The Pakistan Credit Rating Agency Limited

Rating Report

Swat Agro Chemicals

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Nov-2024	BBB	A2	Stable	Upgrade	-
21-Dec-2023	BBB-	A2	Stable	Maintain	-
21-Dec-2022	BBB-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The agricultural industry plays a pivotal role in Pakistan's economy, contributing ~23% to the GDP and serving as a key source of raw materials for numerous industries. The industry heavily relies on pesticides, i.e. agrochemicals, to improve crop production, which in turn are significantly dependent on imports as ~85% to ~90% of raw materials for pesticides are imported, primarily from China. During FY23, the pesticide sector was valued at ~PKR 103.7bln with a YoY increase of ~5.4% attributed to the expansion in the agricultural industry and a subsequent rise in demand. Also, the increased prices supported the upward trend. The pesticides sector remains dependent on imports, with low levels of R&D, therefore exposure to prices and exchange rate movement remain the major risk factors. Characterized by low to medium business and financial risk, the sector's outlook is expected to remain stable.
The assigned ratings of Swat Agro Chemicals ('Swat Agro' or 'the Business') drive strength from the sponsor's substantial experience in the pesticide industry. The Business holds an established presence in the domestic market, with a wide range of products, namely insecticides, fertilizers, micronutrients, fungicides, household products, weedicides, adjuvants, and agri-equipments. The ratings gather support from Swat Agro's strategic collaboration with BASF, a US-based chemical company, alongside the installation of a high-standard SC & EC formulation plant. As part of its expansion strategy, the Business is actively pursuing initiatives in seed development, packaging, and the real estate segment. Swat Agro's business risk profile remains consistent and reflects sustainability. The Business primarily generates revenue from micronutrients (~28%), followed by insecticides (~26%), fertilizers (~24%), fungicides (~13%), household products (~5%), weedicides (~3%), and adjuvants and agri-equipment (~1%). Revenue grew by ~60%, registered by inflated prices and increased volumes. Business margins remain robust, holding a solid bottom line. On the financial risk front, the Business meeting its working capital needs through internal cash flows and short-term borrowings. A low-leverage capital structure and solid coverage add support to the overall ratings. PACRA upgrades the entity ratings based on substantially improved overall performance, with strong and manageable financial risk profile. However, strengthening the governance framework, enhancing financial transparency - by inducting an SBP panel's auditor, and developing strong internal controls remains imperative to ratings, going forward.

The ratings are dependent on Swat Agro's ability to sustain the operations, keeping the business and financial profile at an optimal level. Moreover, strict adherence to debt matrix along with maintaining cashflows and coverages at an adequate level remains imperative. This along with improved governance framework and internal controls would benefit ratings.

Disclosure	
Name of Rated Entity	Swat Agro Chemicals
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Rating Modifiers(Apr-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24),Methodology | Corporate Rating(Jul-24)
Related Research	Sector Study | Pesticides(Feb-24)
Rating Analysts	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure Swat Agro Chemicals ('Swat Agro' or 'the Business') was incorporated in 1996 as a partnership concern under the Partnership Act of 1932.

Background Mr. Barkat Ali, the founder, entered the business arena in the early 80s when he started to import pesticides for his farms, located in Swat, from the UAE. Later during the 90s, Mr. Barkat started selling pesticides through a formal channel and set up Swat Agro. Initially, the Business reach was up till Peshawar only. Over time, through expansionary activities, the Business expanded operations in Baluchistan and later into Punjab and Sindh.

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 formulation and packing plant for SC, EC & granular pesticides is situated near the city of Kasur; while the head office is located in Peshawar with a corporate office is located in Lahore.

Ownership

Ownership Structure Swat Agro's ownership is divided among three partners, where Mr. Barkat Ali Khan holds ~50% stake. The remaining share in the Business is held by Mr. M. Alam Khan (~25%) and Ms. Fozia Nazneen (~25%).

Stability Ownership is expected to remain stable, going forward, as considerable stake resides with Mr. Barkat. Moreover, second generation is gradullay been inducted into the Business; thus, further stregthening the overall stability.

