



The Pakistan Credit Rating Agency Limited

## Rating Report

### Swat Agro Chemicals

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Dec-2022	BBB-	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The assigned ratings incorporate the established industry presence of Swat Agro Chemicals ("Swat Agro" or "AOP"). Swat Agro has a wide geographical reach in the domestic market, its strong operating efficiency, and extensive experience of sponsors in the pesticide business. Over the years, the AOP has developed a large portfolio of products comprising i) insecticides, ii) fertilizers, iii) micronutrients, iv) fungicides v) house-holds, vi) weedicides, vii) adjuvants, viii) and agri equipments. The strong presence in insecticides and fertilizer segments lifted the overall scale of operations and profitability of Swat Agro. The AOP has maintained a healthy business risk profile supported by a robust sales network across the country. Sponsors foster strong relationships with different multinational organizations. In addition to that with the collaboration of BASF chemical company, Swat Agro installed high standard SC & EC formulation plant. further, all raw materials of the AOP are imported from Europe and USA which reflects in their product quality. Swat Agro meets its working capital requirements through a mix of internal cash flows and short-term borrowings. The management intends to keep the leverage indicators aligned with its risk profile. The financial risk profile remains comfortable, given low leveraged capital structure and strong coverages.

The ratings are dependent on sustained business and financial profile of the firm. Any deterioration to margins and/or cash flows remains critical to the ratings. Improvement in governance structure would benefit management effectiveness and ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Swat Agro Chemicals
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Pesticides(Feb-22)
<b>Rating Analysts</b>	Muhammad Noor Ul Haq   noorulhaq@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Swat Agro Chemicals (Swat Agro) is a Partnership firm, formed under the Partnership Act 1932.

**Background** Swat Agro started its journey from the city of Swat and then move on to Peshawar, KPK in the early 90s. The organization initiated its activities with vast exposure of its management with relevant knowledge of the agriculture industry. After capturing the market of KPK they expanded their business in Baluchistan back in 2000. To further trap the market, they grew their business in Punjab and Sindh in 2003 and 2004.

**Operations** Swat Agro is primarily engaged in the sale of pesticides, insecticides, fungicides, weedicides, micronutrients, plant growth regulators, and public health products. The distribution structure is divided into regions, zones, and territories comprising 6 supply chain centers nationwide. The Firm's formulation & packing plant for SC, EC & granular pesticides is situated near the city of Kasur. The facility of Swat Agro is equipped with high-quality processing units. It also has multiple warehouses throughout the country. Head office of the Firm is located in Peshawar and the corporate office is in Lahore.

## Ownership

**Ownership Structure** The Firm is owned by three partners, majority of the stake is with Mr. Barkat Ali Khan 50%. Mr. Muhammad Alam Khan and Ms. Fozia Nazneen hold the remaining stake in the organization equally. According to the partnership deed, a major stakeholder of the organization holds the position of CEO or MD or Finance Director.

**Stability** The Firm was established by Mr. Barkat Ali Khan who has relevant industry experience and for over three decades has been running the business operations successfully. Ownership remains stable since the beginning, which translates into more stability to the ownership of the firm. Going forward, the ownership structure is expected to remain same.

**Business Acumen** All partners of Swat Agro Chemicals have been associated with the agriculture sector for a long, bearing educational backgrounds and deploying valuable services for over three decades.

**Financial Strength** Sponsors have shown an unequivocal commitment to support the Firm in the future if need arises.

## Governance

**Board Structure** SwatAgro currently, holds a partnership firm status. The Partnership firm is being run by three (3) partners who are actively engaged in the management.

**Members' Profile** Partners carry adequate skills, competence, and knowledge. All three Partners have been associated with the business for almost three decades.

**Board Effectiveness** The Firm has an internal control function at present. However, to achieve its optimal growth, a formal board structure is required for enhancing the overall effectiveness of the board while providing requisite challenges and inputs for strategy formulation.

**Financial Transparency** M/s Dilroz Khan & Co. are the External Auditors and expressed an unqualified opinion on the financial statements for FY22.

