



The Pakistan Credit Rating Agency Limited

Rating Report

Sayban International

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Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 29-Jun-2018 | BB+ | A3 | Stable | Maintain | - |
| 30-Dec-2017 | BB+ | A3 | Stable | Initial | - |

Rating Rationale and Key Rating Drivers

Sayban operates in three segments: i) pesticides ii) seeds and bio fertilizer. Sayban is a leading player in the first segment. Sayban has also led the introduction of bio fertilizer in Pakistan. The Company has a sizeable turnover, with contribution of each segment, though pesticides is predominant in terms of revenue. Profitability of the company is sanguine. Sayban maintained its market presence with controlled cost, good EBITDA margins and improved profitability. The company is now making efforts for joint venture with Chinese investor which will help company to improve its market share amidst the large fragmented industry. Sayban is still a partnership yet in short period it will be converted into a private limited company. The governing structure is expected to improve as Sayban moves towards corporate structure. Company meets working capital requirements through a mix of internal cashflows and STBs. However, the financial risk remains good on account of low leveraged capital structure and adequate coverages. Going forward, the sustenance in bottom-line and cash flows, formalizing the governance and financial transparency is vital.

The ratings are dependent on sustained business and financial profile of the company. Any deterioration to margins and/or cash flows remains critical to the ratings.

Disclosure

| | |
|------------------------------|---|
| Name of Rated Entity | Sayban International |
| Type of Relationship | Solicited |
| Purpose of the Rating | Entity Rating |
| Applicable Criteria | Methodology Corporate Rating Methodology(Jul-17),Methodology Correlation between long-term and short-term rating scale(Jun-17),Methodology Criteria Modifiers(Jun-17) |
| Related Research | Sector Study Agriculture Input and Services(Jan-18) |
| Rating Analysts | Jhangeer Hanif jhangeer@pacra.com +92-42-35869504 |

| SAYBAN INTERNATIONAL PROFILE | |
|------------------------------|---|
| Incorporated | 2005 |
| Major Business | <ul style="list-style-type: none"> Formulation and sale of Pesticides, manufacturing of PGR (Bio gas) and sales of Hybrid Seeds (Rice) |
| Legal Status | Unlisted |
| Head Office | Lahore |

| INDUSTRY SNAPSHOT |
|---|
| <p>Agriculture is the largest sector of Pakistan's economy accounting for over 19.53% of GDP. Over 75% of pesticides consumption is in Punjab, followed by 22% in Sindh. Agricultural industry comprises of mainly two markets i) Pesticides ii) Seeds. The pesticides market is structured ~PKR 60bln while the seeds market is undocumented but the size is 3x more than a pesticide market. Currently 80% of the market share held by top 8 players.</p> |

OWNERSHIP

- Sayban currently owned by 7 individuals those are acquaintances except of the two brothers. Ownership restructuring is in process.
- Sayban Zarai Markaz (Pvt.) Limited has been formed to acquire the Sayban International after restructuring the ownership.
- Major shareholding will move to Mr. Muhammad Azam Cheema and Mr. Shamsheer Hussain each 44.18%.

GOVERNANCE

- Sayban, as a partnership, does not have a formal BOD structure. The Company is being run by Partners; they have their repetitive roles in the management of the Company. Currently Mr. Azam Cheema is looking after Sayban.
- According to the current restructuring going on there will be only 3 partners (existing 7), each of them will be engaged in management.
- The overall board structure is weak with no independent director. Financial transparency needs improvement.

MANAGEMENT

- Mr. Muhammad Azam Cheema is the Chairman & CEO of the company. He has done his MSc Hon's Agriculture Agronomy from University of Agriculture Faisalabad.
- He carries over two decades of experience in different industries. All the functions report into CEO, however key strategic decision of admin, finance and production division lies with him.
- The CEO is supported experienced management team; a balanced blend of professional people from the industry. Majority of the senior management is associated with the Company for a long time.

SYSTEMS & CONTROLS

- Sayban has deployed an M/s Genie Clique, a software developer based in Multan with a particular focus on the pesticides industry.
- Moreover, there is a Share Point Portal (SPP) Oracle data base that enables information from all group companies to be viewed on a single page, on real time basis. Company needs to develop proper ERP System.

PERFORMANCE

- During CY17, the topline of the Company increased by ~23%, simultaneously improving the gross margins (CY17: 30.8%, CY16:29.2%; 3QCY16: 25.9%). This was mainly attributed to (i) Seasonality impact (ii) 60% of the sales are on cash basis - insecticide sales were on the top.
- With regards to manufactured product mix, insecticides category remains the top selling product followed by PGR (21.2%) and Hybrid Seeds (14.2%). 70% of Company's focus is on pesticides division. Company's business cycle moves with the cotton cycle.
- Witnessing an improving gross profit, the pre-tax profit amounted to PKR 345mln (CY16: PKR 278mln; CY15: PKR 293mln). The finance cost witnessed a rise on YOY basis due to increase borrowing (CY17: PKR 371mln, CY16: PKR 157mln).
- The net profit of Sayban was improved at PKR 324mln contrast to the profit in previous year (CY16: PKR 265mln; CY15: PKR 282mln).
- Going forward, Sayban established a plant at Multan road with a vision to capture any future extension which is on the verge due to the completion of CPEC. Company is also in discussions with Chinese to convert this facility into a joint venture with renowned manufacturers of Agro Chemicals. Going forward Company will focus on fertilizer and PGR growth.

