



The Pakistan Credit Rating Agency Limited

Rating Report

Awan Trading Company (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Aug-2019	BBB+	A2	Stable	Maintain	-
20-Feb-2019	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect adequate profile of Awan Trading Company characterized by stable market share in imported coal, especially retail market. Over the last few years, the company has improved its business and financial profile. The Company imports majority of its raw material, where currency fluctuations and pricing risk effect margins. The management intends to pass on the impact onto customers, though demand sensitivity is a consideration. The company has arrangements regarding supply of coal with various suppliers globally. Awan Trading Company follows strategy of keeping some inventory in stock which is stored in rented/custom bonded warehouses. The business profile is facing a challenge in terms of topline and profits. In this respect, the recent favorable decision about the taxation regime should support the company in coming days. The Awan Group caters to the coal demand of the corporates through another entity as well as having profitable operations. The financial risk profile is adequate. The company has sizable lines (funded and un-funded) available from different banks to cater to supplier demand though utilization level is still high compared to turnover.

Going forward, management's attention on sustainable customer base is imperative. The ratings are dependent on the company's ability to maintain its market position. Proactive management of business affairs, thus sustaining margins and coverages is important. Meanwhile, strengthening in governance structure is needed to improve financial transparency and oversight.

Disclosure

Name of Rated Entity	Awan Trading Company (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Criteria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study Coal Mining and Trading(Jul-19)
Rating Analysts	Faizan Arif faizan.sufi@pacra.com +92-42-35869504

Profile

Legal Structure Awan Trading Company (Pvt.) Limited was incorporated in Pakistan under the Companies Ordinance, '1984 on October 11, 1992. The Company is engaged in import and trading of coal.

Background Awan Trading after establishment in October 1992, remained dormant for several years till 2002. In 2003, the first coal vessel which reached at Karachi Port brought coal for Awan Trading. The Company is also first among industry players to enter into a ten year agreement with Pakistan Railway for transportation of coal to northern areas of the country.

Operations Over years of experience the company has developed its customer base. The company is currently in business with various cement, steel and textile entities. To fulfil the needs of customers, the company has warehouses (stock piles) at four different locations. The location of warehouses are at Port Qasim and near PIBTL in Sindh and at Taxila and Chicho ki Maliyan in Punjab. Awan Trading has experience of importing and trading coal from Indonesia, South Africa, Russia and United States of America. The company has agreements with major suppliers from all over the world including Glencore International AG, Mercuria Energy Trading PTE Limited, Swiss Singapore Overseas Enterprises PTE Limited, Itochu Corporation (Japan), London Commodity Brokers and Phoenix Commodities.

Ownership

Ownership Structure The current shareholding of Awan Trading lies with two families. Among families, sponsor family - Awan & family - own 27% through three individuals. In other sponsor family-Mr. Bhool Chand owns 38%, Mr. Govind Ram 32% and Lal Chand owns 3% shareholding respectively.

Stability Considering the strategic importance of the Company in coal industry, stability is considered adequate.

Business Acumen Company's sponsors have an extensive industry experience with major concentration in energy, coal, logistics and tyre industry. Majority shareholder Mr. Bhool Chand has almost 16years of experience in coal trading sector.

Financial Strength Sponsors have a good financial strength on account of profitable offshore business namely International Energy Resources & based on significant industry experience, sponsors have acumen and the ability to understand & control business risks arising from the unforeseen conditions.

Governance

Board Structure The overall control of the company vests in four member board of directors (BoD) including the Chief Executive – Mr. Aslam Awan. All board members are also shareholders. Mr. Kamlesh Kumar and Mr. Govind Ram hold executive position on board.

Members' Profile All board members are qualified and competent enough for effective leadership. They have long standing experience and knowledge of local coal industry.

Board Effectiveness The experiences of board will help in providing useful insight into coal, energy & logistic sector guiding the management in developing effective operational and financial policies. During FY18 board held 4 meetings to address the strategic matters of company.

Financial Transparency Hashmi & Co., Chartered Accountants conduct the external audit services of Awan Trading. The aforementioned audit firm is not in the SBP panel of auditors. They have expressed unqualified opinion on the financial statements for the year ended 30th June, 2018.

Management

Organizational Structure Company has a lean organizational structure with each function headed by a capable personnel, reporting to CEO. The organizational structure is divided into five functional departments, namely: (1) Finance, (2) Marketing, (3) Operations, (4) Purchase and (5) Shipping and Catering.

