



The Pakistan Credit Rating Agency Limited

## Rating Report

### Hassan Ali Rice Export Company

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Jun-2019	BBB	A2	Stable	Maintain	-
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 ratings incorporate 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. Hassan Ali Rice has sustained its position, both at top line and bottom line level. 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 continue to be 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

<b>Name of Rated Entity</b>	Hassan Ali Rice Export Company
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-18),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
<b>Related Research</b>	Sector Study   Rice(Dec-18)
<b>Rating Analysts</b>	Raniya Tanawar   raniya.tanawar@pacra.com   +92-42-35869504

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### 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. Abdullah 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. Munir 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 is an instrumentalist segment in the overall economy as it is one of the five major crops of the country and a contributor to the national exports revenue. After wheat, it is Pakistan's second main staple food crop. Major factors affecting rice production include water availability, area of cultivation, crop yield and the governing policies and initiatives. and During FY19, rice crop area decreased by ~3.1% to 2.8 million hectares compared to last year. The production stood at 7.2 million tonnes as against 7.5 million tonnes last year, short by ~3.3%, mainly due to decrease in area cultivated, dry weather and shortage of water. The maximum contribution from the Rice sector in country's foreign exchequer is from non-basmati rice exports, as basmati rice is locally consumed and minimal quantity is 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 (23%) in sales to report at PKR ~11bln (FY17: PKR ~ 9bln) mainly attributing to overall better performance of rice sector. For the period 1H FY19 company recorded sales of PKR ~7bln which is 35% higher from the corresponding period. During FY18, Company exported 245,931 Mton (FY17: 238,079 Mton) of rice and exported wheat; 22,790 Mton. 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. Region that majorly contributed towards company's sales were from China and Philippines

**Margins** The Company's has maintained consistent gross margin level at 9% for past three years, with meagre change from corresponding period. Gross profits stood at PKR 663mln in 1H FY19 (FY18: PKR ~973mln, FY17: ~761mln) depicting operational efficacy as cost to sales ratio remained constant despite increase in sales. Company's finance cost stood at 1H FY19 PKR ~86mln (FY18: PKR ~113mln, FY17: PKR ~45mln) attributable to fluctuating subordinated loans in borrowings. Company posted a net profit of PKR 183mln in FY18 (40%) - higher than previous year's level (FY17: PKR 131mln; FY16: PKR 126mln) while earned a profit of PKR ~117mln in 1H FY19.

**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. Moreover, company is diversifying its product portfolio and planning towards organic solutions in the rice industry for the US/EU markets. Company is also working with COFCO group-Thailand based for multiple projects around the globe

### 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 70-80 days. Cash conversion cycle is linked to the rice seasonality element. The net working capital cycle continued to remain moderate at 1H FY19: 71 days (FY18: 68days, FY17: 59 days)

**Coverages** The company is ably generating positive cashflows from its operations (FCFO) in the past - 1H FY19: PKR 124mln (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 1H FY18, Interest coverages slipped due to intensive borrowings; the slippage restricted the dip to adequate level. (1H FY19: 1.5x, FY18: 3.8x, FY17: 6x). Short term finance at end-Dec18 raised to PKR 2.9bln 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 (1H FY18: ~67%, FY18: ~66%, FY17: ~56%, FY16: ~48%).



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Financial Summary

PKR mln

Hassan Ali Rice Export Company	Dec-18	Jun-18	Jun-17	Jun-16
Rice	6M	12M	12M	12M

#### A BALANCE SHEET

1 Non-Current Assets	108	117	120	125
2 Investments	46	55	3	59
3 Related Party Exposure	286	335	342	349
4 Current Assets	4,122	3,977	2,855	2,385
a Inventories	1,956	1,558	974	1,368
b Trade Receivables	1,463	1,390	646	168
5 Total Assets	4,562	4,484	3,319	2,918
6 Current Liabilities	276	381	194	138
a Trade Payables	276	350	173	102
7 Borrowings	2,870	2,705	1,758	1,341
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
# Net Assets	1,417	1,398	1,366	1,439
# Shareholders' Equity	1,417	1,398	1,366	1,439

