



The Pakistan Credit Rating Agency Limited

Rating Report

Awami Agro Commodities

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
12-Jun-2018	BB+	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating demonstrates the strength of family owned partnership and explicit experienced background. The strategy of the company encompasses maximizing the returns through gaining new markets. The partners of the business are well equipped with knowledge of Rice business. Management of the company aims to target markets of non-basmati segment of Rice business. Product specific approach restricts the company's turnover, however cost efficiency paves the road for adequate margins. As Awami Agro is a partnership, governance structure reflects needs for improvement. The company has adopted a bottom line centric approach by majorly targeting African regions. There are no long term debts in the books of Awami Agro except export re-finance facility, availed for the first time since its establishment, keeping the leverage in comfortable zone.

The ratings are dependent upon the sustainable profits; low or no leverage adhering to meagre risk profile of the business. Lack of proper board structure is a concern. Sustainable profits, adequate cash flows and working capital cycle are majorly backed by reasonable turnover.

Disclosure

Name of Rated Entity	Awami Agro Commodities
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating Methodology(Jul-17)
Related Research	Sector Study Rice(Dec-17)
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INDUSTRY SNAPSHOT

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 2.72mln Hectors. Production of the Rice is 6.9million Ton and the consumption is 3mln Tons.

Awami Agro Commodities
PROFILE

Incorporated	2012
Major Business	Rice Export
Legal Status	Partnership
Head Office	Karachi

OWNERSHIP

- Awami Agro Commodities, incorporated in 2012, (i) Partnership firm and (ii) Registered members of Rice Export Association (REAP) and Karachi Chamber of Commerce & Industry (KCCI).
- The shareholding of the company is equally divided between the two brothers Mr. Bhagwan Das and Mr. Sanjesh Kumar (50:50) however there is a tacit understanding between all four brothers to have equal stake in the firm.
- Mr. Bhagwan Das has three brothers: Sanjesh Kumar, Naresh Kumar and Govinda Kumar, all associated with Awami Agro
- Awami Agro Commodities has one single plant located at Port Qasim industrial area in Karachi.

GOVERNANCE

- The partners are responsible for running the business; they have their respective managerial roles in the business operations. The oversight function – which is normally the function of the Board – is being exercised by the two partners, namely Mr. Bhagwan Das and Mr. Sanjesh Kumar.
- Salahuddin & Co. Chartered Accountants are the auditors for Awami Agro Commodities. The audit firm doesn't satisfy the QCR ratings nor is it classified in any of the categories defined by the State Bank of Pakistan. In the year ended June 30, 2017, the auditors issued an unqualified opinion.

MANAGEMENT

- Mr. Bhagwan Das has been in the rice business for the past 17 years. Before the establishment of Awami Agro, both Mr. Bhagwan Das and Sanjesh Kumar were associated with the joint family business under the name of m/s Meskay & Femtee pvt ltd
- Awami Agro Commodities has an experienced management team, mainly comprising five members while the four brothers oversees the entire business operations. The senior staff at the head office reports to Mr. Govinda Kumar while factory lines falls under Mr. Naresh Kumar.

SYSTEMS & CONTROLS

- An in-house Accounting Management Software is in place at the Head Office only, implemented by a sole proprietor.
- Factory is not directly linked with the system in Head office where main reports; (i) Customer payments and (ii) Supplier Bills are generated and then counter checked with the factory data i.e. received through emails.

BUSINESS RISK

- During FY17, the company experienced a significant rise in revenue by 78.5% YoY unlike the previous year FY16, attributed to the new markets captured, locking the revenue at PKR 930mln (FY16; PKR 521mln).
- The Net profit for the year ended FY17 was PKR 39mln as compared to the Net Profit in FY16 ~ 27mln, increased by 44%.
- Going forward, the senior management plans to capture new markets and acquire further market share by effective utilization of the resources leading to a competitive edge over others. The company expects to book a turnover of PKR 1.3bln in the outgoing FY18.

FINANCIAL RISK

- Company has a maintained positive FCFO over the years standing at PKR 44mln in the year end FY17, increased from FY16; PKR 32mln on account of improved revenue.
- Awami Agro Commodities has two export refinance facilities (i) PKR 150mln from HBL and (ii) PKR 320mln from JS Bank
- The company has managed to run the business on its cash flows and profits earned hence there is less or no leverage until 2017.
- Awami Agro Commodities has a moderately leveraged capital structure year ending-Jun17: 56%. The short term debt in FY17 represents facility availed under export refinancing.



Awami Agro

BALANCE SHEET	30-Jun-17	30-Jun-16	30-Jun-15
	Annual	Annual	Annual
Non-Current Assets	28	28	33
Investments (Incl. associates)	-		
Equity	-		
Debt			
Investment property	-		
Current Assets	205	67	59
Inventory	78	31	18
Trade Receivables	90	33	32
Others	37	3	10
Total Assets	233	96	93
Debt	130	-	-
Short-term	130	-	
Long-term (Incl. Current Maturity of long-term debt)	-		
Other shortterm liabilities	2	-	
Other Longterm Liabilities			
Shareholder's Equity	101	93	90
Total Liabilities & Equity	233	94	91

INCOME STATEMENT

Turnover	930	521	560
Gross Profit	154	96	123
Net Other Income			
Financial Charges	(3)	(1)	(2)
Net Income	39	27	20

Cashflow Statement

Free Cashflow from Operations (FCFO)	44	32	25
Net Cash changes in Working Capital	25	(15)	(46)
Net Cash from Operating Activities	69	17	(21)
Net Cash from Investing Activities	(5)	-	(39)
Net Cash from Financing Activities	(31)	(24)	70

Ratio Analysis

Performance			
Turnover Growth	78.5%	-7.0%	7.9%
Gross Margin	16.6%	18.4%	21.9%
Net Margin	4.2%	5.2%	3.5%
ROE	77.2%	29.6%	0.6%
Coverages			
Interest Coverage (FCFO/Gross Interest)	15.5	30.5	10.3
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	15.5	30.5	10.3
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	15.5	30.5	10.3
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)	21.9	36	172
Capital Structure (Total Debt/Total Debt+Equity)			
	56.3%	0.0%	0.0%



ENTITY CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity; 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.	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. B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. C: An inadequate capacity to ensure timely repayment.	
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.		
AA	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.		
AA-			
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.		
A			
A-			
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 or economic conditions are more likely to impair this capacity.		
BBB			
BBB-			
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.		
BB			
BB-			
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.		
B			
B-			
CCC	Very high 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.		
CC			
C			
D	Obligations are currently in default.		
Rating Watch	Outlook (Stable, Positive, Negative, Developing)	Suspension	Withdrawn
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 within foreseeable future, but may continue if underlying circumstances are not settled.	Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business or 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'.	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, a suspended rating should be considered 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.
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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.
- (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)

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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)
- (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 | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(f-VII)

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