



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 |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 21-Aug-2020 | BBB+ | A2 | Stable | Maintain | YES |
| 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 mediocre market share in imported coal, especially retail market. 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. . Over the last few years, the company has improved its business and financial profile; however, amidst the COVID-19 outbreak, business profile is facing challenge in terms of low demand resulting into a decline in volume metric growth, margins and profits. In this respect, the recent favorable decision about the taxation regime would support the company in coming. 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 utilization level as reflective of weak business performance remained moderate.

Going forward, management's attention on sustainable customer base in addition to improving sales and margins is imperative. Any prolonged deterioration in revenues and/or coverages will impact the ratings. The rating watch captures these imperatives and the company's resolve to steer through these would settle the watch in the foreseeable future.

Disclosure

| | |
|------------------------------|--|
| Name of Rated Entity | Awan Trading Company (Pvt.) Limited |
| Type of Relationship | Solicited |
| Purpose of the Rating | Entity Rating |
| Applicable Criteria | Methodology Corporate Ratings(Jun-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Rating Modifier(Jun-20) |
| Related Research | Sector Study Coal Mining and Trading(Jul-20) |
| Rating Analysts | Sana Shameen sana.shameen@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 16 years 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). Mr Muhammad Aslam as Chief Executive has passed away on February, 2020. As such there is a casual vacancy occurred on the Board of the Company as well as on position of Chief Executive hence, Mr Govind Ram is appointed as a Chief Executive on the casual vacancy of Chief Executive and Syed Mustafa Ahmedas a Director on the casual vacancy of director.

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 FY19 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, 2019.

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. Govind Ram has been appointed as the new CEO of the company. 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 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. Total coal demand jumped to 21mln tonnes during FY19 as comparison with the corresponding period (FY18: 18mln tonnes). Furthermore, estimated quantity of coal imported reached to 15.5 mln tonnes (FY18: 13.7mln tonnes). The increase in import of coal is due to commissioning of new power plants based on imported coal at Sahiwal and Port Qasim. However, domestic production of coal is expected to increase in the coming years with projects on Thar coal.

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 FY20, Company has imported 419,316MT of coal in comparison to 578,970 MT in FY19.

Revenues During FY19, revenue stood at PKR 10,579mln (FY18: PKR 10,681mln). Company has posted a net profit of PKR 317mln (FY18: PKR 331mln) on account of trickledown effect of decreased demand and increased finance cost. During FY19, other income of PKR 46mln (FY18: PKR 17mln) – mainly comprising interest income – supported the bottom line. However, finance costs stood at PKR 334mln (FY18: PKR 272mln). In FY20 a decline of approximately 21% is recorded in company's topline (FY20: PKR 8,274mln), decrease is attributed to low demand from cement, steel and textile entities on account of global COVID-19 pandemic.

Margins During FY19, Company's gross margin has been reported at 14.1% in comparison to 12.8% during FY18. Company has posted a net profit of PKR 317mln (FY18: PKR 331mln) on account of trickledown effect of low demand and increased finance cost. Hence, company's EBITDA margin has also increased (FY19: 7.4%; FY18: 7%). However, in FY20 on account of dip in volumetric growth, company's gross margin has faced significant deterioration representing a decline of almost 76% (FY20: 4.4%; FY19: 14.1%).

Sustainability The Company has an investment portfolio of PKR 303mln at end-June 19 which is investment in term deposit receipts. This constitutes to 14% of the equity base at end-June 19. Company is gradually decreasing its investment portfolio.

Financial Risk

Working Capital Working capital requirements of the company are a function of receivables. During FY19 company's net working capital cycle stood at 50 days compared 101days in FY18. The decrease in net cash cycle days depicts that creditor days are managed well by the entity. Awan Trading manages its working capital cycle through mix of internal cashflows and short term borrowings. During FY20, the Company's reliance on short term borrowings has decreased to PKR 1.38bln (FY19: PKR 1.5bln).

Coverages Company's core coverage which is a function of Company's revenue and free cash flows has reduced to 1.3x (end-Jun18: 2.6x). In case company's revenue does not remain stable, coverage's are expected to face further deterioration in future years.

