



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
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

Sayban International ("Sayban" or "the AOP") operates in four segments: i) Pesticides ii) Micro-Fertilizer, iii) Seeds and iv) Fertilizer and is one of the leading players in the first segment. It has laid the milestone of introducing 'bio fertilizers' in Pakistan. The AOP has sizeable turnover trendline over the years with noticeable growth of 30.1% for Jun-21 (CY20: 26.9%) since, the economic activities got revived after Covid-19 adverse implications. Reported revenues has contribution from each segment, while the prime contributor remains pesticide segment. Business profitability is optimistic while growing at consistent rate (6MCY21: PKR 213mln; CY20: PKR 416mln). Sayban has managed to mark its presence in the market through operational efficacy. The AOP retains its market share despite fragmentation in the crop protection industry and uncertainties at the economic and agricultural level. Therefore, demand for pesticides on overall basis remain steady. Historically, Sayban was a part of the Auriga Group, through restructuring and separation of business partners. Now, the AOP operates in the ambit of Sayban Group. The group has also set up other companies to expand its agricultural presence, one of which is a pesticides business - Omega 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 cashflows and short term borrowings. The financial risk profile remains comfortable owing to continuously decreasing leveraged capital structure (6MFY21: 26.7%; CY20: 35.3%) and strong coverages thereon. The assigned Positive Outlook captures the expected trajectory of Sayban in future wherein the top-line would grow and financial benefits would accrue.

The ratings are dependent on 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-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Pesticides(Feb-21)
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Profile

Legal Structure Sayban International - Under Sayban Group, (herein referred to as "Sayban" or "the firm") is a registered partnership firm since 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. Four of the major partners were agriculturists who established the first business of the group in 2000. Later in 2015, the partners decided to separate businesses, 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 (Rice). It has a widespread distribution network nationwide. During the course of time, Sayban's franchise network has grown to 500 plus shops which is backed by experienced & qualified sales team of permanent & contractual personnel. Sayban has an enhanced operational capacity of 312 metric tonnes per annum.

Ownership

Ownership Structure As the restructuring of the firm comes to a close, formally separated from Auriga group, Sayban is now under Sayban Group and is owned by three individuals. Henceforth, major shareholding has been transferred to Mr. Muhammad Azam Cheema and Mr. Shamsheer Hussain each to hold ~44% and remaining to Mr. Muhammad Tariq.

Stability Ownership revamp at the group level is expected to translate into more stability to the ownership of the firm.

Business Acumen All partners of the Sayban Group have been associated with the Agriculture sector since long, bearing strong educational background 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 engaged in the management.

Members' Profile Sayban withstands its 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 Mr. Azam Cheema. Multiple 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 of Auditors. They expressed an unqualified opinion on the financial statements of Sayban for CY19. 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. 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 pesticide along with a real time management base. However, further improvement in the system will bring more efficacy to the business processes.

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

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 factor 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 continued to hold a market share of 4.5% in the pesticide industry. Sayban is the pioneer of introducing Micro fertilizer, with a brand name 'Charger', and hybrid seed (rice) in the market.

Revenues Sayban earns its major revenue from two segments, Pesticides (~71%) and Micro-Fertilizer (~20%), followed by Seeds (~6%), and Fertilizer (~3%). During CY20, overall sales grew by ~27% and stood at ~PKR 4,358mln (CY19: ~PKR 3,434mln). The trend followed in 6MCY21 where sales stood at ~PKR 2,834mln (6MCY20: ~PKR 2,127mln) showing the growth of ~33%. The growth was attributable to pesticide segment (~36%), supported by volumes.

Margins During CY20, the gross margin of Sayban decline to ~26% (CY19: ~29.7%) and further decline to ~25% in 6MCY21, mainly due to increase in raw material cost (i.e., ~44% increase in 6MCY21 as compared to 6MCY20). Moreover, the operating margin remains stable in CY20 ~12.4% (CY19: ~12.8%) owing to efficient cost management, however reduced to ~10.8% in 6MCY21. Meanwhile, in CY20, the finance cost of Sayban witnessed a decline to ~PKR 76mln (CY19: ~PKR 90mln) however depicted a surge in 6MCY21 amounting ~PKR 42mln (6MCY20: ~PKR 37mln). The net margin posted an improvement and stood at ~9.5% in CY20 (CY19: ~9%).

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. Moreover, Sayban is planning to install a solar power plant to cater its internal power requirement and the excess will be sold to LESCO.

