



The Pakistan Credit Rating Agency Limited

Rating Report

Aggrio Pakistan (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
14-Sep-2020	BB	B	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Aggrio Pakistan (Pvt.) Ltd. (“Aggrio”) is a private limited company operating under The Edge group Aggrio operates in three segments: i) pesticides ii) seeds and iii) fertilizer, with a countrywide distribution network of 150 sales staff. The group is extended to four companies, all of them are operating in agriculture input business. The company’s turnover is growing, with contribution from each segment, while pesticide business remains predominant in terms of revenue. Governance structure necessitates need for improvement. In its initial years of operations, Aggrio is marking its presence in the market through operational efficacy. The performance of pesticides sector hinges on the stability of its principal sector – Agriculture. During the period under review, the outbreak of COVID—19 pandemic has created a widespread impact on all economic sectors at different levels. The effect on pesticides sector is, however, mitigated with controlled situation in China (Supplier Country) leading to no shipment delays. On the demand side, the vitality of pesticides for food security leads to no major demand slippage in the country. Aggrio meets its working capital requirements through a mix of internal cash flows and short term borrowings. Financial discipline calls for substantial improvements, including timely preparation of quarterly accounts.

The ratings are dependent on sustained business and financial strength of the owners. Meanwhile, improved governance and financial practices are essential.

Disclosure

Name of Rated Entity	Aggrio Pakistan (Pvt.) Limited
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),Criteria Rating Modifier(Jun-19)
Related Research	Sector Study Pesticides(Feb-20)
Rating Analysts	Bazahtul Qamar bazahtul.qamar@pacra.com +92-42-35869504

Profile

Legal Structure Aggrio Pakistan Pvt. Limited (Under Edge Group) was incorporated as a private Limited in 2016, through a privatization process.

Background The Edge Group was formally established in year 2011. There are four companies under its domain; Pak Farming Care, Biz care International and ChemCo Global Pvt. Limited and Aggrio Pakistan Pvt. Limited, all are in agriculture inputs business.

Operations Aggrio Pakistan's operations involve formulation and marketing of pesticides, seeds and fertilizers, having a country wide sales network with a sales team of 150 staff members. The Company has geographical presence in North, Central and South parts of the country with major concentration in the south region.

Ownership

Ownership Structure Aggrio Pakistan Pvt. Limited is owned by individuals, two brothers, Mr. Hamid Raza and Mr. Husnain Raza; each holds 50% share in the company.

Stability Mr. Hamid are four brothers. Mr. Husnain accompanies Mr. Hamid in business while other brothers are working in related businesses. Mr. Hamid's elder brother oversees the operations of Pak Farming care.

Business Acumen Mr. Hamid and Mr. Husnain are in the agriculture business for more than 18 years. Mr. Hamid also have ~50% shareholding in Pak Farming Care.

Financial Strength Company's equity and share capital as at September-19 stood at PKR ~108mln and PKR ~3mln respectively

Governance

Board Structure Aggrio Pakistan board structure is formulated with two members, who are also the owners of the company. Mr Hamid and Mr Husnain.

Members' Profile Mr Hamid Raza is the Chief Executive officer and Director of the Company. He also holds the 18 years business experience in Pesticides & Fertilizer Industry. He also owns Agricultural land for farming and seed growing in Lodhran District.

Board Effectiveness The Board of Directors meets regularly in every quarter. Absence of independent oversight poses concerns over company's governance structure

Financial Transparency The auditors of the Company, Waqas & Co. Chartered Accountants, not a member of SBP panel 2017 and QCR list, expressed an unqualified opinion on the financial statements of the Company for Sept-19. Hence Company's financial transparency needs improvement

Management

Organizational Structure Company has a lean structure where all departments report to the company's CEO. Sales and marketing department has segregated roles and defined hierarchy where managers' report to the General Manager who is reporting to the board of directors.

Management Team Aggrio Pakistan has experienced and professional management, with long association with the Company. Company's management profile is majorly led by the sponsor directors. Mr Husnain- Director, specifically deals in procurement of stock, logistics & operational matters of the factory.

Effectiveness An Executive Committees is formally in place and meets as per requirement to discuss pertinent matters of the Company. Minutes of these meetings are documented as per requirement.

MIS To observe and evaluate the business activity, a customized software is installed. This generates production sheets reviewed by departmental heads and are then submitted to the CEO. However, monthly reports are also generated as per requirement.

Control Environment To ensure operational efficiency, the Company has setup an internal audit function, which implements and monitors the policies and procedures of the Company. Head of Internal Audit reports to the Company's CEO. Company's control environment is considered weak as the sponsors are the board members and also involved in the company's operations.

Business Risk

Industry Dynamics Pakistan's agriculture sector plays a central role in the economy as it contributes 18.9% to GDP. Better yields of agriculture inputs are dependent on various factor and Pesticide is one part of it. The use of Pesticide during the crop season marks inevitable importance in agricultural dimension. Size of crop protection market is estimated around PKR~60-75bln. Pakistan pesticide market is import dependent, with 20% - 30% of the pesticide cost component (active ingredients/technical material) being imported to the country, majorly from China (above 90%).

