



The Pakistan Credit Rating Agency Limited

ENGRO EXIMP AGRIPRODUCT (PVT) LTD (EEAP)

RATINGS REPORT

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DECEMBER 2017

ENGRO EXIMP AGRIPRODUCT (PVT) LTD. PROFILE	
Incorporated	2010
Major Business	Rice Export
Legal Status	Private limited
Head Office	Karachi

INDUSTRY SNAPSHOT
<p>Pakistan's Rice industry is instrumentalist at the moment. The total contribution to the GDP is meager, clocking in at 0.6%. There are a total of 107 firms, out of which only 22 firms have employees above hundred. There is no Rice company listed on the stock exchange. The Rice cultivation area is 2.72 mln Hectors. Production of the Rice is 6.9million Ton and the consumption is 3mln Tons.</p>

OWNERSHIP	STRONG
<ul style="list-style-type: none"> Engro Eximp Agriproducts (Pvt.) Ltd, is an unlisted wholly owned subsidiary of Engro Corp - one of the largest business conglomerates in Pakistan Engro corporation is one of the largest conglomerates in Pakistan having businesses diversified in fertilizer, food, chemical storage & handling, trading, digital technologies, mining, energy and petrochemicals sector 	

GOVERNANCE	NEEDS IMPROVEMENT
<ul style="list-style-type: none"> The board comprises of three members. Mr. Ghias Khan, is the Chairman of the board. He is also the CEO of Engro Eximp Agriproducts (pvt) Ltd The other members on the board are Mr. Imran Anwer, CEO Engro Polymer & Chemicals and Mr. Mazhar Hasnani, Head of Strategy and Corporate Finance, Engro Corp The board is currently aligned with the private status of the company AF Ferguson &Co. Chartered Accountants are the auditors for the Engro Eximp Agriproducts (Pvt.) Ltd. Auditors gave an unqualified opinion and review report on financial statements for the year ended December 31, 2016 	

MANAGEMENT	EXCELLENT
<ul style="list-style-type: none"> Engro Eximp Agriproducts (Pvt.) Ltd has a well-defined reporting lines and segregation of duties. The director reports to the CEO whereas the departmental heads report to the Director Consumer Agribusiness The CEO – Mr. Ghias Khan, is an an MBA from IBA. Before being appointed as the CEO of Engro Eximp Agriproducts (pvt), held several roles across the Dawood Hercules Group of Companies, most recently being the Executive Director of Dawood Hercules 	

SYSTEMS & CONTROLS	GOOD
<ul style="list-style-type: none"> The company has ERP software implemented for their safety management, financial management and inventory management Two softwares for the inventory management are implemented at EEAP. One of the software is for managing the local inventory and the other for export inventory i) IRS – Implemented by Ford Rhodes ii) Trackvia During the year CY16, an external quality audit by Bureau Veritas for quality re-certification was successfully completed and improved EEAP's rating from 'B' to 'A' EEAP has the highest number of quality certifications amongst rice players in Pakistan. 	

PERFORMANCE	IMPROVING
<ul style="list-style-type: none"> EEAP posted a Net loss of PKR ~ 213mln (9MCY16 : Loss PKR ~ 356mln) Gross margins were largely maintained at 9% on YoY basis. Significant reduction in finance cost during FY16 helped in offsetting the impact of one-off insurance claims received Going forward, the management intends to enhance its business margins benefitting from lately converted associated concern for rice polishing EEAP expects recovery from losses. 	

FINANCIAL RISK	ADEQUATE
<ul style="list-style-type: none"> The company finances its working capital needs through the export refinance facility (ERF II), a performance based facility by SBP. The company had obtained short term export refinance secured by way of floating charge on all present and future of value current asset of the company Net working capital of the company reduced to 116 days as compared to 182 days in 9MCY16 EEAP's capital structure comprises of short term borrowing, long-term debt and equity 	



Engro Eximp Agriproduct (pvt.) Ltd

BALANCE SHEET	30-Sep-17	31-Dec-16	30-Dec-15
	Annual	Annual	Annual
Non-Current Assets	894	936	1,050
Investments (Incl. associates)	-	-	-
Equity	-	-	-
Debt	-	-	-
Investment property	-	-	-
Current Assets	1,208	949	1,817
Inventory	644	554	645
Trade Receivables	104	7	101
Others	459	388	1,071
Total Assets	2,102	1,885	2,867
Debt	857	377	1,198
Short-term	857	377	1,198
Long-term (Incl. Current Maturity of long-term debt)	-	-	-
Other shortterm liabilities	179	229	288
Other Longterm Liabilities	0	2	2
Shareholder's Equity	1,066	1,279	1,380
Total Liabilities & Equity	2,102	1,885	2,867

INCOME STATEMENT

Turnover	1,289	918	1,881
Gross Profit	(82)	(231)	(832)
Net Other Income	25	6	(3,364)
Financial Charges	(40)	(75)	(149)
Net Income	(215)	(479)	(4,517)

Cashflow Statement

Free Cashflow from Operations (FCFO)	(172)	(353)	524
Net Cash changes in Working Capital	(292)	319	1,159
Net Cash from Operating Activities	(498)	(129)	1,430
Net Cash from Investing Activities	15	12	(22)
Net Cash from Financing Activities	480	(443)	1,046

Ratio Analysis

Performance			
Turnover Growth	93.2%	-51.2%	26.4%
Gross Margin	-6.3%	-25.2%	-44.2%
Net Margin	-16.6%	-52.2%	-240.1%
ROE	-18.9%	-119.0%	-187.8%
Coverages			
Interest Coverage (FCFO/Gross Interest)	-108.3	-4.7	3.5
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	-108.3	-4.7	3.5
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	-4.3	-4.7	3.5
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	0.0	0.0	0.0
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	116.5	182.4	37.4
Capital Structure (Total Debt/Total Debt+Equity)	44.6%	22.8%	46.5%



STANDARD RATING SCALE & DEFINITIONS

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 RATINGS		SHORT TERM RATINGS
AAA AA+ AA AA- A+ A A-	<p>Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.</p> <p>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.</p> <p>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.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
BBB+ BBB BBB-	<p>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.</p>	
BB+ BB BB-	<p>Speculative. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.</p>	
B+ B B-	<p>Highly speculative. Significant 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.</p>	
CCC CC C	<p>High default 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.</p>	
D	<p>Obligations are currently in default.</p>	

<p>Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled.</p>	<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>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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.</p>
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Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issues in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.



Rated Entity

Name of Rated Entity Engro Eximp Agriproducts (pvt) Ltd.
Sector Food & Allied | Rice
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment

Rating History

Entity				
Dissemination Date	Long Term	Short Term	Outlook	Action
28-Dec-17	A-	A2	Stable	Initial

Related Criteria and Research Rice Sector| Dec-17

Methodology: Corporate Rating Methodology|Jul17

Rating Analysts

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Rating Team Statement Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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