## Management

**Organizational Structure** Swat Agro Chemicals has a simple organizational structure, divided into four key functions, namely (i) Sales & Marketing, (ii) Finance, (iii) IT, (iv) Finance & Accounts, (v) Supply Chain, (vi) Import, and (vii) Research & Development, Each function head reports to the CEO and MD.

**Management Team** Mr. Barkat Ali Khan is the pioneer of Swat Agro, He possesses vast business acumen spanning over three decades, and he holds the position of CEO in the organization. Mr. Alam Khan is the Managing Director, he is also associated with the agricultural department for over three decades. The Chief Financial Officer, Mr. Wajid Gul is associated with the Firm for the last 13 years. He is a certified Cost Management Accountant, having a total professional experience of 18 years. Swat Agro has an experienced management team; a balanced blend of professional people from the industry. The majority of the senior management is associated with the business for a long time.

**Effectiveness** The head of the departments meets on a frequent basis. While the minutes of meetings are not documented. Target reports are submitted by Area Managers to Business Managers, and then they are submitted to the CEO and MD. However, the Firm does not have management committees in place.

**MIS** The Firm's operating environment relies on an IT infrastructure supported by in-house build ERP (Enterprise Resource Planning) solutions. The IT infrastructure is effectively integrated with all the departments and ensures proper financial and operational control.

**Control Environment** The monitoring and reviewing mechanisms of Swat Agro are adequate as evidenced by the frequent meetings at the management level. The Company's weekly, monthly, and quarterly MIS comprises comprehensive segment and product performance reports reviewed frequently by the senior management. In addition to that Swat Agro has the most technologically advanced ISO 9001 - 2015 and ISO 17025 - 2005 certified formulation plant.

## Business Risk

**Industry Dynamics** Pakistan's agricultural sector holds a ~19% contribution to its GDP, showcasing its importance to the economy. The pesticide industry is an important segment of agriculture since it is one of the major crop inputs. The size of the pesticide market is estimated to be in the range of PKR~60bln to PKR~75bln. The local pesticide market is import dependent, with ~20% to ~30% of the pesticide cost component being imported to the country, majorly from China. The absolute dependence on imports, presents the risk of supply constraints amid a lag in international trade, as was the case briefly, in the initial months of the worldwide lockdown, in the wake of the pandemic Covid-19. On the other hand, the demand for necessities is inelastic, which bodes well for the sustenance of the industry, even in times of economic contraction. The issue of locust swarms, if aggravated, may add some uncertainty to the future demand side mechanics. The pesticide market is fragmented, comprising MNCs and local companies

**Relative Position** Swat Agro Chemicals is one of the leading companies in the pesticide industry of Pakistan. The Firm operates with expertise in field services and has one of the largest dealer networks of over 500 shops throughout the country.

**Revenues** Swat Agro earns its revenue from different segments, i) Adjuvants ii) Agri Equipment iii) Fertilizers iv) Fungicides v) Insecticides vi) Weedicides vii) Micro Nutrients viii) Households. Swat Agro has reported healthy growth in revenues over the past few years on the back of healthy domestic demand. During FY22, topline of the Firm grew by 30.1% (FY21: 17.8%). A major portion of revenue emanates from Insecticides, which accounted for ~39% of total revenue, followed by fertilizers contributing ~ 21%.

**Margins** Swat Agro's focus has been on formulating branded products with strong margins and limited competition. During FY22, Swat Agro witnessed an improvement in its gross margin, despite cost-push, inflation, and PKR depreciation. While operating margins are a function of the Firm's ability to maintain gross margins through the efficient allocation of resources. The operating margin is being eaten up by overhead costs owing to higher employee benefit costs as per industry common practice. Though the net margin witnessed slight improvement, is taking a hit through increasing finance costs on account of higher working capital needs.

**Sustainability** Sponsoring family's next generation is coming into the business and expanding business lines into new segments like Packaging plants and Real State development. In the near future, Firm is also inaugurating its new company "Altiga Agri Business (Pvt.) Ltd.". Swat Agro intends to open its subdivision with the name of Swat Agro General Trading L.L.C. in Dubai in collaboration with multinational organizations. All these strategic plans will further enhance the group's financial strength with a diversified revenue stream.

