The Pakistan Credit Rating Agency Limited

Rating Report

Sayban International

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Dec-2023	BBB-	A2	Stable	Maintain	-
31-Dec-2022	BBB-	A2	Stable	Upgrade	-
23-Nov-2022	BBB-	A3	Positive	Maintain	-
29-Nov-2021	BBB-	A3	Stable	Upgrade	-
22-Dec-2020	BB+	A3	Positive	Maintain	-
24-Dec-2019	BB+	A3	Stable	Maintain	-
27-Jun-2019	BB+	A3	Stable	Maintain	-
27-Dec-2018	BB+	A3	Stable	Maintain	-
29-Jun-2018	BB+	A3	Stable	Maintain	-
30-Dec-2017	BB+	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned ratings of Sayban International ("Sayban" or "the Business") take into account the extensive experience of the sponsors in the pesticide industry, strong brand, established industry presence and wide geographical reach in the domestic market. The sponsors have also set up Comega Life Sciences & Innova Agri Solutions to expand their agricultural presence. Sayban retains its market share despite fragmentation in the crop protection industry. The pesticide sector in Pakistan faced substantial challenges during CY23, marked by heavy rainfall and floods. Resultantly, the agri-chain incurred substantial losses, particularly affecting the major crops. However, the Business was able to manage the risk supported by an efficient procurement strategy and augmented business concentration in Punjab. Sayban holds diversified revenue streams from Pesticides, Plant Growth Regulators, Bio Fertilizers, Seeds, and Standard Fertilizers. The Business maintained a healthy topline backed by the introduction of new products in the market and a robust sales network across the country. Margins and in turn profits remain intact. The Business meets its working capital requirements through a mix of internal cash flows and short-term borrowings. The financial risk profile remains comfortable owing to adequate leveraged structure and strong coverages.

The ratings are dependent on the sustained business and financial risk profile of the Business. Meanwhile, improvement in governance practices would be beneficial for the ratings.

Disclosure

Name of Rated Entity	Sayban International
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Pesticides(Feb-23)
Rating Analysts	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure Sayban International ("Sayban" or "the Business") is an Association of Persons (AOP), established in 2005.

Background Sayban was established under the umbrella of Auriga Group back in 2005. The Business was established and controlled by five major partners and two minority stake partners. The partners decided to separate businesses in 2015, as a result of which the Sayban group was formed. Three partners moved to Sayban Group and the remaining continued holding a stake in Auriga Group. Sayban was also transferred to Sayban Group. On legal grounds, however, these restructuring changes remained under process since then and the groups continued to operate under the former unchanged partnership deed till Oct'19 when a separation agreement was formalized amongst the partners.

Operations The industrial complex based at Sayban includes production facilities for Fungiicides, Granules, Herbicides, Insecticides, Plant Growth Regulator PGR (Bio Fertiliser) and Hybrid Seeds. Sayban is doing research & development on different types of bacteria that are environment friendly and is involved in the formulation and sale of Pesticides, manufacturing of PGR (Bio Fertiliser) and sale of hybrid seeds. It has a widespread distribution network nationwide. During the course of time, Sayban's franchise network has grown to 499 shops which are backed by an experienced & qualified sales team of permanent & contractual personnel.

Ownership

Ownership Structure Under Sayban Group, the Business is owned by three individuals. Mr. Muhammad Azam Cheema and Mr. Shamsher Hussain each hold 44% and the remaining shares are held by Mr. Muhammad Tariq.

Stability Group-level ownership restructuring enhances overall stability for the Business.

Business Acumen All partners of the Sayban Group have been associated with the Agriculture sector for a long, bearing strong educational backgrounds and deploying valuable services for over three decades.

Financial Strength Under the umbrella of an agricultural group, Sayban aims for a strategic transformation, unlocking potential opportunities in its financial landscape.

Governance

Board Structure Sayban currently operates under a partnership structure without a formal board. The Business is managed by three (3) active partners who are directly involved in its day-to-day operations.

Members' Profile Sayban withstands its experienced professionals on board. Mr. Muhammad Azam Cheema holds a Master's in Agriculture and Agronomy and vast professional experience. He is the Chairman & the Chief Executive Officer of Sayban. Mr. Shamsher Hussain, an M.Sc. in Agriculture with over 30 years of experience, is the Director of Sales & Marketing at Sayban Group. His diverse expertise, including his role as a progressive farmer, has been vital for the group's progress.