Relative Position Crop protection industry of Pakistan has small contribution towards the GDP growth but its essentiality in agriculture sector is pivotal. Competition level has increased over the period as the agriculture sector is growing. Top five major players that accounts for ~75% of the market share include I) Bayer Cropscience ii) Syngenta International iii) ICI Pakistan iv) four Brothers Chemicals and v) FMC, Company has built its infrastructure to maintain a competitive edge over our competitors by being focused on technology and innovation to meet customer expectations.

Revenues The topline of the company witnessed a rising trend specifically in contrast to its first year of operations. The topline exacerbated by ~45% in Sept-19, stood at PKR 1,171mln in Sept-19 (Sept-18: PKR 810mln, Sept-17: PKR 310mln).

Margins Aggrio is heavily reliant on imports in comparison to the industry players, which makes company's cost of purchases high accordingly, eventually bringing down the gross profit to PKR 124mln in Sept-19 (Sept-18: PKR 79mln). Finance cost of the company has been on the lower edge since the time of establishment. As the pesticide sector is exempt from GST, tax expense is minimal. Net profit of the company stood at PKR 51mln in Sept-19 (Sept-18: PKR 47mln).

Sustainability Company's present focus is to enhance its business avenues, through capture the fertilizer market, which is expected to be achieved through new manufacturing unit. Moreover, company plans to expand in to export business. Aggrio's management also aims to provide complete solutions to facilitate farmers It plans to establish farmer help centers to facilitate soil testing, disease diagnosis and expert guidance to enable increased production.

Financial Risk

Working Capital Aggrio has a concise working capital cycle mainly fuelled by the inventory days. Net working capital cycle of the company stood at 35daysfor Sept-19(Sept-18: 21 days). Receivable days are aptly managed through mix of credit sale cash sales and advances.

Coverages Aggrio's overall coverages remained good, mainly driven by the profits earned and low finance cost. Company's both debt service ratio and interest coverage remained same; Sept19; 11.8x, FCFO remained nearly close to the PBIT at 80: 58:10 for the period of Sept19, Sept-18, Sept-17 respectively.

Capitalization Aggrio's capital structure composites include short term borrowings and equity. There is no long term loan on company's book. The total approved facility is PKR 120mln from JS bank. The total facility has credit lines of LC, Running finance and FATR (PKR 60mln). The debt to equity ratio took a jump in Sept-19 (~67%) as the drawdowns were made.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Aggrio Pakistan Pvt Limited ##	Sep-19 12M	Sep-18 12M	Sep-17 12M
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A BALANCE SHEET

1 Non-Current Assets	192	1	1
2 Investments	-	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	175	114	9
a Inventories	114	78	6
b Trade Receivables	32	20	1
5 Total Assets	367	115	10
6 Current Liabilities	38	19	0
a Trade Payables	12	10	0
7 Borrowings	71	39	-
8 Related Party Exposure	150	-	-
9 Non-Current Liabilities	-	-	-
10 Net Assets	108	57	10
11 Shareholders' Equity	108	57	10

B INCOME STATEMENT

1 Sales	1,171	810	310
a Cost of Good Sold	(1,047)	(732)	(282)
2 Gross Profit	124	79	28
a Operating Expenses	(40)	(21)	(18)
3 Operating Profit	84	58	10
a Non Operating Income or (Expense)	-	-	-
4 Profit or (Loss) before Interest and Tax	84	58	10
a Total Finance Cost	(7)	(2)	-
b Taxation	(26)	(9)	(2)
6 Net Income Or (Loss)	51	47	7

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	93	58	10
b Net Cash from Operating Activities before Working Capital Changes	87	56	10
c Changes in Working Capital	(22)	(87)	(8)
1 Net Cash provided by Operating Activities	65	(31)	2
2 Net Cash (Used in) or Available From Investing Activities	(209)	-	(1)
3 Net Cash (Used in) or Available From Financing Activities	150	33	3
4 Net Cash generated or (Used) during the period	6	2	3

D RATIO ANALYSIS

1 Performance			
a Sales Growth (for the period)	44.5%	161.2%	--
b Gross Profit Margin	10.6%	9.7%	9.1%
c Net Profit Margin	4.4%	5.8%	2.4%
d Cash Conversion Efficiency (EBITDA/Sales)	8.7%	7.2%	3.2%
e Return on Equity (ROE)	61.8%	140.9%	74.7%
2 Working Capital Management			
a Gross Working Capital (Average Days)	38	24	8
b Net Working Capital (Average Days)	35	21	8
c Current Ratio (Total Current Assets/Total Current Liabilities)	4.6	6.1	34.1
3 Coverages			
a EBITDA / Finance Cost	15.1	30.6	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	13.8	30.6	N/A
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.7	0.0	0.0
4 Capital Structure (Total Debt/Total Debt+Equity)			
a Total Borrowings / Total Borrowings+Equity	67.2%	40.8%	0.0%
b Interest or Markup Payable (Days)	0.0	0.0	N/A
c Average Borrowing Rate	5.2%	4.8%	N/A

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):

<p>Entities</p> <ul style="list-style-type: none"> 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 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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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

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- (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)

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