The Pakistan Credit Rating Agency Limited

Rating Report

Awami Agro Commodities

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-Nov-2019	BB+	A3	Stable	Maintain	-
27-Jun-2019	BB+	A3	Stable	Maintain	-
27-Dec-2018	BB+	A3	Stable	Maintain	-
12-Jun-2018	BB+	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect the strong experienced background of the partners of Awami Agro Commodities ('Awami'). The partners of the business are well equipped with the related sector knowledge. Growth centric strategy of the partnership encompasses maximizing the returns through expanding its export destinations, which it achieved through entering the West African region in FY19. Currently, Awami's entire export of non-basmati rice vests in African countries. Awami has established two associated companies in Madagascar and Benin during the period under review which will add positively to revenue growth. During FY19, Country's rice industry observed a subtle growth, where rupee devaluation favoured the rice exporters to enhance the revenue base. Although there was uptick in profits. Awami could not translate the impact of revenue growth in its profits - proportionately - on account of higher operational cost, mainly elevated freight charges. Consistent generation of healthy margins backed by the revenues continue to be a key performance indicator. As Awami is a partnership, governance structure reflects needs for improvement. Financial risk profile is driven by a bottom line centric approach with a good debt servicing capacity and a leverage capital structure. Debt profile entirely constitutes short term borrowings to manage working capital needs.

The ratings are dependent upon sustenance of margins and revenue growth. Lack of proper board structure is a concern. Sustainable profits, adequate cash flows and working capital cycle are majorly backed by reasonable turnover.

Disclosure	
Name of Rated Entity	Awami Agro Commodities
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-19),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-19)
Related Research	Sector Study | Rice(Nov-19)
Rating Analysts	Raniya Tanawar | raniya.tanawar@pacra.com | +92-42-35869504

Profile

Legal Structure Awami Agro Commodities (herein referred to as "Awami Agro" or "the firm") is a family owned partnership firm.

Background Awami Agro was established in 2012 by two brothers; Mr. Bhagwan Das and Mr. Sanjesh Kumar. Awami is one of the well established companies of rice export business. It holds the membership of Rice Export Association of Pakistan (REAP) and Karachi Chamber of Commerce & Industry (KCCI).

Operations Awami Agro's core operations involve the export of non-basmati rice with regards to which it has managed a viable footing in the market over the years. The firm's focal attention is the quality of its product and its target markets which include Kenya, Mozambique, Madagascar, Benin, Tanzania and other African regions. Awami Agro has also established its associated companies in Madagascar and in Benin to support business growth. Currently, it has a production capacity of 10 metric tons (MT) per hour and utilizes 50% of its installed capacity.

Ownership

Ownership Structure Ownership of the firm is shared between two brothers; Mr. Bhagwan Das and Mr. Sanjesh Kumar, holding ~50% each.

Stability Equal partnership stake with no expectation of change in the short horizon adher to stability in the structure.

Business Acumen Mr. Bhagwan Das has three brothers: Sanjesh Kumar, Naresh Kumar and Govinda Kumar, all associated with Awami Agro. The entire family is in rice industry for over the past three decades and since 2010, Sanjesh Kumar has also joined the family business during his studies. Business understanding of the sponsors is deemed good.

Financial Strength Financial strength of the sponsors is considered adequate.

Governance

Board Structure Awami Agro, being a partnership firm, does not have a formal Board of Directors (BoD) structure. The oversight function – which is normally the function of the Board – is being exercised by the sponsors of the company. All four brothers are responsible for the oversight of their respective departments.

Members' Profile Mr. Bhagwan Das leads the partnership. He is the most experienced of all. He has an overall experience of more than ~18 years.

Board Effectiveness Currently, the board does not have any formal committees. Governance structure needs improvement.

Financial Transparency Salahuddin & Co. Chartered Accountants are the Auditors of Awami Agro. The audit firm does not satisfy the QCR ratings neither is classified in any of the categories defined by the State Bank of Pakistan. The Auditors issued an unqualified opinion for the year ended June-18.

