



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
27-Dec-2018	A-	A2	Stable	Maintain	-
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: Engro Eximp is a wholly owned subsidiary of Engro Corp, the parent company and one of the largest conglomerate in Pakistan (rated AA by PACRA). The CEO of Engro Corp is also the Chairman of Engro Eximp. Ratings take comfort from the strong corporate governance framework of the group. The company successfully managed to achieve its break even in this current year, after suffering from huge losses in the past. As per company's anticipation, Engro Eximp returned to profits. The equity base is also expected to take advantage from ensuring profits and reversal of impairment. The financial risk profile has also recovered adequately.

The ratings are dependent upon the maintained business volume and redemption of profits. Adherence to sound financial discipline while strengthening debt servicing capacity through improved cash position is vital for the ratings. Positive outcome of the future projects and Sustainability of profits remain a catalyst for the business

Disclosure

Name of Rated Entity	Engro Eximp Agriproducts (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Rice(Dec-18)
Rating Analysts	Raniya Tanawar raniya.tanawar@pacra.com +92-42-35869504

Profile

Legal Structure Engro Eximp Agriproducts (Pvt.) Ltd, is a private limited company

Background Engro Eximp Agriproducts (Pvt.) Ltd was incorporated in Pakistan on November 3, 2009. It entered into the rice processing business in 2010 with a view to bring value addition to the agriculture sector of the country.

Operations The Company procures high standard of paddy from the farmer and after processing those, exports the prepared rice to business to business customers across the globe. The principal activity of the company is processing, export and trade of rice. With a primary focus on buying rice paddy from farmers rather than middlemen, the Company's inclusive business model concentrates on improving the competitiveness of Basmati rice for farmers to ensure enhanced yield/acre and reduction in cost of production/ton to benefit the farmers

Ownership

Ownership Structure Engro Eximp is a wholly owned subsidiary of Engro Corporation.

Stability Being a subsidiary of a renowned Multinational Corporation of Pakistan, Engro Corp, remains a driving source of stability for the company.

Business Acumen Engro Corporation, the parent company, is one of the largest conglomerate in Pakistan, having diversified businesses in fertilizer, food, chemical storage & handling, trading, digital technologies, mining, energy and petrochemicals sector.

Financial Strength Strong sponsorship backing continue to be the support system for the company.

Governance

Board Structure Engro Eximp's oversight function vests in three member board, with a seasoned professional, Mr. Ghias Khan as the Chairman.

Members' Profile Mr. Ghias Khan is also the CEO of Engro Corp. 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.

Board Effectiveness The board is currently aligned with the private status of the company. Board meetings are conducted on a quarterly basis where company's financial performance is reviewed.

Financial Transparency AF Ferguson & Co. Chartered Accountants are the auditors for the Engro Eximp. They gave an unqualified opinion and review report on financial statements for the year ended December 31, 2017

Management

Organizational Structure Engro Eximp has a regime of well-defined reporting lines and segregation of duties. The director reports to the CEO whereas the departmental heads report to the Director Consumer Agribusiness and half year ended June 30, 2018, respectively.

Management Team Company's management palette is enriched with highly experienced members associated with the group for an ample time. Mr. Khusrav Nadir Gilani, is a qualified Engineer & MBA has been recently appointed as CEO of Engro Eximp. Before being appointed as the CEO of Engro Eximp, he had a dedicated period of 15 years' experience within the group, deploying services at Director level position. Mr. Umar Sharif is deploying his services as a CFO-Engro Eximp since 2 years, a qualified Chartered Accountant and has been associated with Engro Group for over a decade.

Effectiveness In pursuance of effective business management, Engro Eximp has a culture of weekly management committee meetings, which comprises all heads of the department and CEO. Corporate planning meeting is also held every year for ensuring performance management.

MIS The Company has an ERP software implemented for their safety management, financial management and inventory management.

Control Environment Engro Eximp being a subsidiary of Engro Corp, follows the best practices, Engro Eximp has the highest number of quality certifications among rice players in Pakistan.

Business Risk

Industry Dynamics Pakistan's Rice industry continues to be instrumental in 2018. The total contribution to the GDP is however, meagre clocking in at 0.6%. There are a total of 107 firms, out of which only 22 firms have employees above hundred. Only one company named MATCO is listed in the Pakistan Stock Exchange. The Rice cultivation area is 2.9 million hectares. Production of rice during FY18 is ~7 million tons and the consumption is 3 million Tons. The maximum contribution from the Rice sector in country's foreign exchequer is from non-basmati rice exports. Since basmati rice is majorly locally consumed and minimal quantity is being exported.

Relative Position The past couple of years have been difficult for Engro Eximp as it was recovering from the aftereffects of over trading in prior years. As a result, company borne losses as most of the purchased paddy remained unsold for a while leading to a loss. CY18 brought fortune for the business as it returned to profits while Sponsors strong direction and support remained inevitable for the company's recourse to stability.

Revenues The Company is still in the process of regaining its business position which it originally had. In the Year 2016 and 2017, the company scaled up its operations. In CY17, the company achieved a total husking of 19,978 tons of paddy and processed 25,263 tons of rice. The Company exported 11,950 tons of rice during 2017 and made branded sales of 6,398 tons. 80% of the rice exports are to the European Market. In CY17, the company's topline increased by 90% YoY while for 9MCY18 it stood at PKR 2.4bln.

