



The Pakistan Credit Rating Agency Limited

Rating Report

Hassan Ali Rice Export Company

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Dec-2018	BBB	A2	Stable	Maintain	-
27-Jun-2018	BBB	A2	Stable	Maintain	-
12-Jan-2018	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating incorporates strength of the sponsors of Hassan Ali Rice as reflected in the business structure of the group (Hashwani Group of Companies) and overall growing principles of the business. Hassan Ali Rice has maintained its position as a big player over the years, primarily focused on export market, with customers expanding over multiple countries. In line with the industry, Hassan Ali Rice also benefitted from the astounding performance of country's rice segment attributed by ban of Indian Rice that eventually helped rice players improve their margins. The company has no long term debt on its book. The Working Capital borrowing are aligned to business cycle, though timely repayment from the client is crucial to settle the obligations. Hassan Ali Rice is a sole proprietorship hence, the room for improvement in governance structure is significant.

The ratings are dependant upon the maintained business volume and profitability. Adherence to sound financial discipline while strengthening debt servicing capacity (cash overages) is vital for the rating.

Disclosure

Name of Rated Entity	Hassan Ali Rice Export Company
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 Hassan Ali Rice Export Company is a sole proprietorship, incorporated in 1994.

Background Hassan Ali Group has been in trading business since 1960s. Previously, Hassan Ali & Cotton (Pvt.) Limited was engaged in cotton trading. Later when local cotton crop trading viability suffered due to crop issues, the Group entered into rice trading and established Hassan Ali Rice Export Company.

Operations The Company is engaged in processing and trading business of rice. Hassan Ali Rice processes different grades of rice and export to international market. Company is one of the largest exporters of rice in the domestic landscape. The company is one of the founding members of Rice Export Association (REAP). The company has lately entered into rice polishing by setting up rice polishing units at SITE Karachi. One mill, under the umbrella of Hassan Ali Rice, has an annual capacity of 72,000 metric tons.

Ownership

Ownership Structure Hassan Ali Rice is owned by a single individual, Mr. Abullah Akbar Ali Hashwani with 100% stake in the business.

Stability Long presence among the names of top rice exporters of country, denotes stable foothold in the market.

Business Acumen Hashwani Group is a well-known name in the Agriculture sector of Pakistan. Hassan Ali Group has been in trading business since 1960s with a largest rice polishing capacity

Financial Strength Sound sponsorship (Hashwani Group) has been the deriving component of strong financial position of the company

Governance

Board Structure As a sole proprietorship, there exist no formal board structure in Hassan Ali Rice.

Members' Profile Mr. Abdullah Akbar Ali Hashwani who belongs to an entrepreneurial background, solely heads the company's operations. This implies a high degree of single man risk.

Board Effectiveness Absence of formal governance framework poses significant risk to management decisions and lack of independent oversight

Financial Transparency Ms. Daudally Lalani & Co. Chartered Accountants are the auditors for Hassan Ali Rice. The audit firm satisfy the QCR ratings and not on the list of State Bank of Pakistan approved audit firms in Pakistan, which bodes concerns over the company financial accuracy. The auditors issued an unqualified opinion on the company's financial statements for the year ended June 30, 2018.

Management

Organizational Structure Hassan Ali Rice has a lean but defined organizational structure. There are well-demarcated reporting lines and segregation of duties. There are five key functions reporting to GM and/ or Director. These include: (i) Logistics, (ii) Marketing, (iii) Exports, (iv) Finance & Accounts, and (v) R&D.

Management Team The department heads are seasoned with relevant experience. They are associated with the group / proprietary concern for long; hence possess in-depth knowledge of the business.

Effectiveness The Entire operational management and decision making is concentrated into the hands of Mr. Abdullah A. Hashwani, holding the position of Chief Executive / Director and is assisted by Mr. M. Mumir Dandia who is designated as the General Manager.

MIS The Company has deployed an in-house ERP Solution since July 2014.

Control Environment Despite the fact that business KPIs are continuously monitored through regular reporting, single line of management bodes control risk.

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 Hassan Ali Rice The product does not itself offer a lot of variation in terms of features, therefore, quality processing remains critical. Hassan Ali Rice uses its international office and contacts to secure maximum orders during season. Hassan Ali Rice holds prominent position as a rice exporter of the country with an annual export of over ~400,000 tons of rice.

