The Pakistan Credit Rating Agency Limited

Rating Report

Irfan Noman Brothers (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
10-Oct-2024	BBB+	A2	Stable	Maintain	-
10-Oct-2023	BBB+	A2	Stable	Maintain	-
10-Oct-2022	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings derive strength from Irfan Noman Brothers (Private) Limited ('the Company') sustained market position as one of Pakistan's established rice exporters. The Company has demonstrated stability in maintaining its market share over the years. It's customer retention strategy, supported by marketing offices and warehouses in Dubai and Canada, has been effectively executed. Irfan Noman's Board is largely composed of members from the sponsoring family, including three Executive Directors. The Board is further supported by its sub-committees and a seasoned management team, which collectively enable the Company to effectively navigate the challenges inherent in the rice sector. Industry insights reveal that Pakistani rice exporters generated a historic $3.93 billion in foreign exchange during FY24, exporting approximately 6 million tons of rice. This achievement was largely facilitated by India's temporary ban on rice exports following a short crop, positioning Pakistan to capitalize on its competitive standing in the global market, where India remains a key rival. In this context, Irfan Noman Brothers has reported an impressive 84% growth in sales. The Company primarily derives revenue from the export of non-basmati rice variants, with key markets including Malaysia, China, and Africa, complemented by smaller contributions from other regions. Additionally, the Company is involved in the trading of solar panels, corn, and polypropylene, providing a diversified revenue stream that further strengthens its financial resilience. The Company demonstrated stability in FY24, though gross margins contracted, reflecting challenges in managing rising costs despite operational efforts. Additionally, the net profit margin eroded significantly, contracting to 0.1% (FY23: 1%), It is due to heightened finance cost and increase of raw materials costs. The Company's capital structure is assessed as sound, underpinned by its reliance on short-term borrowing to manage working capital requirements. Leverage reduced to 58% in FY24 (FY23: 60%), reflecting a prudent approach to managing financial exposure. Furthermore, ratings take comfort from the sponsors' depth of experience and unwavering commitment to accelerating the Company's growth, this reinforces the ratings and strengthens the outlook for sustained operational success.

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 | Rating Modifiers(Apr-24),Methodology | Corporate Rating(Jul-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24)
Related Research	Sector Study | Rice(Oct-23)
Rating Analysts	Farhan Haidar | Farhan.Haider@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 processing semi-processed non-basmati and basmati rice, which it exports to Malaysia and over 40 other countries. In recent years, the Company has experienced significant growth in its operations, underscored by the establishment of two processing units located in Port Qasim and S.I.T.E Karachi. The combined processing capacity of these units is 50 metric tons per hour, translating to an annual capacity of 360,000 metric tons. Additionally, the Company maintains a storage facility with a capacity of 55,000 metric tons per month. This expansion has resulted in a consistent upward trajectory in processing capacity, leading to a 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's substantial net worth, which provides the financial capacity to support the Company during periods 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. Mr. Moaz Irfan Sheikh – Director Sales & Marketing holds Bachelor's Degree in Finance from York University Canada.

Board Effectiveness The Board convened multiple times during FY24, with majority attendance to discuss pertinent matters. The minutes of these BOD meetings were well documented. To ensure effective governance, the Board has formed two committees, namely, (i) Audit Committee, and (ii) HR and Remuneration Committee.

Financial Transparency The external auditors of the Company, Sarwars Chartered Accountants, have expressed an unqualified opinion on the financial statements for the year ended Jun'24. The firm is QCR rated and is included in 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 The experience of the sponsors along with a professional management team has helped the Company to streamline its operations. However, Management's effectiveness and efficiency can be ensured through the management committees. At Irfan Noman Brothers (Pvt.) Limited, the absence of management committees indicates room for improvement.

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 The Company has an internal audit function in place, which provides an effective mechanism for identification and reporting the risks arising out of the business operations.

Business Risk

Industry Dynamics Rice is one of the major staple foods (second after wheat) as well as cash crops in Pakistan. ~52% of the total rice production in Pakistan is done in Punjab, ~38% in Sindh and remaining ~8% in Baluchistan. Pakistan ranks 11th in the global rice production (~50% basmati; remaining ~50% coarse types). Rice production is estimated at ~9.0mln MT for FY24 due to better climatic conditions and more availability of water for irrigation Pakistani rice exporters generated a historic $3.93 billion in foreign exchange during FY24, exporting approximately 6 million tons of rice. This achievement was largely facilitated by India's temporary ban on rice exports following a short crop, positioning Pakistan to capitalize on its competitive standing in the global market, where India remains a key rival.

Relative Position The Company is a leading player in the country's rice exporters market and holds approximately 2.5% market share in terms of sales.

Revenues The Company primarily generates revenue through the export of non-basmati rice variants, with key markets in Malaysia, China, and Africa, along with smaller contributions from other regions. In FY24, this growth reflects the Company's ability to capitalize on the recent temporary ban imposed by India, effectively enhancing its market presence. The Company is also engaged in the trading of solar panels, corn, and polypropylene. This diversification provides additional revenue streams and reinforces the Company's ability to withstand industry-specific risks in the agricultural export market.

