The Pakistan Credit Rating Agency Limited

Rating Report

Hassan Ali Rice Export Company

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
14-Oct-2020	BBB	A2	Stable	Maintain	-
19-Dec-2019	BBB	A2	Stable	Maintain	-
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

Rice is among the five major crops of Pakistan and is the second main staple food, after wheat. Both basmati (long, thin and aromatic rice) and non-basmati (long grain white rice - IRRI 6 and IRRI 9) rice are cultivated in Punjab and Sindh, respectively. In Pakistan, ~85% of basmati rice is consumed locally and only 15% is exported. While, ~90% of non-basmati or IRRI rice is exported and only 10% is consumed locally. During FY20, rice production grew by ~3%, standing at ~7.4MT (FY19: ~7.2MT). Out of this, ~3 to 4MT of rice is exported to generate ~PKR 300bln of export revenue. During 2MFY21, rice exports deteriorated to ~PKR 41bln (2MFY20: ~ PKR 53bln) (2MFY21: ~ USD 248mln, 2MFY20: ~ USD 333mln) owing to higher prices at the mill-gate and shortage of exportable non-basmati rice in Jul-20 to Aug-20.

The ratings incorporate strength of the sponsors of Hassan Ali Rice Export Company ('Hassan Ali' or 'the business') as reflected in the business structure of the group (Hashwani Group of Companies) and it's overall governance principles. With a prominent presence in the market, Hassan Ali holds a stable position among the biggest rice exporters of the country, with customers spreading over multiple countries. During FY20, rice industry observed a subtle growth, wherein rupee devaluation slightly favored the rice exporters. However, post Covid-19, relatively lower quantum of rice exports plunged the revenues. While, gross margins remain stable supported by effective cost management. Bottomline, however, remained thin. There is no long term debt on the Hassan Ali's balance sheet. Working capital borrowings are aligned with the business cycle, whilst timely repayments remain crucial as coverages became thin. Hassan Ali is a sole proprietorship hence, room for improvement in its governance structure continues to be significant.

The ratings are dependent upon the business ability to improve its volumes, margins and, in turn, profitability. Meanwhile, rationalizing short-term borrowings to avoid asset liability mismatch and adherence to sound financial discipline including debt servicing capacity, remains imperative for ratings. Strengthening of governance structure will benefit the ratings.

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-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Rice(Nov-19)
Rating Analysts	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure Hassan Ali Rice Export Company ('Hassan Ali' or 'the business') is a sole proprietorship, incorporated in 1994.

Background Hashwani 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. The Group's business portfolio spans across various sectors including commodity trading, textile, real estate, mining, processing and marketing of no. of minerals.

Operations Hassan Ali processes different grades of rice and exports to the international market. The business is one of the largest exporters of rice and is among the founding members of Rice Export Association (REAP). The business has lately entered into rice polishing by setting up rice polishing units at SITE Karachi. The Group's current total operational capacity of polishing ~450,000 MT of rice per annum. One mill, under the umbrella of Hassan Ali, has an installed capacity of ~ 72,000 MT per annum. While, the other mill has been set up utilizing the group concern, Hassan Ali Rice Export Co. Ltd. (previously known as Regent Textile Industries Ltd.), and has an annual capacity of ~378,000 MT per annum.

Ownership

Ownership Structure Hassan Ali is a sole proprietorship and is owned by Mr. Abullah Akbar Ali Hashwani.

Stability Ownership structure of the business is seen as stable as no changes in ownership are expected. The second generation is gradually being inducted in the business. However, transition to next generation remains to be seen.

Business Acumen Mr. Abdullah Hashwani has been in the business arena for the past 42 years. He has two daughters and a younger son. Both the daughters have lately joined the business after completing their education and currently overseeing marketing operations. Hashwani Group is a well-known name in the Agriculture sector of Pakistan.

Financial Strength Hassan Ali is a stable business entity. The Sponsors have substantial financial strength to support the business, if needed.