Board Effectiveness Sayban's oversight function – which is normally the role of the Board – is being exercised by Mr. Azam Cheema. Multiple roles of partners in the management reflect a lack of autonomous direction.

Financial Transparency Awan & Co. Chartered Accountants are the External Auditors of Sayban. They have expressed an unqualified opinion on the financial statements of Sayban for FY23. The Business has shifted its financial year to June.

Management

Organizational Structure Sayban has a well demarcated organizational structure with defined functions including (i) Operations, (ii) Finance & Accounts, (iii) Administration & HR, (iv) Procurement (v) Development (Vi) Marketing (vii) R & D and (viii) Internal Audit and (ix) Quality Control.

Management Team Sayban has an experienced management team; a balanced blend of professional people from the industry. The majority of the senior management has been associated with Sayban for a long time. Mr. Aslam Javed, the Group CFO post-restructuring, and Mr. Anees-ur-Rehman Malik (GM Corporate), a finance expert with 25 years of experience in the Pharma, Sugar, Steel, and Pesticides sectors, have played pivotal roles in the Business.

Effectiveness The absence of formal partner committees and the concentration of reporting lines to the CEO suggest a lack of organizational effectiveness in the Business's structure.

MIS Sayban has deployed an M/s Genie Clique, a general customized software, particularly for pesticides along with a real-time management base. However, further improvement in the system will bring more efficacy to the business processes.

Control Environment The existence of an in-house internal audit department reporting directly to the CEO indicates an informal culture within the Business, potentially impacting its control environment.

Business Risk

Industry Dynamics The agricultural sector plays a pivotal role in Pakistan's economy, contributing ~23% to the GDP and serving as a crucial source of raw materials for various industries. To enhance crop protection and cultivation practices, the industry heavily relies on pesticides (Agro Chemicals). The pesticide sector is significantly dependent on imports as ~85-90% of raw material is imported from China. In FY22, the pesticide industry's estimated value stood at ~PKR 95.3bln, marking a significant YoY increase of ~30%. This growth is attributed to the overall expansion of the crops sector and the subsequent rise in demand. Additionally, increased prices have further contributed to this upward trend. In FY22, pesticide imports reached around ~PKR 30bln, reflecting a ~12% YoY increase. Among these imports, insecticides accounted for the majority at ~74%, followed by herbicides at ~14%, and fungicides at ~9%. The sector's overall leveraging remains adequate with stable coverage ratios. Going forward, sectors overall outlook is expected to remain stable.

Relative Position Sayban Group holds a market share of 16% in the pesticide industry and is the pioneer of introducing micro fertilizer, with the brand name "Charger", a unique yet value-adding product in the fertilizer segment of the country.

Revenues Sayban has maintained a healthy business risk profile backed by its established industry presence, the introduction of new products in the domestic market and its robust sales network across the country. The Business has diversified revenue streams with an estimated 70% coming from pesticides. During FY23 the Business reported overall sales of PKR 6,266mln. During CY22, the Business's overall sales grew by 16% compared to the previous year. The large product base in different segments enabled the diversification of revenue streams through regular product launches.

Margins Sayban reported an overall growth in the margins during FY23. The Business reported a healthy gross margin of 22% during FY23. During CY22 the gross margins experienced a slight dip owing to cost-push inflation and rupee depreciation (CY22: 21%, CY21: 23%). The operating margin was reported at 11% for FY23 (CY22: 10%, CY21: 10%), which reflects efficient administrative and selling expense management. To manage significant working capital needs promptly, the Business secures short-term financing. Despite reduced borrowing, the high-interest rates have significantly impacted finance costs, affecting the net profit margins which resulted in a decline in the net income during FY23.

Sustainability Sayban has increased its liquid pesticide production capacity by 78MT per day to meet anticipated demand from the Agriculture Sector. The Business's management plans to expand the production. Additionally, Sayban is exploring new technical-grade pesticides to enhance scale and profitability.

Financial Risk

Working Capital Sayban's working capital cycle links to the crop seasons of the country. Optimal inventory management remains the key to a sound working capital system. During FY23 the inventory days improved on the back of well-planned inventory management and reported at 80 days. The trade receivables and payables reflected great performance and both reported at 17 days. The net working capital was reported at 81 days. The short-term trade leverage stood at 41% reflecting sufficient room to borrow.

Coverages The Business reported a Free Cash Flow from Operations (FCFO) of PKR 876mln in FY23, indicating a strong liquidity position. Furthermore, it demonstrated a healthy FCFO/Finance Cost coverage of 2.6x and EBITDA/Finance Cost coverage of 2.8x during FY23, emphasizing a sound liquidity position.