Management Team Mr. Aslam Awan, the CEO, is associated with the company since its inception. Each function is headed by senior individual having designation of director. The senior management has long association with the company. The overall control of management vests with the CEO, who is supported by a team of experienced professionals at key management positions.

Effectiveness To oversee the management of the company, Company has constituted three committees comprising various members of the management team. The committees include i) Audit Committee, ii) Purchase Committee and iii) Sales Committee.

MIS Monthly and weekly reports including the aging analysis, stock keeping, budgeting controls and key performance indicators are reviewed by top management which results in optimal monitoring.

Control Environment Awan Trading has adequate technology infrastructure with defined policies and procedures. The company has developed a software for operational modules include marketing, purchase and financial modules.

Business Risk

Industry Dynamics Pakistan has total coal reserves of 185 billion tonnes. While The Thar coalfield in Sindh has alone 175 billion tonnes of coal, followed by Punjab, Baluchistan, KPK and AJK. Pakistan's coal import market stood at ~11.7mln metric tons (MT) during FY18, compared to ~8.6mln metric tons (MT) in the corresponding period of last year. Among the total imported coal, approximately ~3.8n metric tons (MT) coal was imported for IPPs and ~7.9mln metric tons (MT) coal was imported for steel, textile and cement sectors. Pakistan's total coal consumption during 9MFY19 stood at 12.5 mln TPA compared to 18mln TPA.

Relative Position As of June-19, Awan Trading's overall market share stood at 6%. The emergence of other players is causing pressure on company's market share in the imported coal market. During 9MFY19, Company has imported 568,286MT of coal in comparison to 572,458 MT in FY18.

Revenues During 9MFY19, revenue stood at PKR 8,040mln (FY18: PKR 10,681mln), Decrease in topline is mainly owing to declining volumetric growth (9MFY19: 468,969 MT; FY18: 782,528 MT) due to the higher production cost owing to higher exchange rate and rupee depreciation. Secondly, hike in oil and petroleum prices has increased the transportation expense for coal buyers, which in turn has impacted the coal demand. Lastly, company has posted a net profit of PKR 199mln (FY18: PKR 331mln) on account of trickledown effect of decreased volumetric growth, gross profit and increased finance cost. Sales mix remained tilted towards sectors (cement, textile & steel). During 9MFY19, other income of PKR 29mln (FY18: PKR 17mln) – mainly comprising interest income – supported the bottom line. However, finance costs stood at PKR 188mln (FY18: PKR 271mln) on account of repayment of short term debt obligations, amounting of PKR 4,022mln.

Margins During 9FY19, Company's gross margin has been reported at 11.3% in comparison to 12.8% during FY18. Company has posted a net profit of PKR 199mln (FY18: PKR 331mln) on account of trickledown effect of decreased volumetric growth, gross profit and increased finance cost. Hence, company's EBITDA margin has also declined (9MFY19: 5.5%, FY18: 6%).

Sustainability The Company has an investment portfolio of PKR 293mln at end-March19 which is investment in term deposit receipts. This constitutes to 14% of the equity base at end-March19. Company is gradually decreasing its investment portfolio.

Financial Risk

Working Capital Working capital requirements of the company are a function of receivables. During 9MFY19 company's net working capital cycle stood at 59 days compared 101days in FY18. The decrease in net cash cycle days depicts that creditor days are managed well by the entity. Company's refundable taxes has increased in significant terms over the last few years (9MFY19: PKR 1275mln; FY18: PKR 1,051mln; FY17: PKR 779mln). Awan Trading manages its working capital cycle through mix of internal cashflows and short term borrowings. During 9MFY19, the Company's reliance on short term borrowings has increased to PKR 2.2bln (end-Jun18: PKR 1.7bln).

Coverages During 9MFY19, Company's EBITDA has recorded a decrease on account of lower turnover growth in comparison with FY18. Therefore, company's core coverage which is a function of Company's revenue and free cashflows has reduced to 2.01x (end-Jun18: 2.6x). In case company's revenue does not remain stable, coverages are expected to face further deterioration in future years,

Capitalization Over last few years, Company's equity base got supported by consistent profits. Total debt exclusive of non-funded borrowing of PKR 9bln at end-March-19 stood at PKR 1.4bln (end-Jun18: PKR 1.7bln; non funded: PKR 6.4bln). However, interest free long-term debt comprises of PKR 54mln, given by sponsors. The rest is short term debt. The debt to equity ratio stands at ~52% (end-Jun18: 47%).