Capitalization Over last few years, Company's equity base got supported by consistent profits. The debt to equity ratio stands at ~41% (end-Jun18: 47%). Total debt exclusive of non-funded borrowing of PKR 1.27bln at end-June20 stood at PKR 1.38bln (end-Jun19: PKR 1.5bln; non funded: PKR 2.3bln).



| June ## | Jun-19 12M | Jun-18 12M | Jun-17 12M |
|--|---------------|---------------|---------------|
| A BALANCE SHEET | | | |
| 1 Non-Current Assets | 74 | 42 | 35 |
| 2 Investments | 303 | 334 | 293 |
| 3 Related Party Exposure | 130 | - | - |
| 4 Current Assets | 4,570 | 5,098 | 7,725 |
| <i>a Inventories</i> | 1,714 | 1,996 | 5,152 |
| <i>b Trade Receivables</i> | 1,008 | 905 | 736 |
| 5 Total Assets | 5,078 | 5,474 | 8,053 |
| 6 Current Liabilities | 1,232 | 1,734 | 1,370 |
| <i>a Trade Payables</i> | 1,068 | 1,659 | 1,193 |
| 7 Borrowings | 1,541 | 1,747 | 5,028 |
| 8 Related Party Exposure | - | - | - |
| 9 Non-Current Liabilities | 22 | 27 | 20 |
| 10 Net Assets | 2,283 | 1,966 | 1,635 |
| 11 Shareholders' Equity | 2,283 | 1,966 | 1,635 |
| B INCOME STATEMENT | | | |
| 1 Sales | 10,579 | 10,681 | 10,257 |
| <i>a Cost of Good Sold</i> | (9,089) | (9,310) | (8,520) |
| 2 Gross Profit | 1,490 | 1,371 | 1,738 |
| <i>a Operating Expenses</i> | (647) | (638) | (699) |
| 3 Operating Profit | 843 | 734 | 1,039 |
| <i>a Non Operating Income or (Expense)</i> | (58) | 11 | 18 |
| 4 Profit or (Loss) before Interest and Tax | 784 | 745 | 1,057 |
| <i>a Total Finance Cost</i> | (335) | (272) | (182) |
| <i>b Taxation</i> | (133) | (142) | (273) |
| 6 Net Income Or (Loss) | 317 | 331 | 603 |
| C CASH FLOW STATEMENT | | | |
| <i>a Free Cash Flows from Operations (FCFO)</i> | 369 | 617 | 694 |
| <i>b Net Cash from Operating Activities before Working Capital Changes</i> | 38 | 331 | 541 |
| <i>c Changes in Working Capital</i> | 65 | 2,874 | (3,628) |
| 1 Net Cash provided by Operating Activities | 103 | 3,205 | (3,087) |
| 2 Net Cash (Used in) or Available From Investing Activities | (47) | (14) | (6) |
| 3 Net Cash (Used in) or Available From Financing Activities | (170) | (3,364) | 3,338 |
| 4 Net Cash generated or (Used) during the period | (115) | (173) | 245 |
| D RATIO ANALYSIS | | | |
| 1 Performance | | | |
| <i>a Sales Growth (for the period)</i> | -1.0% | 4.1% | 11.1% |
| <i>b Gross Profit Margin</i> | 14.1% | 12.8% | 16.9% |
| <i>c Net Profit Margin</i> | 3.0% | 3.1% | 5.9% |
| <i>d Cash Conversion Efficiency (EBITDA/Sales)</i> | 7.5% | 7.1% | 10.4% |
| <i>e Return on Equity (ROE)</i> | 14.9% | 18.4% | 43.6% |
| 2 Working Capital Management | | | |
| <i>a Gross Working Capital (Average Days)</i> | 97 | 150 | 144 |
| <i>b Net Working Capital (Average Days)</i> | 50 | 101 | 108 |
| <i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i> | 3.7 | 2.9 | 5.6 |
| 3 Coverages | | | |
| <i>a EBITDA / Finance Cost</i> | 2.9 | 3.2 | 7.4 |
| <i>b FCFO / Finance Cost+CMLTB+Excess STB</i> | 1.3 | 2.6 | 4.8 |
| <i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i> | 0.0 | 0.1 | 0.1 |
| 4 Capital Structure (Total Debt/Total Debt+Equity) | | | |
| <i>a Total Borrowings / Total Borrowings+Equity</i> | 40.3% | 47.1% | 75.5% |
| <i>b Interest or Markup Payable (Days)</i> | 0.0 | 0.0 | 0.0 |
| <i>c Average Borrowing Rate</i> | 16.8% | 6.9% | 4.3% |

Credit Rating

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.

| Scale | Long-term Rating Definition |
|-------|---|
| AAA | Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments |
| 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. |
| AA- | |
| 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. |
| A- | |
| 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. |
| 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+ | |
| 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- | |
| CCC | 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. |
| CC | |
| C | |
| D | Obligations are currently in default. |

| Scale | Short-term Rating Definition |
|-------|---|
| 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. |
| A4 | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient. |



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

| | |
|--|---|
| <p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating | <p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating |
|--|---|

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(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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