



The Pakistan Credit Rating Agency Limited

Rating Report

Irfan Noman Brothers (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
10-Oct-2023	BBB+	A2	Stable	Maintain	-
10-Oct-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% to GDP. Local consumption includes ~95% of basmati rice and ~5% non-basmati. During FY23, rice crop area decreased to ~3.2mln Hec (FY22: ~3.4mln Hec), reflecting a decrease of ~6%. Rice production decreased by ~17%, standing at ~7.4mln MT in FY23 (FY22: ~8.9mln MT). Floods during Aug-22 razed rice crops, causing an average crop loss of ~20-25%. New higher yielding hybrid rice varieties, and improved agronomic practices are factors minimizing the production loss. Around ~4mln MT of rice is consumed locally, while, the remaining is exported. During FY23, Pakistan exports decreased to ~USD 2.1bln (FY22: ~USD 2.5bln). Thus, impacting the industry’s overall topline. However, PKR depreciation provided some cushion to the export players. Industry’s overall margins and cashflows may become stretched. Industry poses a developing outlook for the ongoing year.

The credit ratings find comfort in Irfan Noman Brothers (Private) Limited (‘the Company’) consistent market share through the years with it being amongst the top exporters of rice in Pakistan. The Company's strategy focuses on retaining customers and has successfully implemented this strategy through its marketing offices and warehouses in Dubai and Canada. The Company plans to broaden its product portfolio, such as the recent inclusion of significant quantities of basmati rice in its export lineup, as well as a shift towards the development of value-added rice products. These strategic moves are anticipated to yield long-term benefits. Moreover, given India's limitations on rice exports which accounts for estimated ~40% of the global supply of rice, the potential for Pakistan's basmati exports has risen. INB's opportunity in this scenario is timely, particularly with its basmati processing and storage facility in Faisalabad currently under development. Despite the country's economic challenges and the aftermath of last year's floods, Irfan Noman Brother's has maintained a track record of steady profitability. During FY23, the Company’s gross margin stood at 13% (FY22:12.2%), whereas its net margin deteriorated and stood at 0.7% during FY23 (FY22: 1.4%) due to a surge in the finance cost as a result of tightening of the monetary policy. The Company's capital structure remained adequate, as the Company remained dependent on short term borrowing required to manage the working capital. During FY23, the Company remained leveraged at 59% (FY22: 68.1%). Furthermore, the sponsors' experience and commitment to fostering exponential growth within the Company offers reassurance to the ratings.

Prudent management and maintenance of a stable financial risk profile, especially in terms of the working capital, cash flows, and coverages is imperative for the ratings. Additionally, debt servicing, capitalizing international demands, and envisioned improvements in qualitative factors, going forward, remain crucial for the ratings.

Disclosure

Name of Rated Entity	Irfan Noman Brothers (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jul-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Rice(Oct-22)
Rating Analysts	Muhammad Zain Ayaz zain.ayaz@pacra.com +92-42-35869504

Profile

Legal Structure Irfan Noman Brothers (Private) Limited ('the Company') was incorporated in Feb-98 as a Private Limited Company under the Companies Ordinance, 1984 (now Companies Act, 2017).

Background Mr. Mukhtar Ahmad Sheikh, former Chairman of Rice Millers and Supplier Association, established a rice mill in 1960s and laid foundations of the Irfan Noman Group ('the Group'). Over the years the Group managed to gain prominence in the rice sector and established another rice mill and also established rice farms.

Operations The Company is primarily engaged in the process of processing semi-processed non-basmati rice, and basmati rice and exporting it Malaysia and other 40+ countries. The Company, in recent years, has witnessed prominent growth in its operations. The Company currently has two processing units in Port Qasim and S.I.T.E Karachi, respectively. The combined per hour processing capacity stands at 125MT and annual capacity stands at 360,000MT. The Company also possesses storage facility of 55,000MT per month. The Company has witnessed upward trajectory with regards to its processing capacity and, subsequently, volumetric increase in the quantity of rice processed.

Ownership

Ownership Structure The Company's major ownership resides with brothers Mr. Irfan Ahmad Sheikh (45.5%) and Mr. Noman Ahmad Sheikh (50%). The remaining (4.5%) stake is held by Mr. Irfan's son, Mr. Moaz Irfan.

Stability The Company is completely owned by the sponsoring family and the structure is seen as stable as the third generation has been successfully integrated in the family business. Formal succession planning would provide additional cushion to the stability.

