The Pakistan Credit Rating Agency Limited

Rating Report

Warble (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Aug-2020	BBB-	A3	Stable	Upgrade	-
27-Aug-2019	BB+	A3	Stable	Maintain	-
25-Feb-2019	BB+	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Warble (Pvt.) Limited (herein referred to as 'Warble' or 'the company') operates in three segments, namely: i) pesticides ii) seeds and iii) fertilizer. Warble has, with time, expanded its operations by entering into different businesses in the agriculture industry while achieving operational efficiency. The company is part of one of the pioneer groups of the industry. After incorporation in 1995, the company has been able to cement its position as a major market player in the sector. Warble has reported adequate turnover, with good contribution of each segment, while pesticide remains the predominant segment, in terms of revenue. Profitability of the company, though, has room for improvement. The company's plant is located at Khanewal; near the company’s home market (Multan), which benefits its cost structure. The company has secured its sales by the franchise network named 'AGROMART', complimented by frequent interaction with the end consumers. It meets its working capital requirements through a mix of internal cashflows and short term borrowings. However, the financial risk remains under control, on account of low long term finance and adequate coverages. Supply mechanism of raw material, predominantly from China, was under pressure, in the wake of the global pandemic Covid-19. Subsequent to the ease in lockdown restrictions, such constraints have subsided. The ratings take comfort from the sponsor strength, with AllahDin Group having interests in various segments of the agriculture industry, for more than 2 decades. Having a diversified product mix bodes well for the company and the group, in the wake of an ever-changing landscape in the industry. The ratings also take into account the superior quality of the production process and notable production capacity of the company. Going forward, the improvement in bottom-line and cash flows, standardization in governance structure and financial transparency is vital.

The ratings are dependent on the improvement in business and financial profile of the company. Any deterioration to topline, margins or cash flows remain critical to the ratings. The company's sustained business performance in the currently stretched economic scenario, amid Covid-19 and locust swarms, remains vital to the ratings.

Disclosure

Name of Rated Entity	Warble (Pvt.) Limited
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 | Pesticides(Feb-20)
Rating Analysts	Jibran Cheema | jibran.cheema@pacra.com | +92-42-35869504

Profile

Legal Structure Warble (Pvt.) Limited (herein referred to as 'Warble' or 'the company'), one of the pioneer companies of the AllahDin Group, is a private limited company. Warble is engaged in pesticide formulation, seed and fertilizer sales in the country. It primarily deals through the franchise network, called 'AgroMart'.

Background Warble is one of the main pesticide companies in Pakistan which came into existence in 1995, established as the second company by the AllahDin Group. In the 1980’s, the sponsoring family was mainly engaged in the construction business, whereas one sibling was associated with the agriculture industry, having the required knowledge of the sector. Before Warble's incorporation, the sponsoring family established the first company by the name of Welcon Chemicals, in order to break the monopoly of multinational companies, along with other companies like Ali Akber Group and 4 Brothers (4B) group.

Operations Warble's head office is located in Lahore. The formulation facility is at Jhanian Multan (referred to as the Heart of Cotton Belt) equipped with Chinese machinery and technology. It is spread over 4 acres of land. Currently, the company is operating with over 500 employees, mainly consisting of sales & marketing teams, given its importance in the pesticides business.

Ownership

Ownership Structure There has been a recent shift in the ownership structure of the company. Shareholding of the founding generation comprising Ch. Ifitikhar Nazir, the Group Chairman, and his brother Mr. Atta Ur Rehman, the CEO of Warble, has been transferred to their respective sons. The company is now majority owned by the two cousins, Mr. Masood Ur Rehman (51.0%) and Mr. Zain Iftikhar (47.4%), while the rest of the ownership is held by Ch. Iftikhar's wife, Mrs. Ghazala Asmat.

Stability As evident from the above, clear succession lines have been drawn and implemented, throughout the Allahdin Group.

Business Acumen The Allahdin Group family has been associated with the Agriculture sector for a considerable amount of time. The Group encompasses a number of companies in its ambit.

Financial Strength The history of the Allahdin Group dates back to the 1990’s. The Group reported a turnover of over PKR~5bln in FY19. It has vested business interests in Agriculture, Bottling, and the Pharmaceutical industry.

Governance

Board Structure The overall control vests with a three member Board of Directors. Mr. Atta Ur Rehman and Ch. Iftikhar Nazir hold executive positions on the Board while Mrs. Ghazala Asmat Ghazali, the wife of Ch. Iftikhar Nazir, is a non-executive member.

