The Pakistan Credit Rating Agency Limited

Rating Report

Asif Rice Mills

Report Contents

Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Apr-2022	BBB+	A2	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. 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. 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. During FY21, rice crop area increased to ~3.3mln hec (FY20: ~3mln hec), reflecting an increase of ~10%. This led to an increased rice production by ~13%, standing at ~8.4mln MT (FY20: ~7.4mln MT). Out of this, around 3.5mln MT of rice is consumed locally, while, ~3.7mln MT is exported. 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 2bln (FY20: ~USD 2.2bln) owing to stiff competition from India. Going forward, the industry's cashflows and in turn liquidity are expected to remain afloat due to the stability in demand for rice.
The ratings reflect Asif Rice Mill's ('the Business') prominent position in the rice exporter's market of the country with substantial business volumes. The Business enjoys a strong relative position. The Business has enhanced its capacity over the years leading to higher volumetric sales leading to improved financial performance by two-folds. Asif Rice strategizes on a diverse customer base across regions and therefore, has the comparative edge. Margins, and in turn profitability witnessed two-fold increase during FY21 as the Business benefited from economies of scale amidst shipping challenges to exporters. The ratings derive comfort from the progress in financial performance as indicated in adequate margins over the periods. The Business has also diversified its product base, lately, which is expected to remain beneficial in the long-term. Sponsors' invested efforts are reflected in the development of a corporate culture through enhanced business practices and direct involvement in key functions of the Business. Furthermore, the willingness of the sponsors' to ensure exponential growth in the Business provides comfort to the ratings. Envisoned improvements in qualitative factors, going forward, are expected to positively impact the performance of the Business.

The ratings are dependent upon sustenance of business volumes under the current challenging environment. As global economy undergoes distress, business sustainability emerges as the key challenge for the exporters. Meanwhile, keeping up with a stable financial risk profile, particularly debt servicing capacity, remains imperative for ratings.

Disclosure	
Name of Rated Entity	Asif Rice Mills
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(Oct-21)
Rating Analysts	Ahmad Faraz Arif | ahmad.faraz@pacra.com | +92-42-35869504

Profile

Legal Structure Asif Rice Mills ('Asif Rice' or 'the Business') was incorporated in 2006 as an Association of Persons (AoP).

Background Mr. Mumtaz Ali joined his family business in 1960s and laid the foundations for Asif Rice Mills by expanding the processing capacity. Capacity enhancement and installation of new machinery including rice husking machines and parboiling machines over the years led to the prominence of the Business in the rice exporter's segment of the country. Asif Rice, currently, is one of the leading rice exporters of the country, and having processing capacity of 60MT per hour.

Operations Asif Rice is primarily engaged in processing semi-processed variants of non-basmati rice and limited quantities of basmati rice and exporting it to China, Far-east Asia, Europe, and Africa. During FY21, the Business processed and exported 350,000MT of rice witnessing the growth of ~150% from the preceding year (FY20: 140,000MT). Lately, the Business has also ventured into exporting maize as well which is in its initial gestation phases.

Ownership

Ownership Structure Major ownership of the Business resides with the sons of Mr. Mumtaz Ali. Mr. Asif Ali Shaikh holds ~34% shareholding, while Mr. Hanif Shaikh and Mr. Kashif Mumtaz hold ~33% each.

Stability The Business is completely owned by the sponsoring family and the structure is seen as stable.

Business Acumen Mr. Asif Ali Shaikh and his family have been involved in the rice export business for over 3 decades and have witnessed multiple business cycles.

Financial Strength The sponsors hold sufficient net worth to support the Business in times of distress.

Governance

Board Structure The Business, being an AoP, is currently governed by three Directors. However, formal structure is not in place.

Members' Profile Mr. Asif Ali Shaikh is the CEO; while the other sponsoring individuals, Mr. Kashif Mumtaz holds an overall experience of a decade, and Mr. Hanif Shaikh holds an overall experience of almost two decades, serve as Directors of Sales and Procurement, respectively.

Board Effectiveness Being an AoP, formal Board structure is not present in Asif Rice.

Financial Transparency The external auditors of the Company, Alam & Aulakh Chartered Accountants, have expressed an unqualified opinion on the financial statements of the Company for the year ended Jun-21. The firm is QCR rated but not in SBP's panel of auditors.

Management

Organizational Structure The Business has a linear organizational structure and operates mainly through Production, Sales, Procurement, and Finance functions. All functional heads reports to the CEO, who then makes pertinent decisions.

Management Team Mr. Asif Ali, the CEO, has been associated with the Business since inception and has over two decades of experience in rice, commodity trading, and real estate segments.

Effectiveness There are no management committees in place. Management meets on need basis to ensure efficiency of the Business's operations.

MIS The Business has recently implemented an ERP system for reporting purposes.

Control Environment The Business has a formal internal audit function that helps to ensure compliance with the policies and procedures.

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 ~3.3mln hec (FY20: ~3mln hec), reflecting an increase of ~10%. This lead to an increased rice production by ~13% and stood at ~8.4mln MT (FY20: ~7.4mln MT). 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 2bln (FY20:~USD 2.2bln) due to direct competition from India.

Relative Position The Business is one of the leading players in the country's rice exporters market.

Revenues The Business mainly generates revenue by exporting non-basmati variants of rice ~85% (IRRI-6, PK- 386, Broken 100%) and basmati ~15% (Kainat 1121) to China, Far-east Asia, Europe, and Africa. During FY21, the Business generated revenue of ~ PKR 10.4bln, witnessing an increase of ~73% (FY20: PKR 6.0bln) owing mainly to volumetric increases and competitive advantage over other players. The revenues of the Business are expected to grow as the management is optimistic to increase market share, going forward.