Business Acumen The sponsoring family have been involved in the rice export business for over 6 decades and have witnessed multiple business cycles. The current sponsors have been associated with the Company for over 2 decades and have led to the prominence of the Company as one of the largest exporters of rice in the country.

Financial Strength The sponsor holds sufficient net worth to support the Company in times of distress.

Governance

Board Structure The Company's Board is dominated by the sponsoring family and includes three Executive Directors, and one Non-Executive Director.

Members' Profile Mr. Irfan Ahmad Sheikh is the Chairman of the Board and has been associated with the Company since 1998. He has extensive experience in the rice sector and has attended multiple conferences both local, and abroad. Furthermore, he has also been involved research and seed development of rice.

Board Effectiveness The Board is supported by its sub-committees, the Audit Committee, and the Human Resource & Remuneration Committee. Both sub-committees are headed by Executive Directors. The Board and its sub-committees meet on need-basis and the minutes of the meetings are adequately documented.

Financial Transparency The external auditors of the Company, Rahman Sarfraz Rahim Iqbal Rafiq Chartered Accountants, have expressed an unqualified opinion on the financial statements of the Company for the year ended Jun-22. The firm is QCR rated placed in category 'A' of the SBP's panel of auditors.

Management

Organizational Structure The Company has optimized its organizational structure as per the operational needs. The Company operates through functions of Finance, Procurement, Internal Audit, Production, Sales, HR & Admin. All functional heads report to the Company's CEO except Internal Audit and HR & Admin.

Management Team Mr. Noman Ahmad Sheikh, the CEO, has been associated with the Company since 1998. He has extensive experience in the rice sector and has attended multiple conferences both local, and abroad. Furthermore, he has also been involved research and seed development of rice.

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

MIS The Company has a customized ERP system in place installed by Sidat Hyder & Co. MIS reports are regularly generated and reviewed by the Management for operational efficiency and decision-making.

Control Environment Each and every department submits its own report to the senior management for the evaluation of the current performance and position of the company.

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% to GDP. Local consumption includes ~95% of basmati rice and ~5% non-basmati. During FY23, rice crop area decreased to ~3.2mln Hec (FY22: ~3.4mln Hec), reflecting a decrease of ~6%. Rice production decreased by ~17%, standing at ~7.4mln MT in FY23 (FY22: ~8.9mln MT). Floods during Aug-22 razed rice crops, causing an average crop loss of ~20-25%. New higher-yielding hybrid rice varieties, and improved agronomic practices are factors minimizing the production loss. Around ~4mln MT of rice is consumed locally, while, the remaining is exported. During FY23, Pakistan exports decreased to ~USD 2.1bln (FY22: ~USD 2.5bln). Thus, impacting the industry's overall topline. However, rupee depreciation provided some cushion to the export players. Industry's overall margins and cashflows may become stretched. Industry poses a developing outlook for the ongoing year.

Relative Position The Company is a leading player in the country's rice exporters market and holds approximately 5% market share in terms of sales and 6% market share in terms of production.

Revenues The Company mainly generates revenue by exporting non-basmati rice variants majorly to Malaysia, China, Africa and minorly to other destinations. During FY23, the Company posted revenue of PKR 14.5bln (FY22: ~17bln).

Margins The Company's margins have witnessed mixed trend over the years. During FY23, the Company's gross margin stood at 13% (FY22:12.2%). On operational level, the Company's margins stood at 4.1% during FY23 (FY22: 3.3%). At net level, the Company's net income witnessed significant decrease standing at PKR 101mln during FY23 (FY22: PKR 240mln) due to significant increase in the raw materials cost, and net margin deteriorated to 0.7% during FY23 (FY22: 1.4%).

Sustainability The sponsors are planning to add storage and processing facility at Faisalabad, Punjab to increase the Company's footing in the basmati sector.

Financial Risk

Working Capital The Company's inventory days were kept at 45 days in FY23 (FY22: 42 days), receivable days have remained stagnant at 33 days in FY23 (FY22: 33 days), payable days have increased to 12 days in FY23 (FY22: 6 days). Overall, the Company's net cash cycle stood at 66 days in FY23 (FY22: 69 days). However, the Company has insufficient room to borrow against trade assets.

Coverages Free cash flows increased slightly and stood at PKR 472mln in FY23 (FY22: PKR 417mln). The finance cost increased significantly to PKR 322mln in FY23 (FY22: PKR 140mln) due to higher interest rates. As a result, interest coverage deteriorated and stood at 1.8x in FY23 (FY22: 3.7x).

