



The Pakistan Credit Rating Agency Limited

Rating Report

Guard Agricultural Research and Services (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Oct-2024	A-	A2	Stable	Maintain	-
24-Oct-2023	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect Guard Agricultural Research & Services (Pvt.) Limited's strengthening business position within the agriculture and food sector. The Company's packaged basmati is marketed domestically and exported under its brand name to 45 countries across Asia, the Middle East, North America, Africa, Europe, and Australia. The Guard Group has demonstrated a strong track record of performance across multiple sectors, including the automotive industry, food products, lubricants, auto parts, friction materials, and HEPA filters. The distinguished background of the sponsoring family enhances the Company's credit profile. The Company's Board is largely composed of members from the sponsoring family. The Board is further supported by its sub-committees and a seasoned management team, which collectively enable the Company to navigate the challenges inherent in the rice sector effectively. Industry insights reveal that Pakistani rice exporters generated a historic \$3.93 billion foreign exchange during FY24, exporting ~6mln 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. The Company reported a notable increase in sales, reaching PKR 10bln in FY24 (FY23: PKR 8bln), reflecting a robust growth rate of 23%. This growth was primarily driven by a significant rise in exports (FY24: PKR 9bln, FY23: PKR 8bln). This performance underscores the Company's expanding market presence and its ability to capitalize on international demand. The Company demonstrated stability in FY24, achieving an improvement in gross margins to ~14.7%, which signals enhanced operational efficiency. The net profit margins also remained stable at 4% for both FY24 and FY23, reflecting steady bottom-line performance despite rising costs. As a result, the Company's net profit increased to ~PKR 427mln in FY24 (FY23: ~PKR 344mln), despite the increasing finance costs. This indicates resilience in the face of macroeconomic challenges. 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 ~18.3% in FY24 (FY23: ~26.4%), 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.

The ratings are dependent upon brand reputation through customer satisfaction, which subsequently yields amplified business expansion. Adherence to sound financial discipline while strengthening debt servicing capacity through improved cash position is vital for the ratings. Positive outcomes of future projects and sustainability of profits remain imperative for the sustenance of ratings.

Disclosure

Name of Rated Entity	Guard Agricultural Research and Services (Pvt.) Limited
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 Rice(Oct-23)
Rating Analysts	Muhammad Atif Chaudhry Atif.Chaudhry@pacra.com +92-42-35869504

Profile

Legal Structure Guard Agriculture Research & Services (Private) Limited ('Guard Agriculture' or the 'Company') was incorporated in 1989 as a Private Limited Company under the Companies Ordinance, 1984 (now Companies Act, 2017).

Background The auto spare parts business began in 1948 under Mr. Muhammad Shafi Malik as Malik Auto Store. As the business expanded into producing auto filters for tractors and agricultural machinery, it was rebranded as Malik Auto & Agricultural Industries (Pvt.) Ltd. In 1989, the Company established Guard Agriculture, becoming the first private sector organization in Pakistan to create an in-house rice research and development facility. This initiative was complemented by the launch of a modern rice milling and processing plant, installed by Yanmar of Japan.

Operations Guard Agriculture operates through two main divisions: Agriculture and Food. The Agriculture division focuses on trading imported hybrid seeds, locally developed hybrid seeds under the 'Guard' brand, and imported agricultural machinery. The Food division handles the processing of basmati rice and the trading of locally sourced pasta and salt, which are packaged at the Company's warehouse. The rice operations are promoted with the tagline 'From Seed to Plate,' with cultivation taking place on company-owned and leased land, as well as through supervised farming contracts. Packaged basmati rice is sold domestically and exported under the 'Guard' brand to over 40 countries in Asia, the Middle East, North America, Africa, Europe, and Australia. The Company's sole processing facility is located in Muridke, with a capacity of 12.5 metric tons per hour, while its corporate office is based in Lahore.

Ownership

Ownership Structure Guard Agriculture Research & Services (Private) Limited is family-owned, with ownership divided among the following brothers: Mr. Shahzad Ali Malik (27.25%), Mr. Iftikhar Ali Malik (24.24%), Mr. Shahbaz Ali Malik (24.24%), Mr. Hamza Waqar Malik (12.60%), and Mr. Waqas Ali Malik (11.64%).