Capitalization Sayban maintains a moderately leveraged capital structure with a leverage ratio of 33% in FY23. The Business, apart from a vehicle lease, does not carry any significant long-term debt obligations. Total borrowings notably decreased to PKR 1,194mln for FY23, with short-term borrowings comprising 84% of the total. With no imminent major expansion plans, the leveraging is expected to remain stable. As of FY23, the Business's shareholder's equity stands at PKR 2,407mln.

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Financial Summary
PKR mln

Sayban International Pesticides	Jun-23	Dec-22	Dec-21	Dec-20
	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	1,221	1,133	957	776
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	3,792	4,307	3,450	2,833
a Inventories	*2,604*	*2,873*	*1,715*	*1,401*
b Trade Receivables	*759*	*488*	*909*	*697*
5 Total Assets	5,013	5,441	4,406	3,609
6 Current Liabilities	1,296	872	611	576
a Trade Payables	*743*	*434*	*296*	*290*
7 Borrowings	1,194	2,099	1,480	693
8 Related Party Exposure	117	231	158	255
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	2,407	2,239	2,157	2,085
11 Shareholders' Equity	2,407	2,239	2,157	2,085
B INCOME STATEMENT				
1 Sales	6,266	5,405	4,641	4,115
a Cost of Good Sold	*(4,881)*	*(4,268)*	*(3,562)*	*(3,059)*
2 Gross Profit	1,385	1,137	1,078	1,056
a Operating Expenses	(706)	(614)	(614)	(581)
3 Operating Profit	679	523	465	475
a Non Operating Income or (Expense)	*84*	*92*	*33*	*29*
4 Profit or (Loss) before Interest and Tax	763	615	498	504
a Total Finance Cost	*(392)*	*(196)*	*(106)*	*(74)*
b Taxation	*(78)*	*(71)*	*(74)*	*(71)*
6 Net Income Or (Loss)	293	348	318	359
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*876*	*532*	*542*	*529*
b Net Cash from Operating Activities before Working Capital Changes	*461*	*324*	*447*	*451*
c Changes in Working Capital	*226*	*(391)*	*(745)*	*(188)*
1 Net Cash provided by Operating Activities	687	(67)	(299)	264
2 Net Cash (Used in) or Available From Investing Activities	(34)	(96)	(71)	(91)
3 Net Cash (Used in) or Available From Financing Activities	(655)	228	352	(145)
4 Net Cash generated or (Used) during the period	(2)	65	(18)	28
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	131.8%	16.5%	12.8%	19.8%
b Gross Profit Margin	22.1%	21.0%	23.2%	25.7%
c Net Profit Margin	4.7%	6.4%	6.8%	8.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	17.6%	2.6%	-4.4%	8.3%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	25.2%	15.8%	15.0%	18.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	98	202	186	176
b Net Working Capital (Average Days)	81	177	163	156
c Current Ratio (Current Assets / Current Liabilities)	2.9	4.9	5.6	4.9
3 Coverages				
a EBITDA / Finance Cost	2.8	4.2	6.4	8.1
b FCFO / Finance Cost+CMLTB+Excess STB	2.6	3.2	6.0	7.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.2	0.8	0.5	0.5
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	33.5%	48.7%	41.0%	27.8%
b Interest or Markup Payable (Days)	0.0	11.5	66.6	27.0
c Entity Average Borrowing Rate	40.4%	9.7%	8.7%	10.0%

Credit Rating

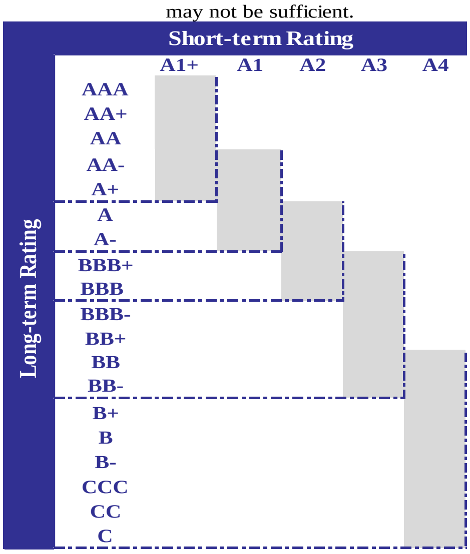
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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.

Short-term Rating

Scale	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
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 surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

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

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