The Pakistan Credit Rating Agency Limited

Rating Report

Sayban International

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Nov-2022	BBB-	A3	Positive	Maintain	-
29-Nov-2021	BBB-	A3	Stable	Upgrade	-
22-Dec-2020	BB+	A3	Positive	Maintain	-
24-Dec-2019	BB+	A3	Stable	Maintain	-
27-Jun-2019	BB+	A3	Stable	Maintain	-
27-Dec-2018	BB+	A3	Stable	Maintain	-
29-Jun-2018	BB+	A3	Stable	Maintain	-
30-Dec-2017	BB+	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned ratings of Sayban International ("Sayban" or "the AOP") take into account the extensive experience of the sponsors in pesticide industry, strong brands, established industry presence and wide geographical reach in the domestic market. The AOP retains its market share despite fragmentation in the crop protection industry and uncertainties at the economic and agricultural levels. The AOP has maintained a healthy business risk profile backed by its established industry presence, introduction of new products in the domestic market and robust sales network across the country. The AOP is one of the leading players in the Pesticides segment and has laid the milestone of introducing ‘Bio Fertilizers’ in Pakistan. The AOP has diversified revenue streams with i) Pesticides ii) Plant Growth Regulators, iii) Bio Fertilizers, iv) Seeds and (v) Standard Fertilizers . This helped generate revenue over the years while creating diversity in the revenue stream. The sponsors also have set up other companies to expand their agricultural presence, one of which is a pesticides business - Comega Life Sciences (Pvt.) Ltd. Going forward, the Group plans to acquire Sayban International through a newly formed entity, Sayban Zarai Markaz (Pvt.) Ltd. Sayban meets its working capital requirements through a mix of internal cash flows and short-term borrowings. The financial risk profile remains comfortable owing to the continuously decreasing leveraged capital structure and strong coverages.
The assigned "Positive Outlook" captures the expected trajectory of Sayban in the future wherein the top line would grow and financial benefits would accrue. The heavy rainfalls and recent floods have severely impacted the pesticides sector, posing to business risk. Pakistan's agriculture sector suffered massive losses as Surplus or inadequate rains and floods have devastated major crops. However, the Company was able to mitigate this risk on account of an efficient procurement strategy and augmented business concentration in Punjab.

The ratings are dependent on the sustained business and financial risk profile of the AOP. Meanwhile, improvement in governance practices to improve industry dynamics would be beneficial for the ratings.

Disclosure

Name of Rated Entity	Sayban International
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Pesticides(Feb-22)
Rating Analysts	Muhammad Noor Ul Haq | noorulhaq@pacra.com | +92-42-35869504

Profile

Legal Structure Sayban International ("Sayban" or "the firm") is a partnership firm (AOP), established in 2005.

Background Sayban was established under the umbrella of Auriga Group back in 2005. The firm was established and controlled by five major partners and two minority stake partners. The partners decided to separate businesses in 2015, as a result of which Sayban group was formed. Three partners moved to Sayban Group and the remaining continued holding stake in Auriga Group. Sayban International was also transferred to Sayban Group. On legal grounds, however, these restructuring changes remained under process since then and the groups continued to operate under the former unchanged partnership deed till Oct'19 when a separation agreement was formalized amongst the partners.

Operations The industrial complex based at Sayban includes production facilities for Fungicides, Granules, Herbicides, Insecticides, Plant Growth Regulator PGR (Bio Fertiliser) and Hybrid Seeds. Sayban is doing Research & Development on different types of bacteria that are environment friendly and is involved in formulation and sale of Pesticides, manufacturing of PGR (Bio Fertiliser) and sale of hybrid seeds. It has a widespread distribution network nationwide. During the course of time, Sayban's franchise network has grown to 499 shops which are backed by an experienced & qualified sales team of permanent & contractual personnel.

Ownership

Ownership Structure Under Sayban Group, the AOP is owned by three individuals. Mr. Muhammad Azam Cheema and Mr. Shamsher Hussain each hold ~44% and remaining shares are held by Mr. Muhammad Tariq.

Stability Ownership revamps at the group level are expected to translate into more stability for the ownership of the firm.

Business Acumen All partners of the Sayban Group have been associated with the Agriculture sector for a long, bearing strong educational backgrounds and deploying valuable services for over three decades.

Financial Strength Strategic transformation into a better structure under the umbrella of an agricultural group, Sayban is expected to be prospective for its financial arena.

Governance

Board Structure Currently, holding a partnership firm status, Sayban does not have a formal board structure. The firm is being run by three (3) partners who are actively involved in operations of the firm.

Members' Profile Sayban withstands its experienced professionals on board. Mr. Muhammad Azam Cheema holds a Master's degree in Agriculture and Agronomy and possesses vast professional experience. He is the Chairman & Chief Executive Officer of Sayban.

