The Pakistan Credit Rating Agency Limited

Rating Report

Asif Rice Mills

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Apr-2023	BBB+	A2	Stable	Maintain	-
22-Apr-2022	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. The segment contributes about 3.5% in agriculture value addition and 0.7% to GDP. Local consumption includes ~95% of basmati rice and ~5% non-basmati. During FY22, rice crop area increased to ~3.4mln Hec (FY21: ~3.3mln Hec), reflecting an increase of ~3%. Rice production increased by ~6%, standing at ~8.9mln MT in FY22 (FY21: ~8.4mln MT). New higher-yielding hybrid rice varieties, improved agronomic practices, and increased planting area, as farmers shift out of cotton, are factors driving the increased production. Around ~4mln MT of rice is consumed locally, while, the remaining is exported. During FY22, Pakistan exports increased to ~USD 2.5bln (FY21: ~USD 2bln). Moreover, 2022 floods have caused an average of ~20% - 25% total crop loss. Thus, impacting the industry’s overall topline. However, rupee depreciation may provide some cushion. With an increase in the policy rate and resultantly, ERF, bottom line may also erode. Industry's overall margins and cashflows may become stretched. Industry poses a developing outlook for the ongoing year.
The ratings reflect Asif Rice Mill's ('the Business') prominent position in the rice exporter's segment of the country. The Business has enhanced its capacity over the years leading to improved financial performance. Asif Rice strategizes on a diverse customer base across regions and therefore, has the comparative edge. Revenues posted a sluggish trend; while, margins and profitability remains adequate. The Business benefited from its strong relative position amidst lower crop availability and shipping challenges to exporters. The Business has also diversified its product base, which is expected to remain beneficial in the long-term. The Business financial risk profile is characterized by adequate working capital management support by considerable borrowing cushion, along with strong debt cover and capital structure braced by revaluation surplus. Sponsors' invested efforts reflecting in the development of corporate culture through enhanced business practices and direct involvement in key functions of the Business would be beneficial for the ratings.

The ratings are dependent upon sustenance of business volumes under the current challenges in the local economy. Moreover, as global economy undergoes distress, business sustainability emerges as the key challenge for the exporters. Meanwhile, keeping up with a stable financial risk profile, particularly debt servicing capacity, remains imperative for ratings.

Disclosure

Name of Rated Entity	Asif Rice Mills
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Rice(Oct-22)
Rating Analysts	Shujat Ehsanullah Wasim | Shujat.Ehsan@pacra.com | +92-42-35869504

Profile

Legal Structure Asif Rice Mills (‘Asif Rice’ or ‘the Business’) was incorporated in 2006 as an Association of Persons (AoP)

Background Mr. Mumtaz Ali joined his family business in 1960s and laid the foundations for Asif Rice Mills by expanding the processing capacity. Capacity enhancement and installation of new machinery including rice husking machines and parboiling machines over the years led to the prominence of the Business in the rice exporter's segment of the country.

Operations Asif Rice is primarily engaged in processing semi-processed variants of non-basmati rice and limited quantities of basmati rice and exporting it to China, Fareast Asia, Europe, and Africa. Asif Rice, currently, is one of the leading rice exporters of the country, and having processing capacity of 60MT per hour. The Business has also ventured into exporting maize, which is in its initial gestation phases.

Ownership

Ownership Structure Major ownership of the Business resides with the sons of Mr. Mumtaz Ali. Mr. Asif Ali Shaikh holds ~34% shareholding, while Mr. Hanif Shaikh and Mr. Kashif Mumtaz hold ~33% each.

Stability The Business is completely owned by the sponsoring family and the structure is seen as stable.

Business Acumen Mr. Asif Ali Shaikh and his family have been involved in the rice export business for over 3 decades and have witnessed multiple business cycles.

Financial Strength The sponsors hold sufficient net worth to support the Business in times of distress.

Governance

Board Structure The Business, being an AoP, is currently governed by three Directors. However, formal structure is not in place.

Members’ Profile Mr. Asif Ali Shaikh is the CEO; while the other sponsoring individuals, Mr. Kashif Mumtaz holds an overall experience of a decade, and Mr. Hanif Shaikh holds an overall experience of almost two decades, serve as Directors of Sales and Procurement, respectively.

Board Effectiveness Being an AoP, formal Board structure is not present in Asif Rice.

Financial Transparency The external auditors of the Company, Alam & Aulakh Chartered Accountants, have expressed an unqualified opinion on the financial statements of the Company for the year ended Jun-22. The firm is QCR rated but not in SBP’s panel of auditors.

Management

Organizational Structure The Business has a linear organizational structure and operates mainly through Production, Sales, Procurement, and Finance functions. All functional heads reports to the CEO, who then makes pertinent decisions.