Margins The Business is exposed to price changes risk because of the export-oriented nature. During FY21, the Business's gross margin decreased YoY and stood at ~9.5% (FY20: ~12.9%) mainly due to increased costs. On operational level, the Business's margins witnessed similar trend. Operating margin stood at ~4% during FY21 (FY20: ~5%). At net level, the Company's net income stood at PKR 296mln during FY21 (FY20: PKR 236mln) witnessing ~25% increase YoY. However, the Company's net margin dipped and stood at ~2.9% during FY21 (FY20: 4.0%) mainly due to higher costs. The margins are expected to remain stable, going forward.

Sustainability The sponsors are planning to enhance the capacity of the rice mill, going forward.

Financial Risk

Working Capital The Business's working capital management is supported through short-term Export Refinancing Facility - Part II. The Business's inventory days have remained minimal as the Business does not hold any inventory and the mill is only operational as per orders. The payable days of the Business have hovered around ~30 days in FY21. Overall, the Company's net cash cycle was negative in FY21. Furthermore, the Business availed its room to borrow against short-term trade assets and total current assets in FY21, resulting in negative short-term trade leverage.

Coverages The coverage ratios of the Business have remained strong through the years based on higher free cash flows and lower finance costs. Free cash flows stood at PKR 330mln in FY21 (FY20: PKR 256mln). The finance cost stood at PKR 12mln in FY21 (FY20: PKR 1mln). As a result, interest cover stood at 27.1x in FY21 (FY20: 442.1x). Moreover, the Business does not have any long-term debt and hence the debt coverage ratio remains the same as interest coverage ratio. The coverage ratios are expected to remain strong, going forward.

Capitalization The debt of the Business comprises of 100% short-term ERF facility. Total debt of the Business stood at PKR 663mln in FY21 (FY20: nil) against an equity base of PKR 1.7bln (FY20: PKR 695mln). Debt to debt plus equity ratio remains on the lower side and stood at~13% as at FY21 (FY20: ~0%). Going forward, the debt load of the Business is expected to be higher considering the move towards financing, lately, by the sponsors.

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Financial Summary
PKR mln

Asif Rice Mills	Jun-21	Jun-20	Jun-19
Agriculture & Allied	12M	12M	12M
A BALANCE SHEET			
1 Non-Current Assets	3,484	307	327
2 Investments	-	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	1,406	388	210
a Inventories	*185*	*114*	*149*
b Trade Receivables	*209*	*105*	*3*
5 Total Assets	4,890	695	537
6 Current Liabilities	920	-	-
a Trade Payables	*879*	-	-
7 Borrowings	663	-	-
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	-	-	-
10 Net Assets	3,307	695	537
11 Shareholders' Equity	1,672	695	537
B INCOME STATEMENT			
1 Sales	10,328	5,956	5,878
a Cost of Good Sold	*(9,344)*	*(5,188)*	*(5,132)*
2 Gross Profit	985	768	746
a Operating Expenses	(574)	(472)	(463)
3 Operating Profit	411	296	282
a Non Operating Income or (Expense)	-	-	-
4 Profit or (Loss) before Interest and Tax	411	296	282
a Total Finance Cost	*(12)*	*(1)*	*(0)*
b Taxation	*(103)*	*(60)*	*(60)*
6 Net Income Or (Loss)	296	236	222
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*330*	*256*	*245*
b Net Cash from Operating Activities before Working Capital Changes	*318*	*256*	*244*
c Changes in Working Capital	*(128)*	*(71)*	*(152)*
1 Net Cash provided by Operating Activities	190	185	92
2 Net Cash (Used in) or Available From Investing Activities	-	-	(30)
3 Net Cash (Used in) or Available From Financing Activities	644	(78)	(64)
4 Net Cash generated or (Used) during the period	834	107	(2)
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	73.4%	1.3%	--
b Gross Profit Margin	9.5%	12.9%	12.7%
c Net Profit Margin	2.9%	4.0%	3.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	2.0%	3.1%	1.6%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	25.0%	38.3%	41.4%
2 Working Capital Management			
a Gross Working Capital (Average Days)	6	3	0
b Net Working Capital (Average Days)	-26	3	0
c Current Ratio (Current Assets / Current Liabilities)	1.5	N/A	N/A
3 Coverages			
a EBITDA / Finance Cost	36.3	544.8	760.8
b FCFO / Finance Cost+CMLTB+Excess STB	1.7	442.1	611.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.6	0.0	0.0
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	28.4%	0.0%	0.0%
b Interest or Markup Payable (Days)	0.0	0.0	0.0
c Entity Average Borrowing Rate	1.8%	--	--

Credit Rating

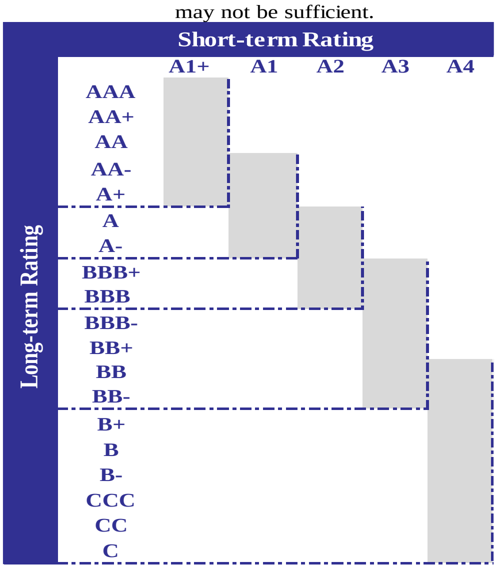
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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