



The Pakistan Credit Rating Agency Limited

## Rating Report

### Warble (Pvt.) Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Feb-2019	BB+	A3	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Warble (Pvt.) Limited operates in three segments: i) pesticides ii) seeds and iii) fertilizer. The Company is one of the pioneer groups entered in this segment back in 1990's. The Company has reported adequate turnover, with good contribution of each segment, while pesticide remains predominant segment in terms of revenue. Profitability of the company is slight. Warble expanded its operations by entering into different businesses in agriculture industry and achieving operational efficiency. The company's plant is located at Khanewal; near the Company's home market (Multan) which benefits the cost structure. The governance structure of the company has room for improvement for more effective business oversight. The company is securing its sales by franchise network named "AGROMART" and interacting end consumers. Company meets its working capital requirements through a mix of internal cashflows and short term borrowings. However, the financial risk remains good on account of low long term finance and adequate coverages. Going forward, the improvement in bottom-line and cash flows, standardization in governance structure and financial transparency is vital. The ratings also take into account the sponsor strength as AllahDin group has interests in diversified segments of agriculture for more than 2 decades.

The ratings are dependent on improvement in business and financial profile of the company. Any deterioration to topline, margins and/or cash flows remains critical to the ratings. The company's sustained business performance in current stretched economic scenario - remains vital for ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Warble (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-18),Methodology   Criteria   Rating Modifier(Jun-18),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
<b>Related Research</b>	Sector Study   Pesticides(Feb-19)
<b>Rating Analysts</b>	Saliha Sajid   saliha.sajid@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Warble (Pvt.) Limited – one of the pioneer companies of AllahDin Group – is a private limited company. Warble is engaged in pesticides formulation, seeds and fertilizer sales in Pakistan and primarily deals through franchise network by the name AGROMART.

**Background** Warble (Pvt.) Limited is one of the main pesticides companies in Pakistan which came into existence in 1995, established as second company by AllahDin Group. In 1980's, sponsoring family was engaged in construction business while one brother was associated with Agriculture industry and has relevant knowledge. Afterwards, sponsoring family built first company by the name of Welcon Chemicals to break monopoly of multinational companies with some other companies like Ali Akber Group and 4 Brothers (4B) group.

**Operations** Warble (Pvt.) Limited Head office is located in Lahore and formulation facility at Jhanian Multan (Heart of Cotton Belt) comprises of High technology which was Chinese located at 4 acres and lab which is also equipped with Chinese machinery. Currently, the company is operating with ~501 staff while sales & marketing team is major staff given the importance of sales and marketing in the pesticides business.

## Ownership

**Ownership Structure** Warble (Pvt.) Limited is equally owned by two brothers. Majority stake is with Mr. Atta ur Rehman 50.8%. Chaudhry Iftikhar Nazir holds 45.2%, rest is held by his wife Mrs. Ghazala Asmat and son.

**Stability** According to succession planning being followed by sponsoring family, the ownership of warble (Pvt.) limited will be transferred to Mr. Zain Iftikhar.

**Business Acumen** Allahdin Group family has been associated with Agriculture sector for very long. Allahdin group has vested interests through a number of companies in its ambit.

**Financial Strength** The Group history goes back to 1990's. Allahdin Group has reported turnover of PKR 4.4bln at Jun-18 has vested business interests in Agriculture, Bottling plant, Pharmaceutical industry.

## Governance

**Board Structure** The overall board vests with only three members who are also owners of the company. Mr. Atta Ur Rehman and Ch. Iftikhar Nazir and hold executive positions on board while Ghazala Asmat Ghazali, wife of Ch. Iftikhar Nazir is a non-executive member.

**Members' Profile** Board members carry adequate skill mix. Ch. Iftikhar Nazir and Mr. Atta Ur Rehman has been in this business for almost two decades.

**Board Effectiveness** There are no formal board committees in place. The meetings of the board with senior management are conducted on frequent basis. Same is stored in ERP system for which proper record is kept in hard files too.

**Financial Transparency** M/s. Tabussum Saleem and Co., Chartered Accountants, the external auditor, QCR rated, has given unqualified opinion on the company's financial statements for the year ended June 18. Hence, financial transparency of the company has room for improvement.