Financial Risk

- Sayban working capital requirements are a function of net cash cycle – a function of inventory, receivables and payables – increased to 83days (end-Dec16: 80days). This is on account of increase in average inventory held. The company meets working capital requirements through a mix of internal cashflows and STBs. STBs stood at PKR 270mln at end-Dec17.
- During CY17, the long term debt was at PKR 100mln including PKR 50mln CMLTD (end-Dec16: PKR 68mln). Out of the total borrowing, PKR 270mln are representing non-funded (FATR). Total debt to debt plus equity ratio increased at 19.8% (CY16: 10.9%; end-Dec15: 4.9%) – still room to borrow.
- During CY17 EBITDA remained high at PKR 456mln; hence increased FCFO at PKR 447mln. Hence, interest coverage and core coverage are at adequate level to 10x and 5x.
- Short term borrowings stand at PKR 270bln which are increased during CY17 which consist of finance against trust receipts – owing to imports.



Sayban International

| BALANCE SHEET | 30-Dec-17 | 30-Dec-16 | 31-Dec-15 | 30-Dec-14 |
|--|------------------|------------------|------------------|------------------|
| | Annual | Annual | Annual | Annual |
| Non-Current Assets | 347 | 287 | 103 | 65 |
| Investments (Incl. Associates) | - | - | - | - |
| Equity | - | - | - | - |
| Debt Securities | - | - | - | - |
| Investment Property | - | - | - | - |
| Current Assets | 1,904 | 1,396 | 1,340 | 1,253 |
| Inventory | 580 | 381 | 281 | 299 |
| Trade Receivables | 990 | 734 | 778 | 560 |
| Others | 334 | 281 | 281 | 394 |
| Total Assets | 2,251 | 1,683 | 1,443 | 1,317 |
| Debt | 371 | 157 | 60 | 35 |
| Short-Term | 270 | 90 | - | - |
| Long-term (Incl. Current Maturity of Long-Term Debt) | 101 | 68 | 60 | 35 |
| Other Short-Term Liabilities | 375 | 239 | 114 | 145 |
| Other Long-Term Liabilities | - | - | - | - |
| Shareholder's Equity | 1,505 | 1,287 | 1,270 | 1,138 |
| Total Liabilities & Equity | 2,251 | 1,683 | 1,443 | 1,317 |

INCOME STATEMENT

| | | | | |
|-------------------|--------------|--------------|--------------|--------------|
| Turnover | 2,850 | 2,313 | 2,211 | 2,100 |
| Gross Profit | 877 | 676 | 667 | 627 |
| Other Income | 5 | 11 | 1 | 1 |
| Financial Charges | (46) | (15) | (19) | (29) |
| Net Income | 324 | 265 | 282 | 259 |

Cashflow Statement

| | | | | |
|--------------------------------------|-------|-------|-------|-------|
| EBITDA | 456 | 326 | 334 | 315 |
| Free Cashflow from Operations (FCFO) | 444 | 315 | 323 | 305 |
| Net Cash changes in Working Capital | (354) | 66 | (150) | (101) |
| Net Cash from Operating Activities | 45 | 366 | 154 | 174 |
| Net Cash from Investing Activities | (55) | (164) | 1 | 35 |
| Net Cash from Financing Activities | 38 | (203) | (187) | (86) |
| Net Cash Generated during the period | 28 | (1) | (31) | 123 |

Ratio Analysis

Performance

| | | | | |
|---|-------|-------|-------|-------|
| Turnover Growth (same period last year) | 23.2% | 4.6% | 5.3% | n.a |
| Gross Margin | 30.8% | 29.2% | 30.1% | 29.8% |
| Net Margin | 11.4% | 11.5% | 12.8% | 12.3% |
| ROE | 24.6% | 22.2% | 23.2% | 22.8% |

Coverages

| | | | | |
|--|-----|------|------|------|
| Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered ST) | 4.6 | 6.5 | 6.0 | 6.4 |
| Interest Coverage (x) (FCFO/Gross Interest) | 9.7 | 21.1 | 17.4 | 10.6 |
| Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Term Borr | 0.3 | 0.2 | 0.2 | 0.1 |

Liquidity

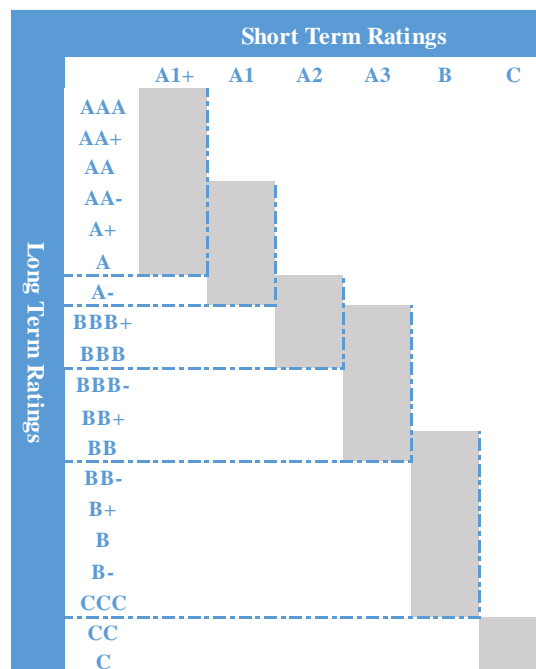
| | | | | |
|--|----|----|----|-----|
| Net Cash Cycle (Inventory Days + Receivable Days - Payable Days) | 83 | 80 | 42 | 148 |
|--|----|----|----|-----|

| | | | | |
|---|-----|-----|----|----|
| Capital Structure (Total Debt/Total Debt+Equity) | 20% | 11% | 4% | 3% |
|---|-----|-----|----|----|

Credit 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 | 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- | 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. | B | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. |
| B+ B 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. | C | An inadequate capacity to ensure timely repayment. |
| CCC CC C | Very high credit 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. | | |



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'.

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. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

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, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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2) Conflict of Interest

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- 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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- (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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- (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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