Margins Upon revival of stability, the company managed to gain profitability in 9MCY18 after enduring losses for three consecutive years. Thereby, Engro Eximp posted a net profit of PKR ~43mln in the period ended 9MCY18. Previously, Company suffered losses, as the business fundamentals were being scaled, with a recorded post-tax loss of PKR ~281mln in CY17 and PKR ~475mln loss in CY16.

Sustainability As the business achieved its break-even in 9MCY18, it will be tapping new business attributes. Company is planning to export non-basmati rice as part of its pilot project with an expected inflows of PKR ~55mln. With an idea of diversification, the company also plans to test export trade of fruits.

Financial Risk

Working Capital Engro Eximp's working capital needs are derived from receivables and inventory days. The net cash cycle for 9MCY18 stood at 107days, slightly lower from the previous years (CY17: 200days, CY16: 182days), represented by decreased inventory levels (PKR ~376mln, CY17: ~1,369mln). The effect is because buying period impact is yet to translate towards the of end CY18. The working capital needs are mainly fulfilled through short term borrowings 9MCY18 PKR ~645mln, (CY17: PKR ~1,612mln).

Coverages The return of profits abled the company to produce positive FCFO of ~160mln during 9MCY18 as against previous years of negative FCFO (CY17: PKR -210mln, CY16: PKR -353mln). As a result, coverages observed a sign of relief (Interest coverage: (9MCY18: 1.9x, end-Dec17: (3.7x), end-Dec16: (4.7x).

Capitalization Engro Eximp's capital structure is dominated by short term borrowing and equity. At present the company has three finance facilities with a total facility of ~1,800mln each @Kibor +1.5%. Company's debt to equity ratio returns to comfortable zone in 9MCY18 to ~38% (CY17: 64.2%).



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Engro Eximp Agriproduct (pvt.) Ltd

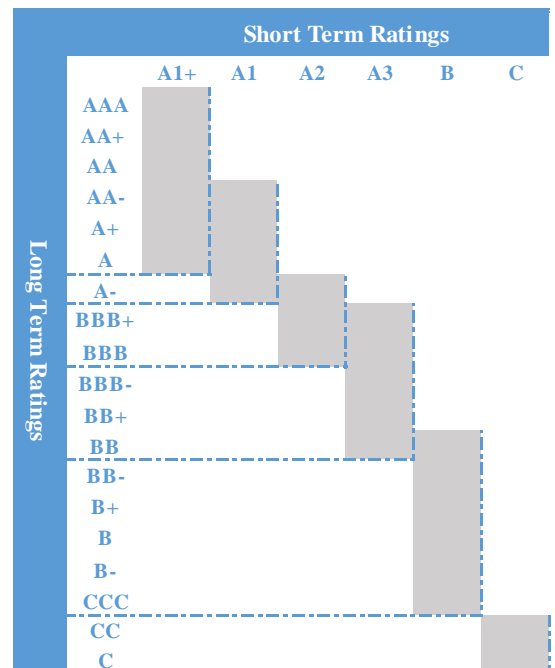
BALANCE SHEET	30-Sep-18	31-Dec-17	31-Dec-16	30-Dec-15
	9MCY18	Annual	Annual	Annual
Non-Current Assets	837	874	936	1,000
Investments (Incl. associates)	-	-	-	-
Equity	-	-	-	-
Debt	-	-	-	-
Investment property	-	-	-	-
Current Assets	997	1,866	949	1,866
Inventory	376	1,369	554	600
Trade Receivables	97	118	7	100
Others	524	379	388	1,000
Total Assets	1,834	2,740	1,885	2,866
Debt	645	1,612	377	1,100
Short-term	645	1,612	377	1,100
Long-term (Incl. Current Maturity of long-term debt)	-	-	-	-
Other shortterm liabilities	132	230	229	200
Other Longterm Liabilities	-	-	2	-
Shareholder's Equity	1,057	896	1,279	1,366
Total Liabilities & Equity	1,834	2,740	1,886	2,866
INCOME STATEMENT				
Turnover	2,405	1,749	918	1,866
Gross Profit	225	(90)	(231)	(80)
Net Other Income	32	39	6	(3.3)
Financial Charges	(82)	(57)	(75)	(100)
Net Income	43	(283)	(479)	(4.5)
Cashflow Statement				
Free Cashflow from Operations (FCFO)	160	(210)	(353)	500
Net Cash changes in Working Capital	862	(980)	319	1,100
Net Cash from Operating Activities	954	(1,238)	(129)	1,400
Net Cash from Investing Activities	(7)	15	12	(100)
Net Cash from Financing Activities	-	-	377	1,000
Ratio Analysis				
Performance				
Turnover Growth	86.5%	90.5%	-51.2%	26.0%
Gross Margin	9.3%	-5.2%	-25.2%	-44.0%
Net Margin	1.8%	-16.0%	-52.2%	-240.0%
ROE	4.8%	-148.4%	-119.0%	-187.0%
Coverages				
Interest Coverage (FCFO/Gross Interest)	1.9	-3.7	-4.7	-
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	1.9	-3.7	-4.7	-
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	1.9	-3.7	-4.7	-
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	0.0	0.0	0.0	-
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	106.7	200.0	182.4	300.0
Capital Structure (Total Debt/Total Debt+Equity)				
	37.9%	64.3%	22.8%	46.0%

Engro Eximp Agriproduct (pvt.) Ltd

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.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/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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