## Management

**Organizational Structure** Warble (Pvt.) Limited has lean organizational structure, divided into four key functions, namely (i) Sales & Marketing, (ii) Finance, (iii) HR & IT and (iv) Taxation & Accounts. Each function reports to COO and CEO who ultimately reports to chairman.

**Management Team** The Group Chairman & CEO, Ch. Iftikhar Nazir is the pioneer of AllahDin Group of companies, also a Politian. Mr. Atta Ur Rehman, other brother is CEO of the company. Mr. Zain Iftikhar Chaudhry, son of Ch. Iftikhar Nazir is COO of the company. He is graduate in Financial Management Services from York University, Toronto. He started looking after all the Agro businesses and has been following footsteps of his father.

**Effectiveness** Meetings of management are conducted on frequent basis depending upon the requirement. All senior management gives input in the decision making but Ch. Iftikhar Nazir is the man at the last mile for all decision making processes.

**MIS** Warble (Pvt.) Limited as group deploys ERP system. Company generates reports on daily, weekly and monthly basis.

**Control Environment** Warble (Pvt.) Limited plant is located in the hub of Agriculture Jhanian (Multan and Head office in Lahore. The location of plant is critical because to avoid the freight charges the company followed strategy to develop plant in mid of Punjab. As the company is growing and expanding, there is further room for improvement in its internal controls & systems.

## Business Risk

**Industry Dynamics** Pakistan Agricultural sector is large fragmented industry holding an 18.9% contribution to the GDP of Pakistan. Pakistan Agro industry is currently standing at PKR 75bln as at end-Jun18. The pesticides are at the top with 68% of the share, liquid fertilizer & Micronutrients holds 22% and seeds 10%. The Pakistan Pesticides industry followed majorly crop seasons - cotton and wheat are the major crops in Pakistan. Better yields of agriculture inputs are dependent on various factors and Pesticide is one integral part of it. The use of Pesticide during the crop season marks inevitable importance in agricultural dimension. During last year, there was upward trend in the prices which directly affected the industry and overall margins of the companies were impacted. The ongoing trend is for specialized products which led to introduction of new products like Bio-fertilizers, Soil Improving Fertilizers and Micro-nutrients was introduced.

**Relative Position** AllahDin Group overall holds almost 8.5% market share in the Industry and is 4th largest group in agriculture after Syngenta, Ali Akber and Sun Crop. Warble (Pvt.) Limited as an entity consist only 2.6% of total Agro Industry. As a group it holds strong position and brand name in the industry.

**Revenues** During FY18, the Company reported a revenue of PKR 1,982mln (FY17: PKR 2,126), demonstrating a decline mainly due to the supply demand gap in the industry as one of the main supplier of Pesticide formulate (China) decreased its capacity utilization. Analysis of revenue mix revealed that majority contributor to sales is Pesticides category in which Insecticides are the top sellers. These products are used upon cotton crop mainly. There is no other income of the company in form of investment except of minuscule investment in bank deposits. As the company has short term borrowings in its profile, the company reported a finance cost of PKR 50mln (FY17: 52mln). Hence, the company was able to make net profit PKR 34mln (FY17: PKR 56mln) owing to declined volumetric sales and low prices discussed previously.

**Margins** In recent years, the uptick in technical prices (raw material) led to effect the company's sales, the prices are decided by the supply demand gap which ultimately effected the margins; Gross and EBITDA margins at 15.8% (FY17: 15.8%) and 6.4% (FY17: 7.2%) respectively.

**Sustainability** Going forward, management will keep its focus on sustaining its cost leadership and performance uptrend. The company is securing its business by registering its farmers and providing them pesticides and in return purchasing their crops. The idea was implemented in cotton and Wheat.

## Financial Risk

**Working Capital** During FY18, company's networking capital requirements, represented by net cash cycle (net working capital days) which is higher – a function of inventory, receivables and payables – marginally decreased to 82days (end-Jun17: 94days). The net cash cycle is higher owing to the inventory stock ordered in advance (before June). The company meets working capital requirements through a mix of internal cashflows and STBs. The quantum of STBs stood at PKR 178mln at end-Jun18 (end-Jun17: PKR 98mln, end-Jun16: PKR 50mln). Current ratio remained good (end-Jun18: 1.84x; end-Jun17: 1.72x).