Management Team Mr. Asif Ali, the CEO, has been associated with the Business since inception and has over two decades of experience in rice, commodity trading, and real estate segments.

Effectiveness There are no management committees in place. Management meets on need basis to ensure efficiency of the Business’s operations.

MIS The Business has recently implemented an ERP system for reporting purposes.

Control Environment The Business has a formal internal audit function that helps to ensure compliance with the policies and procedures.

Business Risk

Industry Dynamics Rice is among the five major crops of Pakistan and is the second main staple food, after wheat. The segment contributes about 3.5% in agriculture value addition and 0.7% to GDP. Local consumption includes ~95% of basmati rice and ~5% non-basmati. During FY22, rice crop area increased to ~3.4mln Hec (FY21: ~3.3mln Hec), reflecting an increase of ~3%. Rice production increased by ~6%, standing at ~8.9mln MT in FY22 (FY21: ~8.4mln MT). New higher yielding hybrid rice varieties, improved agronomic practices, and increased planting area, as farmers shift out of cotton, are factors driving the increased production. Around ~4mln MT of rice is consumed locally, while, the remaining is exported. During FY22, Pakistan exports increased to ~USD 2.5bln (FY21: ~USD 2bln). Moreover, 2022 floods have caused 10-15% crop loss in Punjab region, meanwhile Sindh region encountered 35-40% crop loss. On average the total crop loss is ~25% and the same will be reflected in the financials of rice players in the market during FY23, ultimately affecting the industry’s overall topline. The rupee depreciation is anticipated to compensate for the reduction in export volumes. However, with an increase in the policy rate and lately, in ERF rate, the interest cost is likely to be impacted. Cashflows and coverages of the industry may become stretched. Due to the current economic scenario, the outlook of the industry seems to be developing, going forward.

Relative Position The Business is one of the leading players in the country’s rice exporters market

Revenues The Business mainly generates revenue by exporting non-basmati variants of rice ~85% (IRRI-6, PK- 386, Broken 100%) and basmati ~15% (Kainat 1121) to China, Far-east Asia, Europe, and Africa. During 6MFY23, the Business generated revenue of ~ PKR 6,817mln, witnessing ~24% decrease (6MFY22: ~PKR 8.958mln) due to the crop loss caused by the floods. The impact of low volumetric sales may stabilize due to rupee devaluation, going forward.

Margins The Business is exposed to price changes risk due to export-oriented nature. During 6MFY23, gross margin increased YoY and stood at ~25% (6MFY22: ~9.6%) mainly due better price charged and rupee devaluation. Operating margins remain stable (6MFY23: 5%, 6MFY22: ~4%). At net level, the Company’s net income stood at PKR 281mln during 6MFY23 (6FY22: PKR 251mln) witnessing adequate growth YoY resulting in stable net profit margin of ~4%. The margins are expected to stretch due to significantly high procurement cost, going forward.

Sustainability The sponsors are planning to enhance the capacity of the rice mill, going forward.

Financial Risk

Working Capital The Business’s working capital management is supported through short-term Export Refinancing Facility - Part II. The Business’s inventory days have remained minimal as the Business does not hold any inventory. The payable days of the Business decreased to 18 days in 6MFY23 from 21 days in 6MFY22. Overall, the Company’s net cash cycle stood at 36 days in 6MFY23 (6MFY22: -9 days). The Business borrowing cushion has improved, however, remains limited. Going forward, working cycle may stretch further.

Coverages The Business debt cover has remained strong through the years based on higher free cash flows and lower finance costs. Free cash flows stood at PKR 298mln in 6MFY23 (6MFY22: PKR 273mln) due to better profitability. The finance cost stood at PKR 18mln in 6MFY23 (6MFY22: PKR 12mln) due to increase in the interest rates lately. This led the interest cover to dip (6MFY23: 16.4x, 6MFY22: 22.9x). Core and Total cover improved (6MFY23: 16.4x, 6MFY22: 0.3x) due to improvement in excess borrowings. The coverage ratios are expected to stretch due to lower profitability, going forward.

Capitalization Total debt of the Business primarily (~92% of total debt) comprises short-term ERF facility- Part II. Total debt of the Business stood at PKR 2,905mln as at 6MFY23 (6MFY22: 2,486mln) against an improved equity base of PKR ~5,889mln (6MFY22: PKR 1,829mln), due to revaluation surplus of PKR 3,415mln. This led the leveraging to improve and holds a moderate standing (6MFY23: ~33%, 6MFY22: ~58%). Going forward, capital structure is expected to stretch so as to support the the working capital requirement.