Management

Organizational Structure Awami Agro has an experienced team with defined reporting lines and segregation of duties. The managerial staff at the head office and factory reports to their respective directors.

Management Team The management team comprises five members while the four brothers oversee the entire business operations. The senior staff at the head office reports to Mr Govinda Kumar and the factory team falls under Mr. Naresh Kumar's ambit.

Effectiveness Currently, Awami Agro does not have any formal management committees. Each department reports to its respective director.

MIS Awami Agro has deployed an in-house Accounting Management Software, implemented by a Sole proprietor. Being a partnership firm, there are no formal reporting timelines in place.

Control Environment The firm has a manufacturing plant located at Port Qasim, Industrial Area, in Karachi.The unit's production capacity is 240 MT per day (10 MT per hour). The business has latest imported machinery in place and the plant is a complete manufacturing composite that is capable to perform all production stages: Pre cleaning, de-stoning and silking. There are five silking machines, each produces; 1.5-2 tons/hr of full silky and 2.5-3 tons/hr of normal silky rice. Awami Agro is planning to do further capital investment to increase efficiency of its existing operations.

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. 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 attributed to decrease in area cultivated, dry weather and shortage of water. The maximum contribution from the rice segment in country's foreign exchequer is from non-basmati rice exports, as basmati rice is locally consumed and minimal quantity is exported.

Relative Position Awami Agro exports rice from the time of its commencement. Major revenue comes from African countries where non-basmati rice (IRRI 6) is preferred. The firm is growing with a reasonable pace as its share in the total country's non-basmati export has increased to ~1.5% during FY19 from ~0.7% in FY18.

Revenues Awami Agro's revenue is growing on year on year basis. For FY19, revenues of Awami clocked in at PKR~2,736mln (FY18: PKR~1,311mln) which posts annual growth of ~109%. Continuous marketing efforts are now reaping good results, as it expanded its presence by taking an entry in West African region. Sales volumes increased to 52K tons in FY19 from 29K tons in FY18 - major contribution came from Benin. Going forward, revenue growth is expected to be supported through sustained demand and depreciation of local currency.

Margins Awami Agro has sanguine profitability margins; Gross profit margin for FY19 clocked in at ~19% (FY18: ~20%). Operating margins reduced to 6.3% during FY19 from 7.9% in FY18 due to increase in operating expenses, mainly the freights. Translating from the gross margins, net profit margins also slipped to 4% in FY19 from 6% in FY18.

Sustainability Awami Agro is eyeing to increase its geographical outreach and establishment of associate companies is the right step towards the said objective. The sustenance of revenue growth is essential considering the competitiveness of rice market.

Financial Risk

Working Capital Working capital needs are derived from receivables and inventory days. Cash conversion cycle is linked to the rice seasonality element. Net working capital days decreased during FY19 to ~71 days (FY18: 96 days). The decrease in working capital days is being led by reduced receivable days owing to improved receipts.

Coverages Despite increase in interest cost, interest coverage remained intact as the firm manages to earn good profits. FCFO has significantly increased to PKR 156mln during FY19 (FY18: PKR 82mln) therefore reflecting in improved coverages; Total debt coverage stood at ~11x at FY19 (F18: 7.1x).

Capitalization The firm's business model is designed around securing short term Export Refinance Facility (ERF) to fuel working capital needs. Leveraging took a pace during FY19 as Awami Agro has enhanced its ERF facilities, hence moved to ~61% during FY19 (FY18:~57%). Before FY18 the firm mainly operated on internal cash generation. Total debt clocked in at PKR~443mln at FY'19 and consists of only short term liabilities.