Business Acumen Mr. Barkat Ali, the founding partner, holds ~ 3 decades of professional experience in pesticide sector. His exposure in local and international market as a dealer is expected provide synergies across overall operations of Swat Agro, going forward.

Financial Strength The sponsors hold considerable financial footing to support the Business, if needs be.

Governance

Board Structure Swat Agro is not regulatory bounded to setup a formal Board of Directors (BoD). However, all the partners of the Business remain responsible for the operation and making pertinent decisions.

Members' Profile Swat Agro's partners - Mr. Barkat, Mr. Alam and Mrs. Fauzia - are experienced professionals and have been involved in the Business since inception. Mr. Barkat holds ~3 decades of experience in the pesticides sector

Board Effectiveness The partners are assissted by two committees, namely, Core and Tax committee, for decision making and policy formation of Swat Agro. The Core committee comprises the CFO and Manager Finance; while the Tax committee comprises the CFO, Head of Tax, Manager Finance. These committees meet as per requiement, while no formal minutes are documented.

Financial Transparency M/s Dilroz Khan & Co. are the external auditors of the Business. The firm is not QCR rated; however, has expressed an unqualified opinion on the financial statements as of FY24.

Management

Organizational Structure Swat Agro operates through four departments: Sales & Marketing, Administration, IT and Finance & Accounts. All departmental heads report to the Chief Operating Officer (COO), who then reports to the CEO.

Management Team Mr. Barkat, the CEO, holds ~ 3 decades of professional experience in the local and international market as a dealer operating in the pesticide sector. Mr. Wajid Gul, the CFO, holds an overall experience of almost two decades and has been associated with the Business since 2009. The management team comprises seasoned professionals.

Effectiveness Anticipating the need for enhanced management efficacy, there are envisaged plans of adding management level committees, going forward. At present, the Business has no formal management committees in place.

MIS The monitoring and reviewing mechanisms of Swat Agro requires improvement. Currently, excel based weekly, monthly, and quarterly comprehensive reports of each segments and products performance are shared with the senior management.

Control Environment Swat Agro has installed a technologically advanced ISO 9001 - 2015 and ISO 17025 - 2005 certified formulation plant. The Business requires a formal internal audit function for an effective control and monitoring.

Business Risk

Industry Dynamics The agricultural industry heavily relies on pesticides, i.e. agrochemicals, to improve crop production, which in turn are significantly dependent on imports as ~85% to ~90% of raw materials for pesticides are imported, primarily from China. During FY23, the pesticide sector was valued at ~PKR 103.7bln with a YoY increase of ~5.4% attributed to the expansion in the agricultural industry and a subsequent rise in demand. Also, the increased prices supported the upward trend. The pesticides sector remains dependent on imports, with low levels of R&D, therefore exposure to prices and exchange rate movement remain the major risk factors. Characterized by low to medium business and financial risk, the sector's outlook is expected to remain stable.

Relative Position Swat Agro holds a market share of ~6% and is among the leading local players of the sector. While, the sector is led by international players.

Revenues Swat Agro earns revenue mainly from micronutrients ~28%, followed by insecticides (~26%), fertilizers (~24%), fungicides (~13%), households (~5%), weedicides (~3%), and adjuvants & agri equipment (~1%). During FY24, the Business recorded a revenue of ~PKR 8.9bln (FY23: ~PKR 5.6bln) depicting an increase of ~60%, backed by price hike along with volumetric uptick. The Business is expected to post a stable growth trajectory, going forward.

Margins Business margins posted growth and remain favorable for Swat Agro. During FY24, gross margin surged to ~43.7% (FY23: ~37%) backed by increased prices. Similarly, operating margin increased to ~26.6% (FY23: ~19.2%) backed by the trickle down impact. On net level, margins improved to ~26.7% during FY24 (FY23: ~18.3%), primarily due to lower finance costs. Looking ahead, it is anticipated that the trend will remain consistent.

Sustainability Going forward, the sponsors are expanding operations by adding new business lines like packaging plants and are expanding their footings in the real estate segment.