**Coverages** During FY18, company's EBITDA is at PKR 127mln (end-Jun17: PKR 154mln) which is lower due to lower profits during recent year. FCFO of the company increased slightly (FY18: PKR 108mln) but remained lower when compared with peers. Interest coverage improved slightly to 2.3x (end-Jun17: 2.1x). Core coverage ratio reduced to only 1.5x at end-Jun18 (end-Jun17: 1.3x) primarily due to higher STBs.

**Capitalization** During the year, Company's total leveraging stood at PKR 227mln (FY17: PKR 153mln). The company is mainly borrowing short term. The company's equity stands at PKR 730mln (FY17: 696mln) which has increased slightly due to increase in unappropriated profits. Debt to debt plus equity ratio increased to ~24% (FY17: 18%) primarily due to higher short term borrowings. Going forward, it will increase further.



Warble (Pvt.) Limited				
Private Limited				
BALANCE SHEET	Jun-18	Jun-17	Jun-16	Jun-15
	12M	12M	12M	12M
<b>a Non-Current Assets</b>	<b>294</b>	<b>294</b>	<b>194</b>	<b>170</b>
<b>b Investments (Incl. Associates)</b>	-	-	-	-
Equity	-	-	-	-
Fixed Income	-	-	-	-
<b>c Current Assets</b>	<b>1,551</b>	<b>1,453</b>	<b>1,691</b>	<b>1,976</b>
Inventory	985	891	1,222	1,359
Trade Receivables	312	321	200	338
Others	254	241	269	278
<b>d Total Assets</b>	<b>1,845</b>	<b>1,746</b>	<b>1,885</b>	<b>2,146</b>
<b>e Debt/Borrowings</b>	<b>227</b>	<b>153</b>	<b>107</b>	<b>95</b>
Short-Term	178	98	50	50
Long-Term (Incl. Current Maturity of Long-Term Debt)	49	55	57	46
Other Short-Term Liabilities	870	874	1,118	1,437
Other Long-Term Liabilities	18	23	20	34
<b>f Shareholder's Equity</b>	<b>730</b>	<b>696</b>	<b>641</b>	<b>580</b>
<b>g Total Liabilities &amp; Equity</b>	<b>1,845</b>	<b>1,746</b>	<b>1,885</b>	<b>2,146</b>
<b>INCOME STATEMENT</b>				
<b>a Turnover</b>	<b>1,982</b>	<b>2,126</b>	<b>1,919</b>	<b>1,587</b>
<b>b Gross Profit</b>	314	336	291	309
<b>c Net Other Income</b>	(4)	(6)	(5)	(5)
<b>d Financial Charges</b>	(50)	(52)	(47)	(49)
<b>e Net Income</b>	<b>34</b>	<b>54</b>	<b>60</b>	<b>47</b>
<b>CASH FLOW STATEMENT</b>				
<b>a Free Cash Flow from Operations (FCFO)</b>	115	108	104	149
<b>b Total Cashflows (TCF)</b>	115	108	104	149
<b>c Net Cash changes in Working Capital</b>	(110)	81	(32)	(81)
<b>d Net Cash from Operating Activities</b>	(45)	138	25	18
<b>e Net Cash from Investing Activities</b>	6	(87)	(2)	0
<b>f Net Cash from Financing Activities</b>	43	(40)	(30)	(20)
<b>g Net Cash generated during the period</b>	4	11	(7)	(2)
<b>RATIO ANALYSIS</b>				
<b>a Performance</b>				
Turnover Growth (vs SPLY)	-7%	11%	21%	N/A
Gross Margin	16%	16%	15%	19%
Net Margin	2%	3%	3%	3%
ROE	5%	8%	10%	8%
<b>b Coverages</b>				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+U:	1.5	1.3	1.4	0.6
Interest Coverage (X) (FCFO/Gross Interest)	2.3	2.1	2.2	3.0
Debt Payback (Years) (Total Debt (excluding Covered Short T	3.5	2.7	1.9	2.6
<b>c Capital Structure (Total Debt/Total Debt+Equity)</b>				
Net Cash Cycle (Inventory Days + Receivable Days - Payable D	82	93	162	232
<b>d Capital Structure (Total Debt/Total Debt+Equity)</b>	24%	18%	14%	14%
<b>Warble (Pvt.) Limited</b>				
<b>Feb-19</b>				

## 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	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<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.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<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>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<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.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<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.	<b>B</b>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</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>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<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.		
<b>D</b>	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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