Capitalization The debt of the Company comprises of 93% short-term borrowings and 7% long-term loans borrowings. Total debt of the Company stood at PKR 3.7bln as at FY23 (FY22: PKR 4.3bln) against an equity base of PKR 2.6bln (FY22: PKR 2.0bln). Debt to debt plus equity ratio remains on the higher side and decreased slightly to ~59% as at FY23 (FY22: ~68%) compared to the preceding financial year. Going forward, the Company's capital structure is expected to remain similar.



The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Irfan Noman Brother (Pvt.) Limited Rice	Jun-23 12M	Dec-22 6M	Sep-22 3M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET					
1 Non-Current Assets	3,333	2,811	2,659	2,666	2,428
2 Investments	-	-	-	30	-
3 Related Party Exposure	-	-	-	-	-
4 Current Assets	3,863	3,779	3,928	4,344	3,299
<i>a Inventories</i>	1,750	1,746	677	1,845	2,019
<i>b Trade Receivables</i>	760	619	526	1,846	1,196
5 Total Assets	7,196	6,590	6,587	7,039	5,727
6 Current Liabilities	743	565	333	638	245
<i>a Trade Payables</i>	510	330	195	438	142
7 Borrowings	3,766	4,028	4,149	4,309	3,547
8 Related Party Exposure	-	-	-	-	90
9 Non-Current Liabilities	81	64	28	78	64
10 Net Assets	2,606	1,933	2,077	2,014	1,781
11 Shareholders' Equity	2,606	1,933	2,077	2,014	1,781
B INCOME STATEMENT					
1 Sales	14,540	4,186	3,091	16,653	10,218
<i>a Cost of Good Sold</i>	(12,653)	(3,964)	(2,705)	(14,614)	(9,324)
2 Gross Profit	1,887	223	386	2,039	894
<i>a Operating Expenses</i>	(1,293)	(227)	(239)	(1,492)	(698)
3 Operating Profit	594	(5)	147	547	196
<i>a Non Operating Income or (Expense)</i>	(25)	(11)	(11)	(1)	33
4 Profit or (Loss) before Interest and Tax	569	(15)	137	547	229
<i>a Total Finance Cost</i>	(322)	(85)	(50)	(140)	(113)
<i>b Taxation</i>	(145)	(42)	(31)	(167)	(102)
6 Net Income Or (Loss)	101	(142)	56	240	14
C CASH FLOW STATEMENT					
<i>a Free Cash Flows from Operations (FCFO)</i>	472	(48)	115	417	171
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	150	(134)	65	322	89
<i>c Changes in Working Capital</i>	1,263	1,332	2,159	(140)	(1,580)
1 Net Cash provided by Operating Activities	1,414	1,198	2,224	182	(1,492)
2 Net Cash (Used in) or Available From Investing Activities	(196)	-	-	(292)	(535)
3 Net Cash (Used in) or Available From Financing Activities	(369)	(1,144)	(670)	669	1,515
4 Net Cash generated or (Used) during the period	849	54	1,555	559	(511)
D RATIO ANALYSIS					
1 Performance					
<i>a Sales Growth (for the period)</i>	-12.7%	-49.7%	-25.7%	63.0%	40.6%
<i>b Gross Profit Margin</i>	13.0%	5.3%	12.5%	12.2%	8.7%
<i>c Net Profit Margin</i>	0.7%	-3.4%	1.8%	1.4%	0.1%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sale)</i>	11.9%	30.7%	73.6%	1.7%	-13.8%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets</i>	4.4%	-14.4%	11.0%	12.7%	1.0%
2 Working Capital Management					
<i>a Gross Working Capital (Average Days)</i>	78	132	72	76	88
<i>b Net Working Capital (Average Days)</i>	66	115	63	69	82
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	5.2	6.7	11.8	6.8	13.5
3 Coverages					
<i>a EBITDA / Finance Cost</i>	2.4	-0.1	3.6	5.4	3.0
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	0.7	-0.1	0.9	0.8	0.3
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost,</i>	3.1	-3.5	1.9	1.9	7.1
4 Capital Structure					
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	59.1%	67.6%	66.6%	68.1%	67.1%
<i>b Interest or Markup Payable (Days)</i>	52.5	100.0	50.4	103.8	100.9
<i>c Entity Average Borrowing Rate</i>	6.4%	3.3%	3.8%	2.9%	2.9%

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
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):

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

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- (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 | Clause 11-(A)(p).
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- (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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