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. During CY20, the inventory days of Sayban observed a slight improvement and stood at 104 days (CY19: 105days) on the back of well-planned inventory management, however the inventory days reverted back to 105 days. Moreover, the receivables days showed significant recovery (6MCY21: 52 days, CY20: 66 days, CY19: 91 days), owing to lower trade receivables compared to the corresponding period of last calendar year. However, the trade payable days declined to 12 days in 6MCY21 (CY20: 16 days, CY19: 17 days) as Sayban has paid-off its creditors earlier than usual. Resultantly, net working capital days witnessed a healthy improvement to 145 days in 6MCY21 (CY20: 153 days, CY19: 179 days).

Coverages In CY20, the FCFO of the business increased to ~PKR 570mln (CY19: ~PKR 429mln), courtesy of higher profitability and lower finance cost. Same trend was witnessed in 6MCY21 where FCFO amounted ~PKR 324 (6MCY20: ~PKR 282) Consequently, the interest coverage posted a notable growth to 8.7x in 6MCY21 (CY20: 8.3x, CY19: 5.9x).

Capitalization Sayban has a moderately leveraged capital structure with a leveraging ratio of ~26.7% in 6CY21. Total borrowings of the business in 6MCY21 are ~PKR 817mln (CY20: ~PKR 1,078mln, CY19: ~PKR 572mln). Short-term borrowings constitute ~60% of the total borrowings. The business availed a facility of ~PKR 63mln (TERF) at concessionary rates to fund the solar power project.



Sayban International Pesticides	Jun-21 6M	Dec-20 12M	Dec-19 12M	Dec-18 12M
A BALANCE SHEET				
1 Non-Current Assets	802	831	560	581
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	3,325	2,986	2,459	2,173
<i>a Inventories</i>	1,858	1,394	1,087	894
<i>b Trade Receivables</i>	826	784	793	922
5 Total Assets	4,127	3,817	3,019	2,754
6 Current Liabilities	1,028	574	491	398
<i>a Trade Payables</i>	148	215	178	147
7 Borrowings	817	1,078	572	625
8 Related Party Exposure	39	191	168	39
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	2,243	1,973	1,787	1,692
11 Shareholders' Equity	2,243	1,973	1,787	1,692
B INCOME STATEMENT				
1 Sales	2,834	4,358	3,434	3,094
<i>a Cost of Good Sold</i>	(2,121)	(3,215)	(2,413)	(2,170)
2 Gross Profit	713	1,143	1,021	924
<i>a Operating Expenses</i>	(408)	(601)	(580)	(527)
3 Operating Profit	305	542	441	397
<i>a Non Operating Income or (Expense)</i>	15	35	16	18
4 Profit or (Loss) before Interest and Tax	319	577	457	415
<i>a Total Finance Cost</i>	(64)	(95)	(98)	(51)
<i>b Taxation</i>	(43)	(65)	(48)	(47)
6 Net Income Or (Loss)	213	416	311	317
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	324	570	429	404
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	267	478	334	357
<i>c Changes in Working Capital</i>	(320)	(454)	(3)	(155)
1 Net Cash provided by Operating Activities	(53)	24	331	202
2 Net Cash (Used in) or Available From Investing Activities	(18)	(129)	(25)	(61)
3 Net Cash (Used in) or Available From Financing Activities	14	76	(295)	(100)
4 Net Cash generated or (Used) during the period	(57)	(30)	11	41
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	30.1%	26.9%	11.0%	8.6%
<i>b Gross Profit Margin</i>	25.2%	26.2%	29.7%	29.9%
<i>c Net Profit Margin</i>	7.5%	9.5%	9.1%	10.2%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	0.1%	2.7%	12.4%	8.0%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	19.7%	23.5%	18.2%	20.6%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	157	170	196	201
<i>b Net Working Capital (Average Days)</i>	145	153	179	183
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	3.2	5.2	5.0	5.5
3 Coverages				
<i>a EBITDA / Finance Cost</i>	8.7	8.3	5.9	10.9
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.9	3.2	2.4	2.8
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.6	0.7	0.4	0.8
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	26.7%	35.3%	24.3%	28.2%
<i>b Interest or Markup Payable (Days)</i>	53.6	59.3	38.3	40.7
<i>c Entity Average Borrowing Rate</i>	9.4%	9.4%	12.9%	8.9%

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.

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	
CC	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.
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)

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- 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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- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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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)
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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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