although it intends to take Quality Control and Environmental performance Certification from ISO going forward in the current year.

Business Risk

Industry Dynamics Scrap metal recycling is a relatively new industry in Pakistan which especially bloomed after 2017 when China banned foreign scrap metal and introduced waste sanctions in its own country which resultantly shifted it to other countries, primarily being Pakistan, India, Malaysia, Indonesia and Vietnam. ATM is a committed ecofriendly business which has an environment treatment plant installed called baghouse with its furnace. This plant collects any carbon emitted in bags in saleable quality. This industry enjoys supportive business environment in Pakistan with minimal import duties on scrap of around 2-3% and tax credit under section 65D of ITO for newly established industrial undertakings.

Relative Position As per Management, the company has a share of around 15% in local scrap metal recycling market. ATM faces competition at international level from countries like India, Malaysia and Vietnam. However, players in Pakistan have competitive advantage as they enjoy zero customs duty in China.

Revenues Topline of the company followed substantial growth pattern of 118% and recorded at PKR 2.9 billion in CY21 compared to PKR 1.4 billion in its initial year of operations. Company earns its revenue stream both from exports as well as local sales. Copper Ingots and Aluminium Alloy Ingots are exported to China exclusively whereas ferrous wastage is sold locally to traders in Gujranwala and Lahore.

Margins During CY21, company's gross margin has been reported at 13.1% in comparison to 9.0% in CY20. Operating profit margin has seen a similar trend and booked at 10.4% in CY21 compared to 7.2% in CY20. With finance charges of 30 mln in 2021 (CY20: PKR 4 mln), the company reported profits FTY21 of PKR 267 million (CY20 : PKR 79 mln).

Sustainability ATM's management furnished reliable forecasts which reflects the strategy of the management and viability of the design path to reach the goal. As per management, copper being the best electrical conductor is used extensively in electrical vehicles which will keep its demand curve steep especially till 2030 since future belongs to electrical vehicles.

Financial Risk

Working Capital ATM manages its working capital cycle through mix of internal cashflows and short-term borrowings. During FY21, the Company's reliance on short term borrowings stood at 431mln (FY20: 233mln) while net working capital days clocked in at 49 days (FY20:79 days).

Coverages During FY21, ATM's operating cashflows (FCFO) recorded at PKR 291 mln (FY20: PKR 74mln) while free cash flows to interest coverage was 9.9x (FY20: 17.3x). Company enjoys good coverages on account of less dependance on external financing to manage its working capital as well as abundance of free cash flows.

Capitalization The company has a moderately leveraged capital structure with a debt to debt plus equity ratio of 50% (FY20: 61%). The company does not have any long term loan and uses short term funded facilities like FATR and FE-25 to manage its imports. As per management, the company intends to issue bonus shares in near future to further improve its gearing ratio and enhance its maximum financing limit.

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Financial Summary
PKR mln

Allah Tawaqal Metals (Pvt.) Ltd.	Jun-21	Jun-20	Jun-19
	12M	12M	12M
	Management	Audited	Audited
A BALANCE SHEET			
1 Non-Current Assets	56	9	-
2 Investments	-	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	1,711	731	-
a Inventories	*622*	*212*	-
b Trade Receivables	*616*	*361*	-
5 Total Assets	1,767	740	-
6 Current Liabilities	892	336	-
a Trade Payables	*728*	*279*	-
7 Borrowings	431	233	-
8 Related Party Exposure	5	14	-
9 Non-Current Liabilities	-	-	-
10 Net Assets	439	158	-
11 Shareholders' Equity	439	158	-
B INCOME STATEMENT			
1 Sales	2,978	1,363	-
a Cost of Good Sold	*(2,588)*	*(1,241)*	-
2 Gross Profit	390	122	-
a Operating Expenses	*(79)*	*(24)*	-
3 Operating Profit	311	98	-
a Non Operating Income or (Expense)	*(3)*	*(14)*	-
4 Profit or (Loss) before Interest and Tax	308	84	-
a Total Finance Cost	*(41)*	*(5)*	-
b Taxation	-	-	-
6 Net Income Or (Loss)	267	79	-
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*291*	*74*	-
b Net Cash from Operating Activities before Working Capital Changes	*252*	*70*	-
c Changes in Working Capital	*(196)*	*(378)*	-
1 Net Cash provided by Operating Activities	56	(308)	-
2 Net Cash (Used in) or Available From Investing Activities	(50)	(10)	-
3 Net Cash (Used in) or Available From Financing Activities	204	325	-
4 Net Cash generated or (Used) during the period	210	8	-
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	118.4%	--	N/A
b Gross Profit Margin	13.1%	9.0%	N/A
c Net Profit Margin	9.0%	5.8%	N/A
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	3.2%	-22.3%	N/A
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	89.7%	50.1%	N/A
2 Working Capital Management			
a Gross Working Capital (Average Days)	111	154	N/A
b Net Working Capital (Average Days)	49	79	N/A
c Current Ratio (Current Assets / Current Liabilities)	1.9	2.2	N/A
3 Coverages			
a EBITDA / Finance Cost	10.3	21.1	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	9.9	17.3	N/A
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.2	N/A
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	49.9%	61.0%	N/A
b Interest or Markup Payable (Days)	33.2	144.0	N/A
c Entity Average Borrowing Rate	8.6%	1.7%	--

Credit Rating

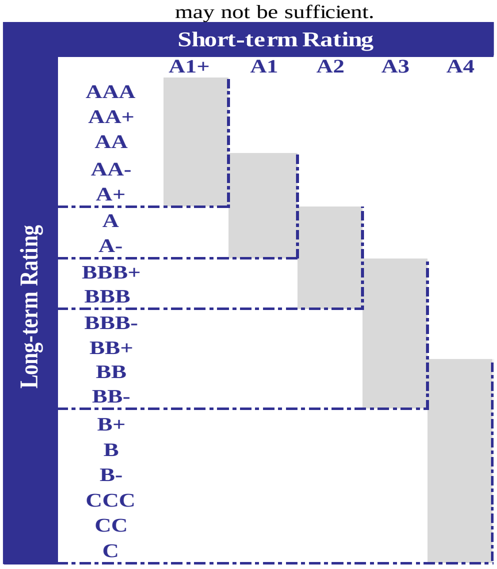
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

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

Short-term Rating

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



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

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

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

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

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

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

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

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

Entities

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

Instruments

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

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

Rating Team Statements

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

2) **Conflict of Interest**

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.

(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