



The Pakistan Credit Rating Agency Limited

HASSAN ALI RICE EXPORT COMPANY

RATING REPORT

INITIAL [JAN-18]		REPORT CONTENTS
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JANUARY 2018

HASSAN ALI RICE EXPORT COMPANY PROFILE	
Incorporated	1994
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	ADEQUATE
<ul style="list-style-type: none"> HAREC is a single individual owned company. Mr. Abdullah Akbar Ali Hashwani owns 100% stake in the business. Mr. Hashwani is on the Board of Directors at Hassan Ali Rice Export Company Limited (previously known as Regent Textile Industries Ltd.) and Landmark Spinning Industries Ltd – this company is currently dormant Born in 1960, Mr. Abdullah Akbar Ali Hashwani has been in the business for the past 40 years. He has two daughters and a younger son. Both the daughters have lately joined the business after completing their education and currently overseeing marketing operations 	
GOVERNANCE	NEEDS IMPROVEMENT
<ul style="list-style-type: none"> HAREC is a single director company; hence, no formal board structure exists. Mr. Abdullah Akbar Ali Hashwani solely spearheads the company's operations. This implies a high degree of single man risk Ms. Daudally Lalani & Co. Chartered Accountants are the auditors for HAREC. The audit firm satisfies the QCR ratings and also on the list of State Bank of Pakistan approved audit firms in Pakistan. In Sep17, the auditors issued an unqualified opinion on the company's financial statements for the year ended June 30,2017 	
MANAGEMENT	GOOD
<ul style="list-style-type: none"> HAREC has a lean but defined organizational structure. There are well-demarcated reporting lines and segregation of duties Mr. Abdullah A. Hashwani holds the position of Chief Executive / Director and is assisted by Mr. M. Munir Dandia who is designated as General Manager The Director – Mr. Abdullah A. Hashwani, is a business graduate and has an overall experience of 40years. He belongs to an entrepreneurial background, his family has been in commodity trading since long and are well known veterans in trading of rice, wheat, and cotton 	
SYSTEMS & CONTROLS	ADEQUATE
<ul style="list-style-type: none"> HAREC has deployed an in-house ERP Solution since July 2014 The company needs to focus on deploying a software solution with proper technology framework MIS reports are prepared on regular basis to have an update on key business parameters The business KPIs are continuously monitored through regular reporting 	
PERFORMANCE	GOOD
<ul style="list-style-type: none"> During FY17, HAREC witnessed a notable drop (21%) in sales to report at PKR ~9bln; FY16 was a good year with topline growth of 39% which clocked in at PKR 11bln 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 HAREC posted a net profit of PKR 131mln – largely maintaining at last year's level (FY16: PKR 126mln; FY15: PKR 118mln). Going forward, the management intends to enhance its business margins benefitting from lately converted associated concern for rice polishing HAREC intends to expand business volumes and strategize to maintain its competitive edge over others. 	
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 is into 100% export sales, the gross cash cycle hovers around 80-90days HAREC has a moderately leveraged capital structure (end-Jun17: 56%, end-Jun16: 48%). Borrowing lines limits have increased from PKR 3.3bln at end-Jun16 to PKR 4.4bln at end-Jun17 owing to expected rise in business volumes The company has given an interest free subordinate loan of PKR 270mln – HAREC Ltd.: PKR 140mln and Landmark Spinning Mills: 130mln – since Sep.2000 	



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Hassan Ali Rice Export Company

BALANCE SHEET	30-Jun-17	30-Jun-16	30-Jun-15
	Annual	Annual	Annual
Non-Current Assets	120	125	129
Investments (Incl. associates)	345	408	409
Equity	-	-	-
Debt	345	408	409
Investment property	-	-	-
Current Assets	2,853	2,385	2,508
Inventory	974	1,368	1,452
Trade Receivables	646	168	282
Others	1,233	849	775
Total Assets	3,317	2,918	3,045
Debt	1,758	1,341	1,474
Short-term	1,758	1,318	1,446
Long-term (Incl. Current Maturity of long-term debt)	-	23	29
Other shortterm liabilities	194	138	143
Other Longterm Liabilities	-	-	-
Shareholder's Equity	1,365	1,438	1,428
Total Liabilities & Equity	3,317	2,918	3,045

INCOME STATEMENT

Turnover	8,846	11,222	8,088
Gross Profit	761	1,011	907
Net Other Income	5	39	6
Financial Charges	(45)	(105)	(119)
Net Income	131	126	118

Cashflow Statement

Free Cashflow from Operations (FCFO)	188	244	248
Net Cash changes in Working Capital	83	77	74
Net Cash from Operating Activities	-	-	-
Net Cash from Investing Activities	-	-	-
Net Cash from Financing Activities	-	-	-

Ratio Analysis

Performance			
Turnover Growth	-21.2%	38.8%	113.5%
Gross Margin	8.6%	9.0%	11.2%
Net Margin	1.5%	1.1%	1.5%
ROE	10.2%	8.6%	4.9%
Coverages			
Interest Coverage (FCFO/Gross Interest)	4.2	2.3	2.1
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	4.2	2.2	2.0
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	4.2	2.2	2.0
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	9.3	0.2	0.2
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	29.8	-10.0	4.1
Capital Structure (Total Debt/Total Debt+Equity)	56.3%	48.3%	50.8%

Hassan Ali Rice Export Company

Jan-18



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	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.	A1+: The highest capacity for timely repayment.
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.	A1: A strong capacity for timely repayment.
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.	A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB BB-	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.	B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B B-	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.	C: An inadequate capacity to ensure timely repayment.
CCC CC C	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.	
D	Obligations are currently in default.	

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.

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’.

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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

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 Hassan Ali Rice Export Company
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
08-Jan-18	BBB-	A3	Stable	Initial

Related Criteria and Research Rice Sector Study

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.

Disclaimer

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Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer.

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so.

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

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Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter;

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