## Financial Risk

**Working Capital** Networking capital requirements are a function of inventory, receivables, and payables. Inventories average days of Swat Agro recorded 118 days at end-Jun22 (end-Jun21: 139 days, end-Jun20: 140 days). Trade receivables days of the firm recorded at 102 days end-Jun22 (end-Jun21: 100 days), owing to higher trade receivables compared to the corresponding period of last year. It is pertinent to mention here that Swat Agro has strong business terms with various European pesticide suppliers. The Firm secures its supply on its reputation basis from those suppliers.

**Coverages** As at end-Jun22, the EBITDA of Swat Agro increased significantly by ~ 42%. During the period, the Firm has reported strong coverage, stood at 2.6x (end-Jun21: 1.9x), due to higher profitability. However, debt coverage ratio shows a slight dip to 0.4x at end-Jun22 (end-Jun21: 0.6x)

**Capitalization** The Firm has a strong equity base. During FY22, the equity of Swat Agro witnessed a significant increase of over 24.1% majorly owing to the accumulation of profits. The Firm does not have any dividend policy. Hence, no drawings from capital are being made by the sponsors of the Firm during FY22.



The Pakistan Credit Rating Agency Limited

Summary

PKR mln

Swat Agro Chemicals

Jun-22	Jun-21	Jun-20	Jun-19
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Pesticide

12M	12M	12M	12M
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**A BALANCE SHEET**

1 Non-Current Assets	990	801	721	650
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	3,053	2,401	2,093	1,554
<i>a Inventories</i>	1,520	1,253	1,264	890
<i>b Trade Receivables</i>	1,354	1,059	755	646
<b>5 Total Assets</b>	<b>4,043</b>	<b>3,202</b>	<b>2,814</b>	<b>2,204</b>
6 Current Liabilities	648	353	486	287
<i>a Trade Payables</i>	634	345	476	264
7 Borrowings	480	501	333	211
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
<b># Net Assets</b>	<b>2,915</b>	<b>2,349</b>	<b>1,995</b>	<b>1,706</b>

**B INCOME STATEMENT - GROWTH RATE**

1 Sales	30.1%	17.8%	20.1%	26.8%
2 Gross Profit	36.3%	14.5%	19.9%	24.3%
<i>a Operating Expenses</i>	27.2%	18.1%	20.3%	30.8%
3 Operating Profit	47.0%	10.5%	19.6%	18.0%
4 Profit or (Loss) before Interest and Tax	42.9%	14.3%	19.0%	18.9%
5 Net Income Or (Loss)	42.5%	15.7%	17.3%	17.0%

**C CASH FLOW STATEMENT**

1 Net Cash provided by Operating Activities	563	221	254	173
2 Net Cash (Used in) or Available From Investing Activities	(269)	(136)	(134)	(110)
3 Net Cash (Used in) or Available From Financing Activities	(244)	(90)	(82)	(164)
4 Net Cash generated or (Used) during the period	50	(6)	38	(101)

**D Ratios**

<b>1 Working Capital Management</b>				
<i>a Gross Working Capital (Average Days)</i>	220	239	231	224
<i>b Net Working Capital (Average Days)</i>	179	194	183	176
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	4.7	6.8	4.3	5.4
<b>2 Coverages</b>				
<i>a EBITDA / Finance Cost</i>	38.7	39.5	32.5	39.3
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.6	1.9	2.6	4.2
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Financ</i>	0.4	0.6	0.4	0.3
<b>3 Capital Structure</b>				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	14.1%	17.6%	14.3%	11.0%
<i>b Interest or Markup Payable (Days)</i>	0.0%	0.0%	0.0%	0.0%
<i>c Entity Average Borrowing Rate</i>	4.6%	3.7%	6.2%	5.7%

**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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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	<b>Good credit quality.</b> 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+	<b>Moderate risk.</b> 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	
BB-	
B+	
B	<b>High credit risk.</b> 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	<b>Very high credit risk.</b> 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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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(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

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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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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (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)

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- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

### **Probability of Default**

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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