Board Effectiveness Sayban's oversight function – which is normally the role of the Board – is being exercised by Mr. Azam Cheema. Multiple roles of partners in the management reflect a lack of autonomous direction.

Financial Transparency M/s Aslam Malik & Co. Chartered Accountants are the External Auditors of Sayban. They have expressed an unqualified opinion on the financial statements of Sayban for CY21. Financial transparency presents opportunities for improvement.

Management

Organizational Structure Sayban has a well demarcated organizational structure with defined functions including (i) Operations, (ii) Finance & Accounts, (iii) Administration & HR, (iv) Procurement (v) Development (Vi) Marketing (vii) R & D and (viii) Internal Audit and (ix) Quality Control.

Management Team Sayban has an experienced management team; a balanced blend of professional people from the industry. Majority of the senior management is associated with Sayban for a long time. Mr. Aslam Javed, Chief Finance Office, holds a master's degree in finance and has been aptly deploying his valued expertise for more than a decade. Post restructuring, he took charge as the Group CFO.

Effectiveness The firm currently has no formal structure of partners' committees. However, an in-house internal audit department exist that is reporting to the CEO demonstrating an informal culture within the firm.

MIS Sayban has deployed an M/s Genie Clique, a general customized software, particularly for pesticides along with a real-time management base. However, further improvement in the system will bring more efficacy to the business processes.

Control Environment The absence of formal committees, as well as concentrated reporting lines to the CEO, indicates a lack of control.

Business Risk

Industry Dynamics Pakistan's agricultural sector holds a ~19% contribution to its GDP, showcasing its importance to the economy. Fluctuating crop yields are dependent on various factors and agricultural input - including pesticides, is one major part of it. The local pesticide industry comprises an annual offtake of approximately PKR~60bln to PKR~70bln. The offtake is most concentrated in major crop seasons, with cotton and wheat being the most popular crops in Pakistan, followed by Rice, Sugarcane and Maize. In terms of crop usage, cotton is considered the most pesticide-hungry crop in the country.

Relative Position Sayban holds a market share of 16% in the pesticide industry and is the pioneer of introducing micro fertilizer, with the brand name 'Charger', a unique yet value-adding product in the fertilizer segment of the country.

Revenues Sayban has maintained a healthy business risk profile backed by its established industry presence, introduction of new products in the domestic market and robust sales network across the country. The firm has diversified revenue streams with an estimated ~71% coming from pesticides. During 6M2022, overall sales of the Firm grew by ~13% YoY to ~PKR 3,228mln as compared to ~PKR 2,834mln in the same period last year. The large product base in different segments enabled the diversification of revenue streams through regular product launches.

Margins The firm reported a healthy gross margin (CY21: ~23%; CY20: ~25.7). A slight dip in gross margin was mainly owing to cost-push inflation and rupee depreciation. Moreover, the operating margin was reported at ~10% for CY21 (CY20: ~11.5%), which reflects efficient administrative and selling expense management. In order to manage large working capital requirements in a timely manner, the firm procured borrowing facilities. Hence, the finance cost of Sayban witnessed a rise to ~PKR 106mln for CY21 (CY20: PKR 74mln). Thus, the firm continued to report healthy profits with a sustainable market position.

Sustainability Sayban has enhanced its production capacity by 78MT per day, of a liquid formulation of pesticides which is expected to meet the existing & upcoming market demand emanating from the Agriculture Sector. Moreover, the management of the firm intends to enhance its production capacity to further increase its scale of business. Therefore, the sponsors continued to invest in plant expansion, which will be funded through internal accruals of the firm. In addition to that The firms' focus has been to explore new technical-grade pesticides to increase the scale and profitability margin.

Financial Risk

Working Capital Sayban's working capital cycle links to the crop seasons of the country. Optimal inventory management remains the key to a sound working capital system. During CY21, the inventory days of Sayban observed a drop and stood at 123 days (6MCY22: 93 days, CY20: 110). Inventory days improved for 6MCY22 on the back of well-planned inventory management. Moreover, the receivables days showed a slight recovery (6MCY22: 44 days, CY21: 63 days, CY20: 66 days), owing to lower trade receivables compared to the corresponding period of the last calendar year. However, the trade payable days increased to 62 days for CY21 (6MCY22: 42 days, CY20: 45 days). Net working capital days witnessed a healthy improvement to 124 days in CY21 (6MCY22: 95 days, CY20: 132 days) Sayban had short-term trade leverage of ~40.3% in CY21 (6MCY22: 47.7%, CY20: 50.5%), depicting sufficient room to borrow.

Coverages The liquidity position of the firm is strong, supported by FCFO of ~PKR 542mln (6MCY22: ~PKR 287mln, CY20: 529mln), courtesy of higher profitability. The firm reported a very strong interest coverage and debt coverage ratio of 7.6x (6MCY19: 5.7x) and 4.2x (6MCY19: 2.4x), respectively.