Governance

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

Members' Profile Mr. Abdullah Akbar Ali Hashwani who belongs to an entrepreneurial background, solely heads the overall 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 M/s. Daudally Lalani & Co. Charetered Accountants have been appointed as the auditors of Hassan Ali. The firm is QCR rated, however, is not on SBP panel of auditors. This bodes concern over the financial accuracy of the firm and its audit opinion. The firm has issued an unqualified opinion on Hassan Ali's financial statements for the year ended Jun-19.

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 business 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 Rice is among the five major crops of Pakistan and is the second main staple food, after wheat. Both basmati (long, thin and aromatic rice) and non-basmati (long grain white rice - IRRI 6 and IRRI 9) rice are cultivated in Punjab and Sindh, respectively. In Pakistan, ~85% of basmati rice is consumed locally and only 15% is exported. While, ~90% of non-basmati or IRRI rice is exported and only 10% is consumed locally. During FY20, rice production grew by ~3%, standing at ~7.4MT (FY19: ~7.2MT). Out of this, ~3 to 4MT of rice is exported to generate ~PKR 300bln of export revenue. During 2MFY21, rice exports deteriorated to ~PKR 41bln (2MFY20: ~ PKR 53bln) (2MFY21: ~ USD 248mln, 2MFY20: ~ USD 333mln) owing to higher prices at the mill-gate and shortage of exportable non-basmati rice in Jul-20 to Aug-20.

Relative Position Hassan Ali is among the list of top exporters and generated ~USD 135mln of export revenue. By following a long-term strategy, the business majorly operates as a trading concern along with a polishing capacity of ~20 MT/per hour.

Revenues Hassan Ali is majorly generates revenue by rice processing and trading (~90%), followed by wheat and maize trading (~10%). During 1HFY20, Hassan Ali's topline deteriorated and stood at ~PKR 6,815mln (FY19: ~PKR 18,638mln). The business posted a topline of ~PKR 11.6bln in FY20 (FY19: ~PKR 18.6bln), depicting a decline of ~38%. The decline was attributable to lower rice exports (FY20: 185,170 MT, FY19: 274,116 MT) as lower orders were received from Africa and China, the main export regions.

Margins During 1HFY20, the gross profit suffered and clocked in at ~PKR 599mln (FY19: ~PKR 1,534mln) owing to lower sales. However, the business has maintained a consistent gross margin level at ~9% (FY19: ~8%) for the past couple of years. Operating expenses intact , resulting in an operating margin of ~3% (FY19: ~3%). The finance cost of saw an improvement and stood at ~PKR 73mln in 1HFY20 (FY19: ~PKR 180mln). However, the business posted a net profit of ~PKR 90mln in 1HFY20 (FY19: ~PKR 220mln), depicting a decline due to the trickle-down effect. Resultantly, the net margin of the showed no change (1HFY20: ~1%, FY19: ~1%).

Sustainability 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, it is diversifying its product portfolio and planning towards organic solutions in the rice industry for the US/EU markets. Hassan Ali is also working with COFCO group-Thailand based on multiple projects around the globe.

Financial Risk

Working Capital Hassan Ali finances its working capital needs through the export refinance facility (ERF II), a performance-based facility by SBP. The cash conversion cycle of the business is linked to the rice seasonality element. During 1HFY20, the net working capital days of deteriorated to 75 days (FY19: 52 days) on the back of an elongated inventory cycle (1HFY20: 74 days, FY19: 42 days). Moreover, the business has a limited room to borrow against working capital.

Coverages During 1HFY20, the FCFO declined significantly to ~PKR 94mln (FY19: 230mln) on the back of lower profitability. However, the finance cost of the business saw slight improvement and stood at ~PKR 73mln in 1HFY20 (FY19: ~PKR 180mln) supported by lower total borrowings. Consequently, the interest coverage and debt coverage ratio remained intact at 1.3x (FY19: 1.3x) and 1.3x (FY19: 1.3x), respectively.

Capitalization In 1HFY20, the leveraging stood at ~67% (FY19: ~71%). The capital structure mainly comprises short term borrowings and equity. Borrowings of the business have been availed at the SBP's concessionary rates.