Revenues During FY18, Hassan Ali Rice witnessed a notable increase (22%) in sales to report at PKR ~10bln (FY17: PKR ~ 9bln) mainly attributing to overall better performance of rice sector. The company sales mix comprise 90% non-basmati rice and ~10% basmati. Company's exports increased in line with the industry which grew by ~17% in FY18. The company is into 100% export sales.

Margins The Company's gross margin remained 9% in FY18, with meagre change from corresponding period, standing at PKR ~PKR 973mln (FY17: ~761mln) depicting operational efficacy as cost to sales ratio remained constant despite increase in sales. Despite the rise in finance cost (FY18: PKR ~113mln, FY17: PKR ~45mln) attributed by increased level of borrowings, Company posted a net profit of PKR 183mln in FY18 (40%) - higher than previous year's level (FY17: PKR 131mln; FY16: PKR 126mln).

Sustainability Going forward, the management intends to enhance its business margins benefitting from lately converted associated concern for rice polishing. This while providing backward integration, would help in reducing its reliance on external suppliers for rice processing /polishing.

Financial Risk

Working Capital The company finances its working capital needs through the export refinance facility (ERF II), a performance based facility by SBP. As the company is into 100% export sales, the gross cash cycle hovers around 80-90days. With an anticipation of higher yields in demand and sales volume, company's excessive purchasing led to soaring inventory levels PKR ~1390mln (FY17: PKR ~646mln). Hence, net working capital cycle continued to remain high at 67days in FY18 (FY17: 56days)

Coverages The company is ably generating positive cashflows from its operations (FCFO) in the past-FY18: PKR ~194mln, FY17: PKR ~143mln, keeping its financial position adequately intact. Hassan Ali Rice falls under final tax regime charged at 1% of topline. During FY18, Interest coverages slipped due to intensive borrowings; the slippage restricted the dip to adequate level, (FY18: 2.6x, FY17: 3.2x, FY16: 2.3x). Short term finance at end June18 raised to PKR 2.7bln as Hassan Ali Rice purchased paddy amidst forecasted growth in business volume

Capitalization Company's capital structure mainly comprises short term borrowings and Equity. There being no long term debt on the books of Company at present, therefore, 100% debt comprises the short-term borrowings. A rising trend in short term borrowings continued to strain company's debt to equity ratio (FY18: ~66.5%, FY17: ~56%, FY16: ~48%).



Hassan Ali Rice Export Company

BALANCE SHEET	30-Jun-18	30-Jun-17	30-Jun-16
	Annual	Annual	Annual
Non-Current Assets	117	120	125
Investments (Incl. associates)	390	345	408
Equity	-	-	-
Debt	390	345	408
Investment property	-	-	-
Current Assets	3,945	2,853	2,385
Inventory	1,558	974	1,368
Trade Receivables	1,390	646	168
Others	997	1,233	849
Total Assets	4,453	3,317	2,918
Debt	2,705	1,758	1,341
Short-term	2,705	1,758	1,318
Long-term (Incl. Current Maturity of long-term debt)	-	-	23
Other shortterm liabilities	381	194	138
Other Longterm Liabilities	-	-	-
Shareholder's Equity	1,366	1,365	1,438
Total Liabilities & Equity	4,453	3,317	2,918

INCOME STATEMENT

Turnover	10,855	8,846	11,222
Gross Profit	973	761	1,011
Net Other Income	5	5	39
Financial Charges	(113)	(45)	(105)
Net Income	183	131	126

Cashflow Statement

Free Cashflow from Operations (FCFO)	194	143	244
Net Cash changes in Working Capital	(907)	(491)	77
Net Cash from Operating Activities	(713)	(348)	-
Net Cash from Investing Activities	(60)	49	-
Net Cash from Financing Activities	(150)	(205)	-

Ratio Analysis

Performance			
Turnover Growth	22.7%	-21.2%	38.8%
Gross Margin	9.0%	8.6%	9.0%
Net Margin	1.7%	1.5%	1.1%
ROE	12.0%	10.2%	8.6%
Coverages			
Interest Coverage (FCFO/Gross Interest)	2.6	3.2	2.3
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	2.6	3.2	2.2
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	2.6	3.2	2.2
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	9.1	12.3	0.2
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	67.5	56.0	13.6
Capital Structure (Total Debt/Total Debt+Equity)	66.5%	56.3%	48.3%

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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- (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.
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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)
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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)

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- (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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