



The Pakistan Credit Rating Agency Limited

Rating Report

Hassan Ali Rice Export Company

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Jun-2018	BBB	A2	Stable	Maintain	-
12-Jan-2018	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating incorporates the strength of the sponsors of Hassan Ali Rice as reflected in the business structure of the group (Hashwani Group of Companies) and overall growing principles of the business. Hassan Ali is a big player, primarily focused on export market, with customers expanding over multiple countries. HAREC doesn't have any long term debt. The Working Capital borrowing are aligned to business cycle, though timely repayment from the client is crucial to settle the obligations. HAREC is a sole proprietorship hence, the room for improvement in governance structure is significant.

The ratings are dependant upon the maintained business volume and Profitability. Adherence to sound financial discipline while strengthening debt servicing capacity (cash overages) is vital for the rating.

Disclosure

Name of Rated Entity	Hassan Ali Rice Export Company
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)
Rating Analysts	Rohail Amjad rohail.amjad@pacra.com +92-42-35869504 Jhangeer Hanif jhangeer@pacra.com +92-42-35869504

HASSAN ALI RICE EXPORT COMPANY PROFILE	
Incorporated	1994
Major Business	Rice Export
Head Office	Private limited

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

- HAREC is a sole proprietorship. Mr. Abullah Akbar Ali Hashwani owns 100% stake in the business. Mr. Hashwani is on the Board of Directors at Hassan Ali Rice Export Compnay 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

- No formal board structure exists
- Mr. Abdullah Akbar Ali Hashwani solely spearheads the company's operations. This implies a high degree of key man risk
- Ms. Daudally Lalani & Co. Chartered Accountants are the auditors for HAREC. The audit firm satisfies the QCR ratings but does not falls in any of category defined by the State Bank of Pakistan. In Sep17, the auditors issued an unqualified opinion on the company's financial statements for the year ended June 30,2017.

MANAGEMENT

- 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, and cotton.

SYSTEMS & CONTROLS

- 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

- During 6MFY18, HAREC witnessed a notable rise (31%) in sales, reported at PKR ~6bln; FY17 was not a good year with topline decline of 39%
- Gross margin at 6MFY18 remained 8%. (PKR 496mln)
- HAREC posted a net profit of PKR 98.6mln –higher than previous year's level (FY17: PKR 131mln; FY16: PKR 126mln).
- 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

- 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 Dec'17: 66%, end-Jun17: 56%, end-Jun16: 48%).
- Short term finance at end Dec'17 rose to PKR 2.7bln as HAREC purchased paddy amidst forecasted growth in business volume
- 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	31-Dec-17	30-Jun-17	30-Jun-16	30-Jun-15
	6M	Annual	Annual	Annual
Non-Current Assets	111	120	125	129
Investments (Incl. associates)	340	345	408	409
Equity	-	-	-	-
Debt	340	345	408	409
Investment property	-	-	-	-
Current Assets	3,837	2,853	2,385	2,508
Inventory	1,856	974	1,368	1,452
Trade Receivables	471	646	168	282
Others	1,510	1,233	849	775
Total Assets	4,287	3,317	2,918	3,045
Debt	2,722	1,758	1,341	1,474
Short-term	2,722	1,758	1,318	1,446
Long-term (Incl. Current Maturity of long-term debt)	-	-	23	29
Other shortterm liabilities	172	194	138	143
Other Longterm Liabilities	-	-	-	-
Shareholder's Equity	1,393	1,365	1,438	1,428
Total Liabilities & Equity	4,287	3,317	2,918	3,045

INCOME STATEMENT

Turnover	6,099	8,846	11,222	8,088
Gross Profit	496	761	1,011	907
Net Other Income	1	5	39	6
Financial Charges	(37)	(45)	(105)	(119)
Net Income	99	131	126	118

Cashflow Statement

Free Cashflow from Operations (FCFO)	136	188	244	248
Net Cash changes in Working Capital	157	83	77	74
Net Cash from Operating Activities	-	-	-	-
Net Cash from Investing Activities	-	-	-	-
Net Cash from Financing Activities	-	-	-	-

Ratio Analysis

Performance				
Turnover Growth	-31.1%	-21.2%	38.8%	113.5%
Gross Margin	8.1%	8.6%	9.0%	11.2%
Net Margin	1.6%	1.5%	1.1%	1.5%
ROE	8.0%	10.2%	8.6%	4.9%
Coverages				
Interest Coverage (FCFO/Gross Interest)	3.7	4.2	2.3	2.1
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	3.7	4.2	2.2	2.0
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	3.7	4.2	2.2	2.0
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	20.1	9.3	0.2	0.2
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	84.7	29.8	-10.0	4.1
Capital Structure (Total Debt/Total Debt+Equity)	66.2%	56.3%	48.3%	50.8%

Hassan Ali Rice Export Company

Jun-18



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 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.	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 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'.	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, a suspended 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.
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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

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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.
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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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