Stability Guard Agriculture Research & Services (Private) Limited is entirely owned by the sponsoring family, with a stable ownership structure. There has been no recent change in the shareholding structure of the Company. Shareholding is expected to remain with the sponsoring family through other group entities.

Business Acumen The sponsoring family has been actively engaged in the agricultural and rice business since 1989, reflecting over three decades of industry experience. Their long-standing involvement underpins operational stability and a deep understanding of market dynamics.

Financial Strength The sponsors have shown their commitment to the Company by providing funds as needed. Additionally, the Company benefits from the financial strength of the Guard Group, which offers extra support when required.

Governance

Board Structure The Company's Board mainly includes members of the sponsoring family, with three executive directors and one non-executive director. The lack of independent directors on the board indicates potential areas for improvement in the governance structure.

Members' Profile Mr. Iftikhar Ali Malik, the Chairman of the Board, has been associated with the company since 1989 and also serves as the Group Chairman. He is a well-recognized leader in both national and international trade and industry. Mr. Shahbaz Ali Malik, a Fellow Chartered Accountant (FCA), brings 41 years of professional experience. Additionally, Mr. Waqar Ali Malik and Mr. Shahzad Ali Malik, both graduates, contribute 31 and 25 years of experience, respectively.

Board Effectiveness The Board has the strength of all members belonging to the same family, increasing their cohesiveness. To ensure effective governance, the Board has formed two committees, namely, (i) Audit Committee, and (ii) Human Resource and Remuneration Committee.

Financial Transparency The external auditors of the Company, Crowe Hussain Chaudhury & Co Chartered Accountants, have expressed an unqualified opinion on the financial statements of the Company for the year ended Jun-23. The firm is QCR rated placed in category 'A' of the SBP's panel of auditors.

Management

Organizational Structure The Company has developed a defined organizational structure keeping in mind the Company's operational needs. The Company operates through Procurement, Sales and Marketing, Finance and Accounting, Production, Technical and Administration departments.

Management Team Mr. Shahzad Ali Malik serves as the CEO of the Company and has been associated with it since 1989. Additionally, he holds the position of Group Director of Sales and Marketing. Over the past 27 years, he has dedicated his efforts to advancing private-sector research and development (R&D) in agriculture. A strong advocate for food security, he played a pioneering role in the introduction of hybrid rice seeds in Pakistan. In recognition of his contributions to research and development, Mr. Shahzad has been honored with the Sitara-e-Imtiaz by the Government of Pakistan.

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 presence of management committees. The absence of management committees indicates room for improvement.

MIS The company has an in-house IT team that developed an Oracle-based ERP system to generate management information system (MIS) and operational reports.

Control Environment To ensure operational efficiency, the Internal Audit Function is in place that identifies and reports risks. The audit committee reviews the internal audit department reports and planned activities.

Business Risk

Industry Dynamics Industry insights reveal that Pakistani rice exporters generated a historic \$3.93 billion in foreign exchange during FY24, exporting ~6mln 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 As per management representation, the Company is a leading player in Pakistan's rice seed market, commanding ~35% market share by value. In the rice sector, it holds around 1% market share, focusing exclusively on premium packaged rice, thereby establishing itself as one of the top brands in the country.

Revenues The Company mainly generates revenue by selling imported hybrid seeds, 8 variants of basmati rice locally, and exporting basmati rice variants majorly to Asia, the Middle East & Europe regions, and minorly to other destinations accumulating to around 45 countries. The Company reported a notable increase in sales, reaching PKR 10bln in FY24 (FY23: PKR 8bln), reflecting a robust growth rate of 23%. This growth was primarily driven by a significant rise in exports (FY24: PKR 9bln, FY23: PKR 8bln). This performance underscores the Company's expanding market presence and its ability to capitalize on international demand. The Company's small share in processed foods (~0.5% from pasta) indicates early efforts in a sector that has potential for future growth, even though it is currently minimal.

Margins The Company demonstrated stability in FY24, achieving an improvement in gross margins to ~14.7%, which signals enhanced operational efficiency. The net profit margins also remained stable at 4% for both FY24 and FY23, reflecting steady bottom-line performance despite rising costs. As a result, the Company's net profit increased to ~PKR 427mln in FY24 (FY23: ~PKR 344mln), despite the increasing finance costs. This indicates resilience in the face of macroeconomic challenges.