#### B INCOME STATEMENT

1 Sales	7,375	10,855	8,846	11,222
a Cost of Good Sold	(6,712)	(9,883)	(8,085)	(10,211)
2 Gross Profit	663	973	761	1,011
a Operating Expenses	(403)	(578)	(500)	(705)
3 Operating Profit	260	395	261	306
a Non Operating Income or (Expense)	23	5	5	39
4 Profit or (Loss) before Interest and Tax	283	400	266	346
a Total Finance Cost	(86)	(113)	(45)	(105)
b Taxation	(79)	(104)	(90)	(114)
6 Net Income Or (Loss)	117	183	131	126

#### C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	126	194	143	240
b Net Cash from Operating Activities before Working Capital Changes	126	194	143	240
c Changes in Working Capital	(261)	(907)	(491)	-
1 Net Cash provided by Operating Activities	(135)	(713)	(348)	240
2 Net Cash (Used in) or Available From Investing Activities	55	(60)	49	-
3 Net Cash (Used in) or Available From Financing Activities	(98)	(150)	(205)	-
4 Net Cash generated or (Used) during the period	(177)	(924)	(504)	240

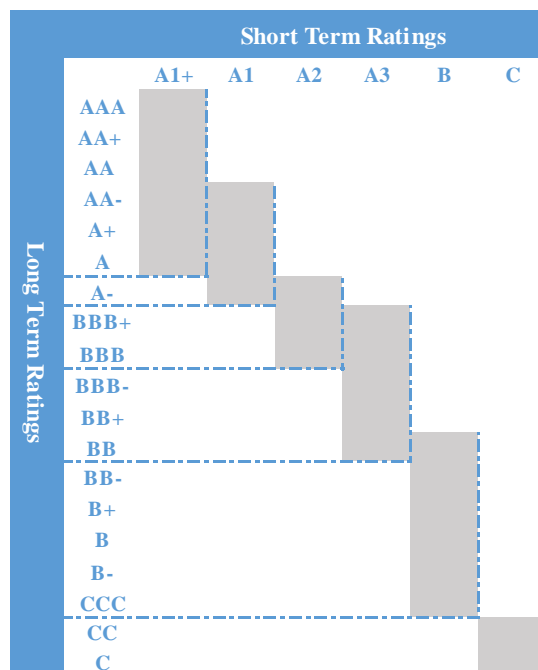
#### D RATIO ANALYSIS

1 Performance				
a Sales Growth (for the period)	35.9%	22.7%	-21.2%	38.8%
b Gross Profit Margin	9.0%	9.0%	8.6%	9.0%
c Net Profit Margin	1.6%	1.7%	1.5%	1.1%
d Cash Conversion Efficiency (EBITDA/Sales)	2.8%	2.7%	2.6%	2.1%
e Return on Equity (ROE)	16.6%	13.3%	9.4%	8.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	79	77	65	99
b Net Working Capital (Average Days)	71	68	59	96
c Current Ratio (Total Current Assets/Total Current Liabilities)	14.9	10.4	14.7	17.3
3 Coverages				
a EBITDA / Finance Cost	2.4	5.9	9.7	3.1
b FCFO / Finance Cost+CMLTB+Excess STB	1.5	3.8	6.0	2.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0	0.1
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	66.9%	65.9%	56.3%	48.3%
b Interest or Markup Payable (Days)	1.0	1.0	1.0	1.0
c Average Borrowing Rate	6.2%	2.3%	1.5%	5.5%

## 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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+	<b>Very high credit quality.</b> 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.
AA		A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
AA-		A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A+	<b>High credit quality.</b> 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.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
A		C	An inadequate capacity to ensure timely repayment.
A-			
BBB+	<b>Good credit quality.</b> 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			
BBB-			
BB+	<b>Moderate risk.</b> 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.</b> 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			
B-			
CCC	<b>Very high credit risk.</b> 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.		
CC			
C			
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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(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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- (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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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (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)
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- (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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