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
21-Dec-2023	BBB-	A2	Stable	Maintain	-
21-Dec-2022	BBB-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

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.
The ratings incorporate Swat Agro Chemical's ("Swat Agro" or "the Business") established industry presence. Swat Agro has a wide geographical reach in the domestic market, its strong operating efficiency, and extensive experience of sponsors in the pesticide business. The AoP caters to a wide portfolio of products; namely insecticides, fertilizers, micronutrients, fungicides, house-holds, weedicides, adjuvants, and agri-equipments. The Business holds considerable presence in the insecticides and fertilizer market. This supported Swat Agro's overall scale of operations and profitability. The Business has maintained a manageable business risk profile supported by a robust sales network across the country. Margins and in turn profitability remains intact. Sponsors have strengthened the supply chain by building relationships with many multinational suppliers. In addition, the collaboration of BASF chemical company, Swat Agro has installed high standard SC & EC formulation plant. The financial risk is characterized by low leverages capital structure and an adequate working capital cycle. The Business meets use a mix of internal cash flows and short-term borrowings to fund its working capital requirements. However, coverages remain strong.

The ratings are dependent on sustained business and financial profile of the Business. Any deterioration in margins and/or cash flows remains may the impact the ratings. Improvement in the governance framework would benefit ratings

Disclosure

Name of Rated Entity	Swat Agro Chemicals
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	Nabia Rauf | nabia.rauf@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, 1932.

Background Swat Agro started their journey from Peshawar, KPK in early 90s. The organization initiated its activities with vast exposure of its management with relevant knowledge of the agriculture industry. In 2000, the Business expanded operations in Baluchistan. Later, they expanded their business in 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. The facility of Swat Agro is equipped with high-quality processing units. It also has multiple warehouses throughout the country. Head office is located in Peshawar and the corporate office is in Lahore.

Ownership

Ownership Structure The Business's major stake is held by Mr. Barkat Ali Khan (~50%). The remaining stake is held by Mr. Muhammad Alam Khan (~25%) and Ms. Fozia Nazneen (~25%).

Stability Going forward, the ownership seems to remain stable.

Business Acumen The Sponsors are associated with the agriculture sector and deploying valuable services for more than three decades.

Financial Strength The Business remained stable since past years as it gathers financial strength from its Sponsors, if and when needs be.

Governance

Board Structure Swat Agro, being a partnership, does not have a formal Board of Directors (BoD) structure. The partners are responsible for running the business; they have their respective managerial roles in the business operations and keenly monitors the operation.

Members' Profile The partners of Swat Agro are experienced professionals and have been involved in the same business for decades.

Board Effectiveness Absence of formal governance framework poses room for improvement as the partners are directly engaged in the management of Swat Agro. There are no committees in place to assist the partners in relevant matters.

Financial Transparency M/s Dilroz Khan & Co. are the External Auditors and expressed an unqualified opinion on the financial statements for FY23. The firm is not QCR rated.

Management

Organizational Structure Swat Agro has a simple organizational structure, divided into four key functions, namely (i) Sales & Marketing, (ii) Administration, (iii) IT, (iv) Finance & Accounts. Each function Head reports to the Chief Operating Officer (COO), who then reports to the CEO.

Management Team Mr. Barkat Ali Khan is the Chief Executive Officer (CEO) of Swat Agro and holds vast business acumen spanning over three decades. He is associated with the Business since 2003. Mr. Wajid Gul serves as the Chief Financial Officer (CFO) since 2015. He holds an overall experience of more than 18 years. He is associated with Swat Agro since 2009. Other members of management team hold diversified professional experience and education.

Effectiveness Swat Agro exhibits significant room for improvement as there are no management committees formed.

MIS The operating environment relies on an IT infrastructure supported by ERP (Enterprise Resource Planning) solutions. The monitoring and reviewing mechanisms of Swat Agro is adequate. Weekly, monthly, and quarterly MIS comprises comprehensive segment and product performance reports are reviewed frequently by the senior management.

Control Environment Swat Agro has the most technologically advanced formulation plant and is ISO 9001 - 2015 and ISO 17025 - 2005 certified.

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 Swat Agro falls among the top ten companies and holds a market share of ~6%.

Revenues Swat Agro earns its revenue from different segments, i) Adjuvants ii) Agri Equipment's iii) Fertilizers iv) Fungicides v) Insecticides vi) Weedicides vii) Micro Nutrients vii) Households. During FY23, the Company recorded revenue of ~PKR 5.6bln (FY22: ~PKR 4.2bln) depicting an increase of ~33% due to increased price of the products, mainly emanating from fertilizer and insecticides, each accounted for ~32% of total revenue; followed by micro nutrients and fungicides, each contributing ~ 18% of the total revenue.

Margins During FY23, gross margin recorded a dip and stood at ~37% (FY22: ~38%) due to relatively increased cost and price of the products. Operating margin improved and stood at ~19% (FY22: ~19%) due to cautious control on the operating costs. Resultantly, the net profit margin witnessed a slight dip and stood at ~18% (FY22: ~19%).

Sustainability The profitability of the Business improved over the period. Going forward, the Sponsors are expanding operations by adding new business lines like Packaging plants and Real State development.

Financial Risk

Working Capital As of FY23, net working capital days witnessed improvement and stood at 160days (FY22: 179days) owing to improved receivables days (FY23: 96days, FY22: 102days) coupled with improved trade payable days (FY23: 46days, FY22: 42days). Trade receivables are mainly from various branches of the Business, while trade payable are attributed to suppliers.

Coverages As of FY23, Free Cash Flow form Operations (FCFO) witnessed a significant growth and stood at ~PKR 1.1bln (FY22: ~PKR 0.8bln) due to increased revenue driven by higher profits. Finance cost during the period stood at ~PKR 33mln (FY22: ~PKR 23mln). Resultantly, interest coverage ratio decreased and stood at 33.1x (FY22: 38.7x) whereas debt coverage ratio became negligible (FY22: 0.4x).

Capitalization As of FY23, the equity of Swat Agro witnessed a significant increase of ~28% majorly owing to the accumulation of profits (FY23: ~PKR 3.7bln, FY22: ~PKR 2.9bln). As at FY23, debt-to-equity ratio of the Company improved to ~7.8% (FY22: ~14.1%) owing to reduced borrowings. Total borrowings of the Company decreased and stood at ~PKR 315mln (FY22: ~PKR 480mln). To manage the working capital, short-term borrowing increased ~165% and stood at ~PKR 289mln (FY22: ~PKR 109). Long-term borrowing reduced ~88% and stood at ~PKR 7mln (FY22: ~PKR 58mln).

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

Credit Rating

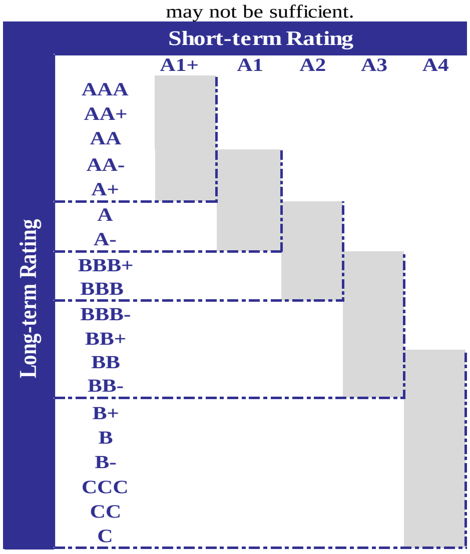
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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(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).
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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)
(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)
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(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 | 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)

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