



The Pakistan Credit Rating Agency Limited

Rating Report

Sayban International

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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

Sayban operates in three segments: i) pesticides ii) seeds and bio fertilizer and is a leading player in the former segment. It has laid the milestone of introducing 'bio fertilizer' in Pakistan. The Company has a sizeable turnover, with the contribution of each segment, while pesticide remains predominant segment in terms of revenue. Business profitability is sanguine. Sayban has managed to mark its presence in the market through operational efficacy. The company has retained its market share despite industry fragmentation, economic and agricultural uncertainty. Sayban is still a partnership - planned to be converted into a private limited company. The governing structure is likely to improve as Sayban moves towards corporate structure. Company meets its working capital requirements through a mix of internal cashflows and short term borrowings. However, the financial risk remains good on account of low leveraged capital structure and adequate coverages. Going forward, the sustenance in bottom-line and cash flows, formalizing the governance and financial transparency is vital. The group has also set up another company under the brand of Omega to advance its business penetration.

The ratings are dependent on sustained business and financial profile of the company. Any deterioration to margins and/or cash flows remains critical to the ratings. The domino effect of restructuring is yet to materialize in near future.

Disclosure

Name of Rated Entity	Sayban International
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 Pesticides(Feb-19)
Rating Analysts	Raniya Tanawar raniya.tanawar@pacra.com +92-42-35869504

Profile

Legal Structure Sayban International - Under Sayban Group, (herein referred to as "Sayban") is a registered partnership firm since 2005.

Background Sayban was established under the umbrella of Auriga Group. The agreement was signed to promote new products in the agricultural industry. Currently, five companies are working under the umbrella of Sayban Group which are; (i) Auriga Chemical (ii) Bravo Crop Sciences (iii) Auriga Seed Corporation (iv) Roshan Crop Sciences and (v) Sayban International. Sayban Zarai Markaz (Pvt.) Limited, currently (inactive/dormant), was formed to acquire Sayban International after restructuring the ownership structure.

Operations The industrial complex based at Sayban includes production facilities for Fungicides, Granules, Herbicides, Insecticides, PGR (Bio Gas) and Hybrid Seeds. Sayban is doing Research & Development on different types of bacteria those are environment friendly and is involved in formulation and sale of Pesticides, manufacturing of PGR (Bio gas) and sale of hybrid seeds (Rice). Its distribution network is widespread in the areas of southern Punjab, Gujranwala, Sahiwal and Faisalabad. During its course of time, Sayban's franchise network has grown to 500 plus shops which is backed by 525 experienced & qualified sales team of permanent & contractual personnel. Sayban has an enhanced operational capacity of 312 metric tonnes per annum.

Ownership

Ownership Structure At present, Sayban is under Auriga Group and is majorly held by individuals. After the ownership restructuring expected in a short horizon, Sayban will be a separate business from Auriga group, once legal formalities are cleared. Henceforth, major shareholding will move to Mr. Muhammad Azam Cheema and Mr. Shamsheer Hussain each to hold ~44% and remaining to Mr. Muhammad Tariq.

Stability Diversified yet integrated business lines affirm consistency of Sayban in the agriculture market.

Business Acumen Auriga group is one of the prominent names in pesticide sector with a market share (~6%). As soon as the legal formalities are closed, Sayban International will fall under Sayban Group.

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

Governance

Board Structure Holding a partnership firm status, Sayban does not have a formal board structure. The firm is being run by seven (7) partners. According to the undergoing restructuring, there will be only 3 partners. Each of them will be engaged in the management.

Members' Profile Sayban has experienced professionals on board. Mr. Muhammad Azam Cheema holds a Master's degree in MSc Hon's Agriculture and Agronomy and possesses vast business 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 two senior partners - namely Mr. Azam Cheema and Mr. Jamshed Iqbal. Repetitive roles of partners in the management reflects lack of independent direction.

Financial Transparency The Auditors of Sayban are Awan & Co. Chartered Accountants - not a member of SBP panel 2017. They expressed an unqualified opinion on the financial statements of Sayban for CY18. Financial transparency reflects room 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.

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 Officer, holds a master's degree in finance and has been aptly deploying his valued expertise for more than a decade. Once the firm's restructuring comes to a close, he is expected to take 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 CEO demonstrating an informal culture within the firm.

MIS Sayban has deployed an M/s Genie Clique, a general customized software, particularly for pesticide along with a real time management base. However, further improvement in the system will improve business process.

Control Environment Absence of formal committees along with concentrated reporting lines to CEO signifies lack of controls.

Business Risk

Industry Dynamics Pakistan's agriculture sector plays a central role in the economy as it contributes ~18.9 percent to GDP. Fluctuating crop yields are dependent on various factor and agricultural input - including pesticides, is one major part of it. The use of pesticides during crop seasons marks inevitable importance in agricultural dimension. Pesticide market is a relatively fragmented segment with local and international groups holding their system shares. During 9MFY19, the market remained under pressure as it is highly import driven and rapid devaluation of rupee against USD impacted the market players.

Relative Position Despite challenges on the agricultural front, Sayban continued to hold a market share of ~4% in the pesticide industry which is expected to further increase after the business restructuring is materialized. Sayban is the pioneer of introducing Micro fertilizer, with a brand name 'Charger', a unique yet value adding product in the fertilizer segment of the country. Sayban is also involved in hybrid seed production (Rice) and is one of the pioneers in the market. As part of a sustainable business model, Comega Life Sciences has been successfully launched and has started to generate inflow. Sayban has an added edge as it will be the suppliers of Comega through a horizontal integration mechanism. Additionally, it has successfully established a 'Powder Formulation' facility, which has a capacity of 07 MT per shift.