Financial Risk

Working Capital Swat Agro is managing the working capital through mix of short-term borrowings and internal cash generation. As of FY24, the net working capital days witnessed slight improvement (FY24: 156days, FY23: 160days) owing to improved trade receivable days (FY24: 82 days, FY23: 95days) backed by early settlements by the customers. Inventory held days, however, remain stable (FY24: 111 days, FY23: 111days). While trade payable days posted an imporvement (FY24: 36 days, FY23: 46 days) due to early repayment to suppliers. The Business maintains a stable borrowing cushion. Looking ahead, the trend will remain same.

Coverages The Business maintains a strong liquidity profile evident from an interest coverage ratio of ~98x as of FY24 (FY23: 33x). Free Cash Flows from Operations (FCFO) owing to higher profits, witnessed significant growth (FY24: ~PKR 2.4bln, FY23: ~PKR 1.1bln). The total finance cost decreased to ~PKR 25mln as of FY24 (FY23: ~PKR 33mln). A decrease in policy rates will positively affect the liquidity position of the Business, moving forward.

Capitalization Swat Agro maintains a robust capital structure evident from debt-to-equity ratio of ~9% as of FY24 (FY23: ~8%). As of FY24, the Business's equity stood at ~PKR 5.8bln (FY23: ~PKR 3.7bln) reflecting a solid equity base. Short term borrowings are used to manage the working capital requirements ans stood at ~PKR 565mln as of FY24 (FY23: ~PKR 315mln). Looking ahead, the Business remains able to post sustained level of leveraging.

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PKR mln

Swat Agro Chemicals	Jun-24	Jun-23	Jun-22	Jun-21
Pesticide	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	1,185	1,068	990	801
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	6,328	3,756	3,053	2,401
a Inventories	*3,549*	*1,909*	*1,520*	*1,253*
b Trade Receivables	*2,454*	*1,565*	*1,354*	*1,059*
5 Total Assets	7,513	4,824	4,043	3,202
6 Current Liabilities	1,122	802	648	353
a Trade Payables	*1,008*	*785*	*634*	*345*
7 Borrowings	565	315	480	501
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	5,826	3,707	2,915	2,349
11 Shareholders' Equity	5,826	3,707	2,915	2,349
B INCOME STATEMENT				
1 Sales	8,987	5,613	4,299	3,304
a Cost of Good Sold	*(5,063)*	*(3,534)*	*(2,663)*	*(2,103)*
2 Gross Profit	3,924	2,079	1,637	1,201
a Operating Expenses	(1,533)	(1,004)	(823)	(647)
3 Operating Profit	2,391	1,076	813	554
a Non Operating Income or (Expense)	*67*	*26*	*24*	*33*
4 Profit or (Loss) before Interest and Tax	2,458	1,101	838	586
a Total Finance Cost	*(60)*	*(74)*	*(42)*	*(28)*
b Taxation	-	-	-	-
6 Net Income Or (Loss)	2,398	1,027	795	558
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*2,477*	*1,106*	*876*	*614*
b Net Cash from Operating Activities before Working Capital Changes	*2,477*	*1,106*	*876*	*614*
c Changes in Working Capital	*(2,203)*	*(543)*	*(313)*	*(393)*
1 Net Cash provided by Operating Activities	274	563	563	221
2 Net Cash (Used in) or Available From Investing Activities	(197)	(157)	(269)	(136)
3 Net Cash (Used in) or Available From Financing Activities	(17)	(343)	(244)	(90)
4 Net Cash generated or (Used) during the period	60	63	50	(6)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	60.1%	30.6%	30.1%	17.8%
b Gross Profit Margin	43.7%	37.0%	38.1%	36.3%
c Net Profit Margin	26.7%	18.3%	18.5%	16.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	3.0%	10.0%	13.1%	6.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/S*	50.3%	31.0%	30.2%	25.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	192	206	220	239
b Net Working Capital (Average Days)	156	160	179	194
c Current Ratio (Current Assets / Current Liabilities)	5.6	4.7	4.7	6.8
3 Coverages				
a EBITDA / Finance Cost	97.8	33.1	38.7	39.5
b FCFO / Finance Cost+CMLTB+Excess STB	76.7	21.2	2.6	1.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.4	0.6
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	8.8%	7.8%	14.1%	17.6%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	5.9%	7.8%	4.9%	3.7%

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
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

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