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Financial Summary
PKR mln

Asif Rice Mills Agriculture & Allied	Dec-22 6M	Jun-22 12M	Dec-21 6M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET					
1 Non-Current Assets	4,390	4,390	3,474	3,484	307
2 Investments	-	-	-	-	-
3 Related Party Exposure	-	-	-	-	-
4 Current Assets	5,666	8,688	2,052	1,406	388
a Inventories	*2,059*	*3,288*	*161*	*185*	*114*
b Trade Receivables	*958*	*3,065*	*933*	*209*	*105*
5 Total Assets	10,056	13,078	5,526	4,890	695
6 Current Liabilities	1,261	1,846	1,211	920	-
a Trade Payables	*548*	*802*	*1,176*	*879*	-
7 Borrowings	2,905	5,342	2,486	663	-
8 Related Party Exposure	-	-	-	-	-
9 Non-Current Liabilities	-	-	-	-	-
10 Net Assets	5,889	5,889	1,829	3,307	695
11 Shareholders' Equity	5,889	5,889	1,829	3,307	695
B INCOME STATEMENT					
1 Sales	6,817	28,975	8,958	10,328	5,956
a Cost of Good Sold	*(5,093)*	*(24,732)*	*(8,095)*	*(9,344)*	*(5,188)*
2 Gross Profit	1,724	4,243	863	985	768
a Operating Expenses	(1,355)	(3,089)	(497)	(574)	(472)
3 Operating Profit	369	1,154	366	411	296
a Non Operating Income or (Expense)	-	*37*	-	-	-
4 Profit or (Loss) before Interest and Tax	369	1,191	366	411	296
a Total Finance Cost	*(20)*	*(70)*	*(12)*	*(12)*	*(1)*
b Taxation	*(68)*	*(291)*	*(103)*	*(103)*	*(60)*
6 Net Income Or (Loss)	281	831	251	296	236
C CASH FLOW STATEMENT					
a Free Cash Flows from Operations (FCFO)	*298*	*921*	*273*	*330*	*256*
b Net Cash from Operating Activities before Working Capital Changes	*278*	*851*	*261*	*318*	*256*
c Changes in Working Capital	*3,130*	*(4,699)*	*455*	*(128)*	*(71)*
1 Net Cash provided by Operating Activities	3,408	(3,847)	715	190	185
2 Net Cash (Used in) or Available From Investing Activities	-	(11)	-	-	-
3 Net Cash (Used in) or Available From Financing Activities	(2,715)	4,651	1,804	644	(78)
4 Net Cash generated or (Used) during the period	693	793	2,520	834	107
D RATIO ANALYSIS					
1 Performance					
a Sales Growth (for the period)	-52.9%	180.5%	73.5%	73.4%	1.3%
b Gross Profit Margin	25.3%	14.6%	9.6%	9.5%	12.9%
c Net Profit Margin	4.1%	2.9%	2.8%	2.9%	4.0%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	50.3%	-13.0%	8.1%	2.0%	3.1%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	9.5%	18.1%	19.5%	14.8%	38.3%
2 Working Capital Management					
a Gross Working Capital (Average Days)	54	21	12	6	3
b Net Working Capital (Average Days)	36	10	-9	-26	3
c Current Ratio (Current Assets / Current Liabilities)	4.5	4.7	1.7	1.5	N/A
3 Coverages					
a EBITDA / Finance Cost	20.2	19.2	31.5	36.3	544.8
b FCFO / Finance Cost+CMLTB+Excess STB	16.4	14.3	0.3	1.7	442.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.8	0.5	3.2	0.6	0.0
4 Capital Structure					
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	33.0%	47.6%	57.6%	16.7%	0.0%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	1.1%	2.3%	1.2%	1.8%	--

Credit Rating

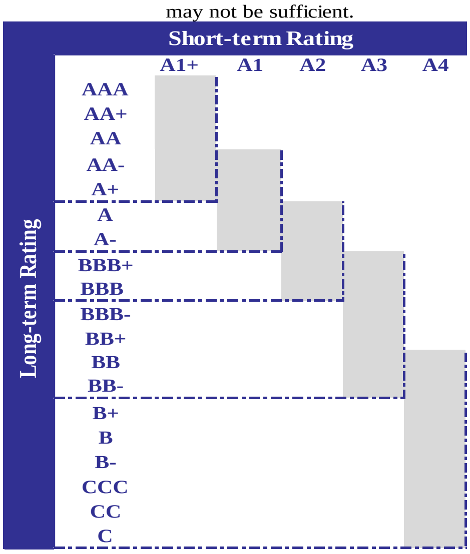
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies 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

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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 | Clause 11-(A)(p).
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(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)
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(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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