



The Pakistan Credit Rating Agency Limited

Rating Report

Engro Eximp Agriproducts (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Jun-2018	A-	A2	Stable	Maintain	-
29-Dec-2017	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect the strength of ownership structure of the company: EEAP is a wholly owned subsidiary of Engro Corp (rated AA by PACRA). The CEO of Engro Corp is also the CEO/Chairman of EEAP. Ratings take comfort from the strong corporate governance framework of the group. The company accumulated huge losses in the past - now recovery is taking place. The company is expected to book profits. The equity base is also expected to take advantage from ensuring profits and reversal of impairment. The financial risk profile is adequately covered.

The ratings are dependant upon the maintained business volume and recovery from losses. Adherence to sound financial discipline while strengthening debt servicing capacity through improving cash position is vital for the ratings.

Disclosure

Name of Rated Entity	Engro Eximp Agriproducts (Pvt.) Limited
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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ENGRO EXIMP AGRIPRODUCTS (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

- 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

- Mr. Ghias Khan is the Chairman of the board. Mr. Khan is also the CEO of Engro Corp and 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 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 review report on financial statements for the year ended December 31, 2017

MANAGEMENT

- Engro Eximp Agriproducts (Pvt.) Ltd has a well-defined reporting lines and segregation of duties. The departmental heads report to the Director Consumer Agribusiness and he reports to the CEO.
- 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

- 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 CY17 , 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

- During 3MCY18 EEAP posted a Net Profit of PKR ~ 7mln (3MCY17: Loss PKR ~ 49mln). The company witnessed a massive growth in its turnover ~ 222% (3MCY18: 957mln, 3MCY17: 297mln)
- There has been a significant increase in finance cost (3MCY18: PKR 33mln. 3MCY17: PKR 9mln) on account of inventory purchase, funded through export refinance
- Going forward, the management intends to enhance its business margins benefitting from lately converted associated concern for rice polishing
- EEAP expects to build upon on the growth momentum

FINANCIAL RISK

- 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 139 days as compared to 183 days in 3MCY17
- EEAP's capital structure comprises of short term borrowing, long-term debt and equity



The Pakistan Credit Rating Agency Limited

Engro Eximp Agriproduct (pvt.) Ltd

BALANCE SHEET	31-Mar-18	31-Dec-17	31-Dec-16	30-Dec-15
	3M	Annual	Annual	Annual
Non-Current Assets	860	874	936	1,050
Investments (Incl. associates)	-	-	-	-
Equity	-	-	-	-
Debt	-	-	-	-
Investment property	-	-	-	-
Current Assets	2,116	1,866	949	1,817
Inventory	1,264	1,369	554	645
Trade Receivables	399	118	7	101
Others	453	379	388	1,071
Total Assets	2,976	2,740	1,885	2,868
Debt	1,763	1,612	377	1,198
Short-term	1,763	1,612	377	1,198
Long-term (Incl. Current Maturity of long-term debt)	-	-	-	-
Other shortterm liabilities	209	230	229	288
Other Longterm Liabilities	-	-	2	2
Shareholder's Equity	1,004	896	1,279	1,380
Total Liabilities & Equity	2,976	2,740	1,886	2,867

INCOME STATEMENT

Turnover	958	1,749	918	1,881
Gross Profit	90	(90)	(231)	(832)
Net Other Income	3	40	6	(3,364)
Financial Charges	(33)	(57)	(75)	(149)
Net Income	7	(281)	(479)	(4,517)

Cashflow Statement

Free Cashflow from Operations (FCFO)	(222)	(209)	(353)	524
Net Cash changes in Working Capital	(980)	(980)	319	1,159
Net Cash from Operating Activities	(1,250)	(1,237)	(129)	1,430
Net Cash from Investing Activities	15	15	12	(22)
Net Cash from Financing Activities	-	-	(443)	1,046

Ratio Analysis

Performance				
Turnover Growth	48.8%	90.5%	-51.2%	26.4%
Gross Margin	9.4%	-5.2%	-25.2%	-44.2%
Net Margin	0.6%	-16.0%	-52.2%	-240.1%
ROE	2.9%	-147.7%	-119.0%	-187.8%
Coverages				
Interest Coverage (FCFO/Gross Interest)	-3.9	-3.7	-4.7	3.5
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	-0.6	-3.7	-4.7	3.5
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	-0.6	-3.7	-4.7	3.5
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	-1.2	0.0	0.0	0.0
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	139.1	419.0	182.4	37.4
Capital Structure (Total Debt/Total Debt+Equity)	0.0%	0.0%	22.8%	46.5%

Engro Eximp Agriproduct (pvt.) Ltd

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	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.
Disclaimer: PACRA's rating is an assessment of the credit standing of an entity/issue 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.			

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)

Independence & Conflict of interest

- (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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