Members’ Profile The Board members carry adequate skills, competence and knowledge. Ch. Iftikhar Nazir and Mr. Atta Ur Rehman have been part of the industry for almost three decades.

Board Effectiveness There are no formal board committees in place. The meetings of the Board with senior management are conducted on a frequent basis. Proper record is kept, in hard files and the ERP system of the company.

Financial Transparency M/s. Tabussum Saleem and Co., Chartered Accountants, a QCR rated firm, is the external auditor of the company. It has given an unqualified opinion on the company’s financial statements for the year ended June'19. Overall, the financial transparency of the company, has room for improvement.

Management

Organizational Structure Warble has a 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 the COO and the CEO, who ultimately report to the Chairman.

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

Effectiveness Meetings of management are conducted on a frequent basis, depending upon the requirement. Senior management gives input in the decision making while Ch. Iftikhar Nazir is the final authority for all decision making processes.

MIS The company deploys an ERP system and generates reports on daily, weekly and monthly basis.

Control Environment Warble's plant is located in the hub of Agriculture, Jhanian Multan while its head office is based in Lahore. In order to avoid freight charges the company followed a strategy to locate the plant in the center of Punjab. There is room for improvement in internal controls and systems, particularly in terms of adopting good governance practices and management of timely financial reporting.

Business Risk

Industry Dynamics Pakistan's agricultural sector holds a ~19% contribution to its GDP, showcasing its importance to the economy. The pesticide industry is an important segment of agriculture, since it is one of the major crop inputs. The size of the pesticide market is estimated to be in the range of PKR~60bln to PKR~75bln. The local pesticide market is import dependent, with ~20% to ~30% of the pesticide cost component being imported to the country, majorly from China. The absolute dependence on imports, presents the risk of supply constraints amid a lag in international trade, as was the case briefly, in the initial months of the worldwide lockdown, in the wake of the pandemic Covid-19. On the other hand, the demand for necessities is in-elastic, which bodes well for the sustenance of the industry, even in times of economic contraction. The issue of locust swarms, if aggravated, may add some uncertainty to the future demand side mechanics. The pesticide market is fragmented, comprising MNCs and local Companies. Major players (11) make up ~81% of the total pesticide market.

Relative Position The AllahDin Group holds a strong position and brand name in the industry. The Group, overall, holds ~10% market share in the industry and is the 4th largest group in pesticides after Syngenta, Ali Akber and Sun Crop.

Revenues In 9MFY20, the company reported a topline of PKR~1,776mln (9MFY19: PKR~1,555mln), depicting a growth of 14%, compared to the corresponding period. The largest contributor to the topline, is the Pesticides segment (75%), followed by Fertilizer (15%) and Seed (10%). Turnover of Pesticides was dominated by the hugely popular Insecticides (60%), followed by Herbicides (30%) and Fungicides (10%). While Insecticides are still the most consumed Pesticides in the market, its demand is on a downward shift, due to falling cotton yield and environmental concerns. On the other hand, due to increasing awareness, the share of offtake of Herbicide and Fungicide is on the rise. Majority of the offtake takes place in Punjab (70%), followed by Sindh (20%) and KPK (10%). The company operates under the franchise network called ‘AgroMart’, in which sales are mostly undertaken on credit.

Margins The prices are decided by the supply demand gap in the industry. The company has been able to secure its margins by controlling its costs. Gross and net profit margins in 9MFY20 stood at 17.9% (9MFY19: 16.6%) and 3.3% (9MFY19: 1.5%) respectively.

Sustainability Going forward, the 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 the segments of cotton and wheat.

Financial Risk

Working Capital The company’s networking capital requirements is a function of inventory, receivables and payables. Albeit still high, during 9MFY20, the net cash cycle decreased to 102 days (FY19: 164 days). The net cash cycle shrunk due to a fall in the inventory levels recently. The company meets working capital requirements through a mix of internal cashflows and Short Term Borrowings (STBs). The quantum of STBs stood at PKR~149mln as at End-9MFY20 (End-FY19: PKR~170mln). The current ratio remained improved to 1.8x (End-FY19: 1.6x).

Coverages During 9MFY20, the company’s EBITDA amounted to PKR~159mln (9MFY19: PKR~122mln). FCFO of the company also reached healthier levels by clocking in at PKR~132mln (9MFY19: PKR~107mln). Even though there has been a growth in this regard, such figures are still deemed low, when compared with peers. Interest coverage in 9MFY20 improved to 2.6x (9MFY19: 2.1x).