The Pakistan Credit Rating Agency Limited

Financial Summary

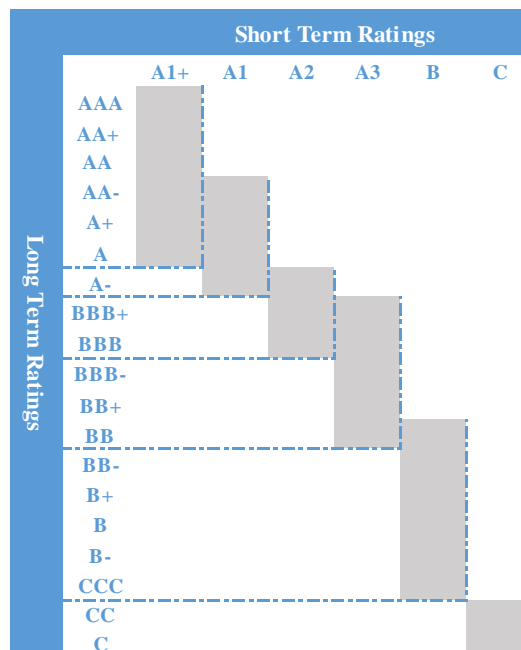
PKR mln

Awan Trading Company (Pvt) Ltd Coal Trading Company	Mar-19 9M	Jun-18 12M	Jun-17 12M	Jun-16 12M
A BALANCE SHEET				
1 Non-Current Assets	64	42	35	36
2 Investments	293	334	293	293
3 Related Party Exposure	-	-	-	-
4 Current Assets	5,860	5,098	7,725	3,480
<i>a Inventories</i>	2,753	1,996	5,152	1,718
<i>b Trade Receivables</i>	1,184	905	736	469
5 Total Assets	6,217	5,474	8,053	3,809
6 Current Liabilities	1,727	1,734	1,370	956
<i>a Trade Payables</i>	1,690	1,659	1,193	825
7 Borrowings	2,304	1,747	5,028	1,699
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	22	27	20	22
10 Net Assets	2,165	1,966	1,635	1,132
11 Shareholders' Equity	2,165	1,966	1,635	1,132
B INCOME STATEMENT				
1 Sales	8,040	10,681	10,257	9,228
<i>a Cost of Good Sold</i>	(7,131)	(9,310)	(8,520)	(8,089)
2 Gross Profit	910	1,371	1,738	1,140
<i>a Operating Expenses</i>	(471)	(638)	(699)	(729)
3 Operating Profit	439	734	1,039	411
<i>a Non Operating Income or (Expense)</i>	29	11	18	51
4 Profit or (Loss) before Interest and Tax	467	745	1,057	462
<i>a Total Finance Cost</i>	(188)	(272)	(182)	(165)
<i>b Taxation</i>	(81)	(142)	(273)	(95)
6 Net Income Or (Loss)	199	331	603	202
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	380	617	694	357
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	205	331	541	188
<i>c Changes in Working Capital</i>	(1,048)	2,874	(3,628)	630
1 Net Cash provided by Operating Activities	(843)	3,205	(3,087)	818
2 Net Cash (Used in) or Available From Investing Activities	48	(14)	(6)	(74)
3 Net Cash (Used in) or Available From Financing Activities	556	(3,364)	3,338	(624)
4 Net Cash generated or (Used) during the period	(238)	(173)	245	120
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	0.4%	4.1%	11.1%	-18.4%
<i>b Gross Profit Margin</i>	11.3%	12.8%	16.9%	12.4%
<i>c Net Profit Margin</i>	2.5%	3.1%	5.9%	2.2%
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	5.8%	7.1%	10.4%	5.1%
<i>e Return on Equity (ROE)</i>	12.8%	18.4%	43.6%	19.6%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	116	150	144	179
<i>b Net Working Capital (Average Days)</i>	59	101	108	149
<i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>	3.4	2.9	5.6	3.6
3 Coverages				
<i>a EBITDA / Finance Cost</i>	2.5	3.2	7.4	4.3
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.0	2.6	4.8	3.3
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.2	0.1	0.1	0.2
4 Capital Structure (Total Debt/Total Debt+Equity)				
<i>a Total Borrowings / Total Borrowings+Equity</i>	51.6%	47.1%	75.5%	60.0%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	0.0	0.0
<i>c Average Borrowing Rate</i>	12.3%	6.9%	4.3%	5.5%

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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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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- (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)

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- (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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