Margins In FY24, the Company's gross margin contracted to 6%, down from 8% in FY23, reflecting increased input costs that could not be offset by operational efficiency efforts. The operational margin also saw a decline, reaching 2.6% (FY23: 3.0%), despite revenue growth and ongoing efforts to streamline operations. However, at the net level, profitability faced significant challenges. The net margin dropped to a marginal 0.1%, down from 1.0% in FY23, primarily driven by increased financing expenses and a rise in tax liabilities, exerting pressure on overall financial performance.

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 working capital management is supported through long-term loans -TERF & LTTF (~7% of total debt) and short-term Export Refinancing Facility- Part II (~93% of total debt). The Company's inventory days were kept at 19 days in FY24 (FY23: 39 days) indicates enhanced inventory turnover efficiency and reducing holding costs. receivable days stood at 13 days in FY24 (FY23: 42 days) reflects tighter credit management and accelerated cash collection. Payable days have decreased to 3 days in FY24 (FY23 10 days) the shorter payable days suggests increased cash outflows toward suppliers. Overall, the Company's net cash cycle stood at 30 days in FY24 (FY23: 71 days). However, the Company's capacity to secure additional financing against trade assets remains constrained. Both short-term trade leverage and short-term total leverage reflect a negative position, indicating that borrowings exceed net trade assets.

Coverages Operating cash flow exhibited a modest decline year-over-year, signaling increased financial strain. Rising interest rates led to a sharp increase in finance costs, exerting pressure on the Company's interest coverage, which deteriorated accordingly. Similarly, debt coverage metrics weakened, driven by reduced cash flow from operations, constraining the Company's capacity to service its debt and maintain financial resilience

Capitalization The Company's debt structure is heavily skewed towards short-term borrowings, accounting for 93% of total debt, with the remaining 7% in long-term loans. As of FY24, total debt stood at PKR 3,570mln (FY23: PKR 3.898mln) against an equity base of PKR 2,689mln (FY23: PKR 2,665mln). The Company's debt-to-debt plus equity ratio, while slightly reduced, remains elevated at approximately 58% in FY24 (FY23: ~60%). Looking ahead, the Company's capital structure is expected to remain largely unchanged, with a continued reliance on short-term financing.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Irfan Noman Brother (Pvt.) Limited	Jun-24	Jun-23	Jun-22
Rice	12M	12M	12M
A BALANCE SHEET			
1 Non-Current Assets	3,435	3,316	2,666
2 Investments	-	100	30
3 Related Party Exposure	-	-	-
4 Current Assets	3,611	3,885	4,344
a Inventories	*1,508*	*1,152*	*1,845*
b Trade Receivables	*1,625*	*1,379*	*1,846*
5 Total Assets	7,046	7,300	7,039
6 Current Liabilities	468	576	638
a Trade Payables	*368*	*302*	*438*
7 Borrowings	3,570	3,898	4,309
8 Related Party Exposure	250	100	-
9 Non-Current Liabilities	71	61	78
10 Net Assets	2,689	2,665	2,014
11 Shareholders' Equity	2,689	2,665	2,014
B INCOME STATEMENT			
1 Sales	25,908	14,090	16,653
a Cost of Good Sold	*(24,290)*	*(12,956)*	*(14,614)*
2 Gross Profit	1,618	1,134	2,039
a Operating Expenses	(934)	(718)	(1,492)
3 Operating Profit	684	416	547
a Non Operating Income or (Expense)	*214*	*330*	*(1)*
4 Profit or (Loss) before Interest and Tax	898	746	547
a Total Finance Cost	*(633)*	*(426)*	*(140)*
b Taxation	*(241)*	*(176)*	*(167)*
6 Net Income Or (Loss)	24	145	240
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*458*	*542*	*417*
b Net Cash from Operating Activities before Working Capital Changes	*134*	*220*	*322*
c Changes in Working Capital	*(797)*	*787*	*(140)*
1 Net Cash provided by Operating Activities	(662)	1,007	182
2 Net Cash (Used in) or Available From Investing Activities	(114)	(196)	(292)
3 Net Cash (Used in) or Available From Financing Activities	(368)	(369)	669
4 Net Cash generated or (Used) during the period	(1,144)	442	559
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	83.9%	-15.4%	63.0%
b Gross Profit Margin	6.2%	8.0%	12.2%
c Net Profit Margin	0.1%	1.0%	1.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales	-1.3%	9.4%	1.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/*	0.9%	6.2%	12.7%
2 Working Capital Management			
a Gross Working Capital (Average Days)	40	81	76
b Net Working Capital (Average Days)	35	71	69
c Current Ratio (Current Assets / Current Liabilities)	7.7	6.7	6.8
3 Coverages			
a EBITDA / Finance Cost	1.2	1.8	5.4
b FCFO / Finance Cost+CMLTB+Excess STB	0.6	0.7	0.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-5.5	3.9	1.9
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	58.7%	60.0%	68.1%
b Interest or Markup Payable (Days)	47.6	146.5	103.8
c Entity Average Borrowing Rate	13.5%	9.5%	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
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.

Scale	Short-Term Rating
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.

Rating Modifiers | Rating Actions

Outlook (Stable, Positive, Negative, Developing)	Rating Watch	Suspension	Withdrawn	Harmonization
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'.	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.	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.	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.	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. Rating actions may include "maintain", "upgrade", or "downgrade".

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 Company

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 | Clause 11-(A)(p).

(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 | 17-(a)

(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

Proprietary Information