Capitalization As at End-9MFY20, the company’s total leveraging stood at PKR~201mln (End-FY19: PKR~247mln), including the leased financing. The company’s exposure is mainly in short term borrowing. The Warble’s equity stands at PKR~842mln (End-FY19: PKR~783mln) which has increased due to a rise in the unappropriated profits. Gearing ratio decreased to 19.2% (End-FY19: 24.0%) primarily due to higher equity.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Warble (Pvt.) Limited	Mar-20	Jun-19	Jun-18	Jun-17
Pesticides	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	307	330	294	294
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,730	1,970	1,551	1,453
a Inventories	*1,367*	*1,658*	*985*	*891*
b Trade Receivables	*126*	*73*	*312*	*321*
5 Total Assets	2,037	2,299	1,845	1,746
6 Current Liabilities	975	1,250	870	874
a Trade Payables	*862*	*1,036*	*803*	*819*
7 Borrowings	201	247	227	153
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	19	19	18	23
10 Net Assets	842	783	730	696
11 Shareholders' Equity	842	783	730	696
B INCOME STATEMENT				
1 Sales	1,776	2,171	1,982	2,126
a Cost of Good Sold	*(1,458)*	*(1,795)*	*(1,668)*	*(1,790)*
2 Gross Profit	317	376	314	336
a Operating Expenses	(175)	(231)	(208)	(202)
3 Operating Profit	142	145	105	134
a Non Operating Income or (Expense)	*(5)*	*(4)*	*(4)*	*(6)*
4 Profit or (Loss) before Interest and Tax	137	141	102	128
a Total Finance Cost	*(51)*	*(61)*	*(50)*	*(52)*
b Taxation	*(27)*	*(27)*	*(18)*	*(22)*
6 Net Income Or (Loss)	59	53	34	54
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*132*	*139*	*115*	*108*
b Net Cash from Operating Activities before Working Capital Changes	*81*	*78*	*65*	*56*
c Changes in Working Capital	*(36)*	*(43)*	*(110)*	*81*
1 Net Cash provided by Operating Activities	45	35	(45)	138
2 Net Cash (Used in) or Available From Investing Activities	3	10	6	(87)
3 Net Cash (Used in) or Available From Financing Activities	(46)	(49)	43	(40)
4 Net Cash generated or (Used) during the period	1	(4)	4	11
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	9.1%	9.5%	-6.8%	10.8%
b Gross Profit Margin	17.9%	17.3%	15.8%	15.8%
c Net Profit Margin	3.3%	2.4%	1.7%	2.6%
d Cash Conversion Efficiency (EBITDA/Sales)	9.0%	7.7%	6.4%	7.2%
e Return on Equity (ROE)	9.7%	7.0%	4.8%	8.2%
2 Working Capital Management				
a Gross Working Capital (Average Days)	248	319	231	226
b Net Working Capital (Average Days)	102	164	82	93
c Current Ratio (Total Current Assets/Total Current Liabilities)	1.8	1.6	1.8	1.7
3 Coverages				
a EBITDA / Finance Cost	3.1	2.8	2.5	3.0
b FCFO / Finance Cost+CMLTB+Excess STB	1.9	1.4	1.5	1.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.5	1.0	0.8	1.0
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	19.2%	24.0%	23.7%	18.0%
b Interest or Markup Payable (Days)	11.0	10.3	17.2	13.8
c Average Borrowing Rate	30.4%	25.6%	26.4%	39.7%

Credit Rating

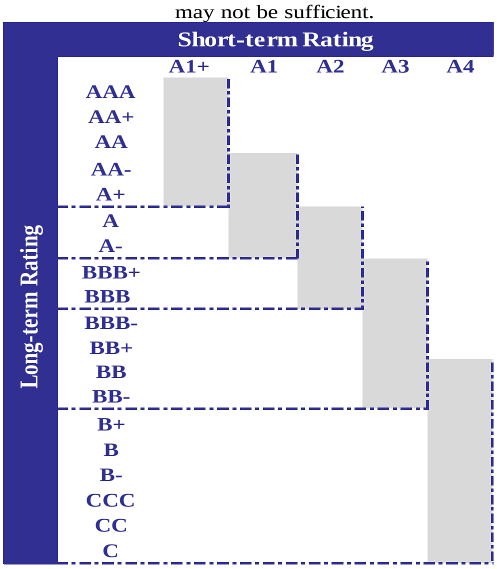
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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)

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