Capitalization Sayban has a moderately leveraged capital structure with a leveraging ratio of ~40.7% in CY21 (6MCY22: 34.7%, CY20: 24.9%). The firm does not have any long-term debt obligations except a vehicle lease. Total borrowings of the business increased significantly to ~PKR 1,480mln for CY21(6MCY22: ~PKR 1199mln, CY20: 693mln). Short-term borrowings constitute ~87% of the total borrowings. Going forward, with no major expansion plans in sight, leveraging is expected to remain at the same level.

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Financial Summary
PKR mln

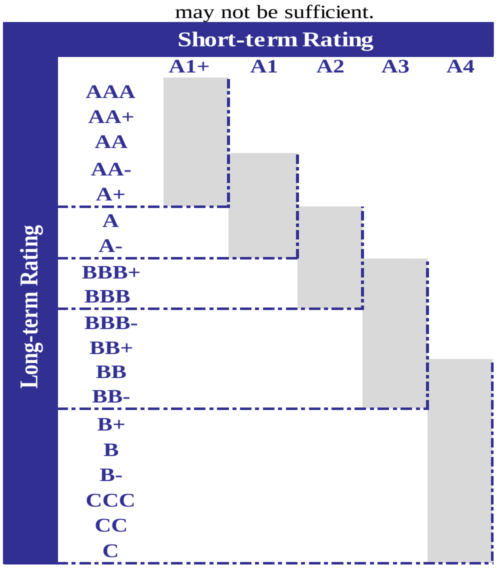
Sayban International Pesticides	Jun-22	Dec-21	Dec-20	Dec-19
	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	1,016	957	776	560
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	3,186	3,450	2,833	2,459
a Inventories	*1,571*	*1,715*	*1,401*	*1,087*
b Trade Receivables	*665*	*909*	*697*	*793*
5 Total Assets	4,202	4,406	3,609	3,019
6 Current Liabilities	567	611	576	491
a Trade Payables	*302*	*296*	*290*	*178*
7 Borrowings	1,199	1,480	693	572
8 Related Party Exposure	180	158	255	168
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	2,256	2,157	2,085	1,787
11 Shareholders' Equity	2,256	2,157	2,085	1,787
B INCOME STATEMENT				
1 Sales	3,228	4,641	4,115	3,434
a Cost of Good Sold	*(2,524)*	*(3,562)*	*(3,059)*	*(2,413)*
2 Gross Profit	704	1,078	1,056	1,021
a Operating Expenses	(419)	(614)	(581)	(580)
3 Operating Profit	285	465	475	441
a Non Operating Income or (Expense)	*25*	*33*	*29*	*16*
4 Profit or (Loss) before Interest and Tax	311	498	504	457
a Total Finance Cost	*(106)*	*(106)*	*(74)*	*(98)*
b Taxation	*(37)*	*(74)*	*(71)*	*(48)*
6 Net Income Or (Loss)	167	318	359	311
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*287*	*542*	*529*	*429*
b Net Cash from Operating Activities before Working Capital Changes	*171*	*447*	*451*	*334*
c Changes in Working Capital	*314*	*(745)*	*(188)*	*(3)*
1 Net Cash provided by Operating Activities	485	(299)	264	331
2 Net Cash (Used in) or Available From Investing Activities	(85)	(71)	(91)	(25)
3 Net Cash (Used in) or Available From Financing Activities	(373)	352	(145)	(295)
4 Net Cash generated or (Used) during the period	27	(18)	28	11
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	39.1%	12.8%	19.8%	11.0%
b Gross Profit Margin	21.8%	23.2%	25.7%	29.7%
c Net Profit Margin	5.2%	6.8%	8.7%	9.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	18.6%	-4.4%	8.3%	12.4%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	15.1%	15.0%	18.6%	17.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	137	186	176	196
b Net Working Capital (Average Days)	121	163	156	179
c Current Ratio (Current Assets / Current Liabilities)	5.6	5.6	4.9	5.0
3 Coverages				
a EBITDA / Finance Cost	6.0	6.4	8.1	5.9
b FCFO / Finance Cost+CMLTB+Excess STB	4.8	6.0	7.3	2.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.6	0.5	0.5	0.4
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	34.9%	41.0%	27.8%	24.3%
b Interest or Markup Payable (Days)	20.0	66.6	27.0	38.3
c Entity Average Borrowing Rate	10.1%	8.7%	10.0%	12.9%

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.

Long-term Rating	
Scale	**Definition**
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
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.
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.
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+ 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.
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.

Short-term Rating	
Scale	**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
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 surveill 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):

Entities
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

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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 | Clause 11-(A)(p).
(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)
Proprietary Information