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Financial Summary
PKR mln

Hassan Ali Rice Export Company	Dec-19	Jun-19	Jun-18	Jun-17
Rice	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	113	118	117	120
2 Investments	7	270	55	3
3 Related Party Exposure	335	335	335	342
4 Current Assets	4,552	4,773	3,977	2,855
a Inventories	*2,780*	*2,724*	*1,558*	*974*
b Trade Receivables	*385*	*315*	*1,390*	*646*
5 Total Assets	5,008	5,495	4,484	3,319
6 Current Liabilities	386	337	381	195
a Trade Payables	*334*	*292*	*350*	*174*
7 Borrowings	3,075	3,656	2,705	1,758
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	1,547	1,502	1,398	1,366
11 Shareholders' Equity	1,547	1,502	1,398	1,366
B INCOME STATEMENT				
1 Sales	6,815	18,638	10,855	8,846
a Cost of Good Sold	*(6,216)*	*(17,104)*	*(9,883)*	*(8,085)*
2 Gross Profit	599	1,534	973	761
a Operating Expenses	(388)	(972)	(578)	(500)
3 Operating Profit	211	562	395	261
a Non Operating Income or (Expense)	*27*	*28*	*5*	*5*
4 Profit or (Loss) before Interest and Tax	238	590	400	266
a Total Finance Cost	*(73)*	*(180)*	*(113)*	*(45)*
b Taxation	*(76)*	*(190)*	*(104)*	*(90)*
6 Net Income Or (Loss)	90	220	183	131
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*94*	*230*	*194*	*143*
b Net Cash from Operating Activities before Working Capital Changes	*94*	*230*	*194*	*143*
c Changes in Working Capital	*625*	*(179)*	*(907)*	*(491)*
1 Net Cash provided by Operating Activities	719	50	(713)	(348)
2 Net Cash (Used in) or Available From Investing Activities	262	(222)	(60)	49
3 Net Cash (Used in) or Available From Financing Activities	(46)	(116)	(150)	(205)
4 Net Cash generated or (Used) during the period	936	(288)	(924)	(504)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-26.9%	71.7%	22.7%	-21.2%
b Gross Profit Margin	8.8%	8.2%	9.0%	8.6%
c Net Profit Margin	1.3%	1.2%	1.7%	1.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	10.6%	0.3%	-6.6%	-3.9%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	11.1%	16.1%	15.1%	10.2%
2 Working Capital Management				
a Gross Working Capital (Average Days)	83	59	77	113
b Net Working Capital (Average Days)	75	52	68	108
c Current Ratio (Current Assets / Current Liabilities)	11.8	14.2	10.4	14.6
3 Coverages				
a EBITDA / Finance Cost	2.3	2.3	5.9	9.7
b FCFO / Finance Cost+CMLTB+Excess STB	1.3	1.3	3.8	6.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	66.5%	70.9%	65.9%	56.3%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	4.3%	5.6%	2.3%	1.5%

Credit Rating

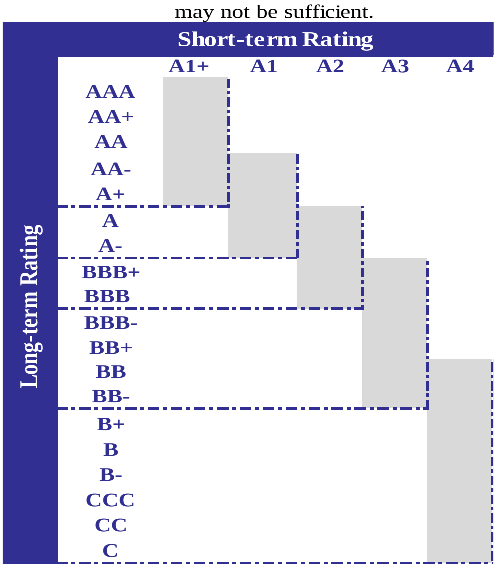
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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.
(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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