Revenues Despite stress on the sector front, Sayban's topline represents gradual growth over the years; CY18: PKR~3bln (CY17: PKR~2.8bln, CY16:~PKR 2.3bln). Most contribution towards topline comes from two major segments; Pesticides CY18: ~75% (CY17:~64%) and Micro-Fertilizers CY18:~18% (CY17: ~20%), followed by Seeds CY18:~5% and Fertilizer:~2.4%.

Margins Margins remained relatively stable during CY18, as Sayban proactively managed encountering external challenges, including carry forward of high inventory levels. Gross profit margin settled at ~30% in CY18 (~31% in CY17). Pre-tax profits amounted to PKR~364mln in CY18 (CY17: PKR~345mln, CY16:~PKR 278mln), depicting a slower growth in CY18 on the backdrop of higher finance costs which stood at PKR ~51mln in CY18 (CY17: PKR~46mln, CY16: PKR~15mln). Thereby, net profit clocked in at PKR~317mln in CY18 (~10%) [CY17: PKR~324mln (~11%), CY16: PKR~265mln (~12%)].

Sustainability Sayban has enhanced its production capacity by 25 MT per day, of liquid formulation of pesticides which is expected to meet the existing & upcoming market demand emanating from the Agriculture Sector. Sayban is in discussions with China to convert this facility into a Joint Venture with renowned manufacturers of Agro chemicals. It is also about to complete its restructuring phase which is expected to strengthen its placement in the market.

Financial Risk

Working Capital Sayban's working capital cycle links to the crop seasons of the country. Optimal inventory management remains the key to sound working capital system. Due to recent volatility in the market, net working capital days reflected a growing trend; CY18:~183 days (CY17:~155 days). As part of the business norm, minimum inventory holding period falls around 90 days. The firm meets its working capital requirements through a mix of internal cashflows as well as short term borrowings (CY18: PKR~388mln, CY17: PKR~270mln).

Coverages Debt coverage remained comfortable due to sanguine profits translating into progressive FCFO: CY18: PKR~404mln (CY17: PKR~444mln, CY16: PKR~315mln). The same - though comfortable has reduced in CY18 due to growing reliance on short term borrowings, necessitating management cautious approach; CY18: ~2.8x (CY17: ~5.0x, CY16:~7.3x).

Capitalization Sayban has effectively managing its capital structure by maintaining its debt to equity levels. As in CY18, dependence on short term borrowings grew, the leveraging also increased to ~28% as at End-Dec'18 (End-Dec'17: ~20%, End-Dec'16: ~11%). Total borrowings clocked in at PKR~625mln in CY18 (CY17: PKR~371mln, CY16: PKR~157mln). Sayban has a total non funded facility of PKR~900mln and PKR ~600mln funded facility from three different commercial banks.



The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Sayban International Pesticide	Dec-18 12M	Dec-17 12M	Dec-16 12M
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A BALANCE SHEET

1 Non-Current Assets	581	347	287
2 Investments	-	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	2,174	1,904	1,396
<i>a Inventories</i>	895	602	381
<i>b Trade Receivables</i>	922	990	734
5 Total Assets	2,755	2,251	1,683
6 Current Liabilities	398	368	239
<i>a Trade Payables</i>	147	160	127
7 Borrowings	625	371	157
8 Related Party Exposure	39	7	-
9 Non-Current Liabilities	-	-	-
# Net Assets	1,693	1,505	1,287
# Shareholders' Equity	1,692	1,505	1,287

B INCOME STATEMENT

1 Sales	3,094	2,850	2,313
<i>a Cost of Good Sold</i>	(2,170)	(1,973)	(1,638)
2 Gross Profit	924	877	676
<i>a Operating Expenses</i>	(527)	(491)	(394)
3 Operating Profit	397	386	282
<i>a Non Operating Income</i>	18	5	11
4 Profit or (Loss) before Interest and Tax	415	390	293
<i>a Total Finance Cost</i>	(51)	(46)	(15)
<i>b Taxation</i>	(47)	(21)	(13)
6 Net Income Or (Loss)	317	324	265

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	404	444	315
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	357	399	301
<i>c Changes in Working Capital</i>	(155)	(354)	66
1 Net Cash provided by Operating Activities	202	45	366
2 Net Cash (Used in) or Available From Investing Activities	(61)	(55)	(164)
3 Net Cash (Used in) or Available From Financing Activities	(100)	38	(203)
4 Net Cash generated or (Used) during the period	41	28	(1)

D RATIO ANALYSIS

1 Performance			
<i>a Sales Growth (for the period)</i>	8.6%	23.2%	4.6%
<i>b Gross Profit Margin</i>	29.9%	30.8%	29.2%
<i>c Net Profit Margin</i>	10.3%	11.4%	11.5%
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	15.1%	16.0%	14.1%
<i>e Return on Equity (ROE)</i>	19.8%	23.2%	20.7%
2 Working Capital Management			
<i>a Gross Working Capital (Average Days)</i>	201	173	182
<i>b Net Working Capital (Average Days)</i>	183	155	170
<i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>	5.5	5.2	5.8
3 Coverages			
<i>a EBITDA / Finance Cost</i>	10.9	11.7	35.0
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.8	5.0	7.3
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.8	0.3	0.2
4 Capital Structure (Total Debt/Total Debt+Equity)			
<i>a Total Borrowings / Total Borrowings+Equity</i>	28.2%	20.1%	10.9%
<i>b Interest or Markup Payable (Days)</i>	0.6	0.7	0.6
<i>c Average Borrowing Rate</i>	8.2%	14.5%	8.6%

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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- (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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