Sustainability The Company's sustainability is anchored in decades of managerial experience, financial support from the Guard Group, and its active involvement in agricultural research, which enhances long-term growth prospects.

Financial Risk

Working Capital The Company's working capital cycle shows improvement, supported by strong cash flows. In FY24, the net working capital cycle decreased to 56 days from 69 days in FY23, driven by reduced average inventory days of 33 (FY23: 46). Trade receivable days remained stable at 41 days, while trade payable days slightly decreased to 17 from 18 days in the prior year. These metrics indicate enhanced operational efficiency and liquidity.

Coverages During FY24, FCFO increased significantly to PKR 827mln (FY23: PKR 551mln). The interest coverage ratio remained stable at 7.6x (FY23: 7.1x). Despite the rise in finance cost (FY24: PKR 119mln, FY23: PKR 85mln) coverage ratios were steady due to increased FCFO.

Capitalization The Company maintains a low-leverage capital structure, with leverage decreasing to 18% (FY23: 23%), driven by a decrease in short-term borrowings, which declined to PKR 496mln (FY23: 643mln). The Company's debt is exclusively reliant on short-term borrowings, highlighting its conservative financing approach.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Guard Agriculture & Research Services (Pvt.) Ltd. Rice	Jun-24 12M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	1,343	1,060	872	616
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	5,220	4,325	3,486	2,206
a Inventories	969	881	1,236	457
b Trade Receivables	1,038	1,198	658	374
5 Total Assets	6,563	5,385	4,359	2,822
6 Current Liabilities	3,679	2,830	964	242
a Trade Payables	567	363	439	75
7 Borrowings	496	643	1,848	1,200
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	165	118	99	93
10 Net Assets	2,223	1,794	1,448	1,287
11 Shareholders' Equity	2,222	1,794	1,448	1,287
B INCOME STATEMENT				
1 Sales	10,246	8,357	4,945	4,541
a Cost of Good Sold	(8,739)	(7,140)	(4,095)	(3,921)
2 Gross Profit	1,506	1,217	850	621
a Operating Expenses	(1,049)	(768)	(611)	(413)
3 Operating Profit	457	449	239	207
a Non Operating Income or (Expense)	182	31	(24)	(6)
4 Profit or (Loss) before Interest and Tax	639	480	215	201
a Total Finance Cost	(119)	(85)	(22)	(18)
b Taxation	(92)	(51)	(31)	(56)
6 Net Income Or (Loss)	427	344	163	127
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	827	551	268	225
b Net Cash from Operating Activities before Working Capital Changes	709	477	246	207
c Changes in Working Capital	(146)	163	34	353
1 Net Cash provided by Operating Activities	563	640	280	561
2 Net Cash (Used in) or Available From Investing Activities	(460)	(290)	(330)	(70)
3 Net Cash (Used in) or Available From Financing Activities	(147)	254	232	(101)
4 Net Cash generated or (Used) during the period	(44)	604	181	389
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	22.6%	69.0%	8.9%	7.1%
b Gross Profit Margin	14.7%	14.6%	17.2%	13.7%
c Net Profit Margin	4.2%	4.1%	3.3%	2.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	6.6%	8.6%	6.1%	12.7%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	21.3%	21.2%	11.9%	10.1%
2 Working Capital Management				
a Gross Working Capital (Average Days)	73	87	101	80
b Net Working Capital (Average Days)	56	69	82	66
c Current Ratio (Current Assets / Current Liabilities)	1.4	1.5	3.6	9.1
3 Coverages				
a EBITDA / Finance Cost	8.2	8.3	22.0	23.0
b FCFO / Finance Cost+CMLTB+Excess STB	7.6	7.1	17.3	18.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	18.3%	26.4%	56.1%	48.3%
b Interest or Markup Payable (Days)	38.7	47.6	0.8	5.2
c Entity Average Borrowing Rate	19.1%	6.2%	1.0%	1.1%

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

<p>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'.</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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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	e) Holding Company Rating
b) Corporate Rating	f) Independent Power Producer Rating
c) Debt Instrument Rating	g) Microfinance Institution Rating
d) Financial Institution Rating	h) Non-Banking Finance Company

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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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- (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)
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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)
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- (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)

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