Financial Summary
The Pakistan Credit Rating Agency Limited
PKR mln

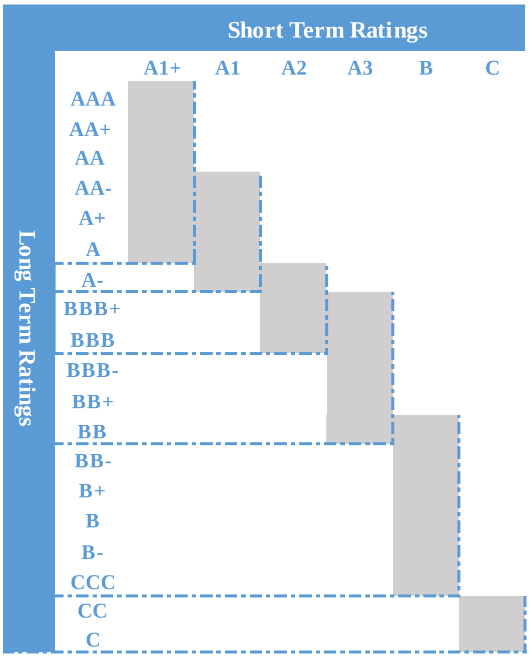
Awami Agro Commodities	Jun-19	Jun-18	Jun-17
Rice	12M	12M	12M
A BALANCE SHEET			
1 Non-Current Assets	88	80	28
2 Investments	-	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	661	563	205
a Inventories	*246*	*257*	*78*
b Trade Receivables	*324*	*294*	*90*
5 Total Assets	749	643	233
6 Current Liabilities	25	239	2
a Trade Payables	*25*	*25*	*2*
7 Borrowings	443	232	130
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	-	-	-
10 Net Assets	281	173	101
11 Shareholders' Equity	281	173	101
B INCOME STATEMENT			
1 Sales	2,736	1,311	930
a Cost of Good Sold	*(2,226)*	*(1,052)*	*(775)*
2 Gross Profit	509	259	154
a Operating Expenses	(336)	(157)	(105)
3 Operating Profit	173	103	50
a Non Operating Income or (Expense)	-	-	-
4 Profit or (Loss) before Interest and Tax	173	103	50
a Total Finance Cost	*(14)*	*(13)*	*(3)*
b Taxation	*(24)*	*(12)*	*(8)*
6 Net Income Or (Loss)	134	78	39
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*156*	*82*	*47*
b Net Cash from Operating Activities before Working Capital Changes	*140*	*69*	*44*
c Changes in Working Capital	*(48)*	*(32)*	*25*
1 Net Cash provided by Operating Activities	92	37	69
2 Net Cash (Used in) or Available From Investing Activities	(14)	(56)	(5)
3 Net Cash (Used in) or Available From Financing Activities	(26)	(7)	(31)
4 Net Cash generated or (Used) during the period	52	(25)	34
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	108.7%	41.0%	78.5%
b Gross Profit Margin	18.6%	19.8%	16.6%
c Net Profit Margin	4.9%	6.0%	4.2%
d Cash Conversion Efficiency (EBITDA/Sales)	6.6%	7.2%	5.9%
e Return on Equity (ROE)	59.3%	57.1%	40.2%
2 Working Capital Management			
a Gross Working Capital (Average Days)	75	100	46
b Net Working Capital (Average Days)	71	96	45
c Current Ratio (Total Current Assets/Total Current Liabilities)	26.4	2.4	91.0
3 Coverages			
a EBITDA / Finance Cost	12.7	7.1	19.4
b FCFO / Finance Cost+CMLTB+Excess STB	11.0	6.2	16.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0
4 Capital Structure (Total Debt/Total Debt+Equity)			
a Total Borrowings / Total Borrowings+Equity	61.2%	57.3%	56.3%
b Interest or Markup Payable (Days)	0.0	0.0	0.0
c Average Borrowing Rate	4.2%	7.3%	2.2%

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	
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 Ratings	
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.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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 surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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)

Independence & Conflict of interest
(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)
Proprietary Information