



The Pakistan Credit Rating Agency Limited

## ENTITY RATINGS REPORT

### SAYBAN INTERNATIONAL

ENTITY	RATINGS	OUTLOOK	ACTION
Sayban International	Long Term: BB+ Short Term: A3	Stable	Initial

#### RATING RATIONALE

Sayban operates in three segments: i) pesticides ii) seeds and bio fertilizer. Sayban is a leading player in the first segment. Sayban has also led the introduction of bio fertilizer in Pakistan. The Company has a sizeable turnover, with contribution of each segment, though pesticides is predominant in terms of revenue. Profitability of the company is sanguine. Sayban maintained its market presence with controlled cost, good EBITDA margins and improved profitability. The company is now making efforts for joint venture with Chinese investor which will help company to improve its market share amidst the large fragmented industry. Sayban is still a partnership yet in short period it will be converted into a private limited company. The governing structure is expected to improve as Sayban moves towards corporate structure. Company meets working capital requirements through a mix of internal cashflows and STBs. However, the financial risk remains good on account of low leveraged capital structure and adequate coverages. Going forward, the sustenance in bottom-line and cash flows, formalizing the governance and financial transparency is vital.

#### KEY RATING DRIVER

The ratings are dependent on sustained business and financial profile of the company. Any deterioration to margins and/or cash flows remains critical to the ratings.

#### Report Contents

1. Rating Analyses
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

SAYBAN INTERNATIONAL PROFILE	
<b>Incorporated</b>	2005
<b>Major Business</b>	<ul style="list-style-type: none"> <li>Formulation and sale of Pesticides, manufacturing of PGR (Bio gas) and sales of Hybrid Seeds (Rice)</li> </ul>
<b>Legal Status</b>	Unlisted
<b>Head Office</b>	Lahore

INDUSTRY SNAPSHOT
<p>Agriculture is the largest sector of Pakistan's economy accounting for over 19.53% of GDP. Over 75% of pesticides consumption is in Punjab, followed by 22% in Sindh. The pesticides market is estimated ~PKR 60bln while the seeds market is undocumented but the size is 3x more than a pesticide market. Currently 80% of the market share is held by top 8 players.</p>

OWNERSHIP	ADEQUATE
<ul style="list-style-type: none"> <li>Sayban currently owned by 7 individuals those are acquaintances except of the two brothers. Ownership restructuring is in process.</li> <li>Sayban Zarai Markaz (Pvt.) Limited has been formed to acquire the Sayban International after restructuring the ownership.</li> <li>Major shareholding will move to Mr. Muhammad Azam Cheema and Mr. Shamsher Hussain each 44.18%.</li> </ul>	
GOVERNANCE	NEEDS IMPROVEMENT
<ul style="list-style-type: none"> <li>Sayban, as a partnership, does not have a formal BOD structure. The Company is being run by Partners; they have their repetitive roles in the management of the Company. Currently Mr. Azam Cheema is looking after Sayban.</li> <li>According to the current restructuring going on there will be only 3 partners (existing 7), each of them will be engaged in management.</li> <li>The overall board structure is weak with no independent director. Financial transparency needs improvement.</li> </ul>	
MANAGEMENT	ADEQUATE
<ul style="list-style-type: none"> <li>Mr. Muhammad Azam Cheema is the Chairman &amp; CEO of the company. He has done hi MSc Hon's Agriculture Agronomy from University of Agriculture Faisalabad.</li> <li>He carries over two decades of experience in different industries. All the functions report into CEO, however key strategic decision of admin, finance and production division lies with him.</li> <li>The CEO is supported experienced management team; a balanced blend of professional people from the industry. Majority of the senior management is associated with the Company for a long time.</li> </ul>	
SYSTEMS & CONTROLS	NEEDS IMPROVEMENT
<ul style="list-style-type: none"> <li>Sayban has deployed an M/s Genie Clique, a software developer based in Multan with a particular focus on the pesticides industry.</li> <li>Moreover, there is a Share Point Portal (SPP) Oracle data base that enables information from all group companies to be viewed on a single page, on real time basis. Company needs to develop proper ERP System.</li> </ul>	
PERFORMANCE	GOOD
<ul style="list-style-type: none"> <li>During 3QCY17, the topline of the Company increased by ~28%, simultaneously improving the gross margins (3QCY17: 27.5%, CY16:29.2%; 3QCY16: 25.9%). This was mainly attributed to (i) Seasonality impact (ii) 60% of the sales are on cash basis. The insecticide sales were on the top (34.4%) during 3QCY17 (CY16: 32%; CY15: 29.6%).</li> <li>With regards to manufactured product mix, insecticides category remains the top selling product followed by PGR (21.2%) and Hybrid Seeds (14.2%). 70% of Company's focus is on pesticides division. Company's business cycle moves with the cotton cycle.</li> <li>Witnessing an improving gross profit, the pre-tax loss amounted to PKR 309mln (CY16: PKR 278mln; 3QCY16: PKR 231mln). The finance cost witnessed a rise on YOY basis due to increase borrowing (3QCY17: PKR 84mln, CY16: PKR 34mln; 3QCY16: PKR 12mln).</li> <li>The net profit of Sayban was recorded at PKR 298mln in slightly improved contrast to the profit in previous year (CY16: PKR 265mln; 3QCY16: PKR 213mln).</li> <li>Going forward, Sayban established a plant at Multan road with a vision to capture any future extension which is on the verge due to the completion of CPEC. Company is also in discussions with Chinese to convert this facility into a joint venture with renowned manufacturers of Agro Chemicals. Going forward Company will focus on fertilizer and PGR growth.</li> </ul>	
FINANCIAL RISK	GOOD
<ul style="list-style-type: none"> <li>During CY16, Sayban working capital requirements are a function of net cash cycle – a function of inventory, receivables and payables – increased to 80days (end-Dec15: 42days). This is on account of increase in debtor days – payment starts mostly after June. The company meets working capital requirements through a mix of internal cashflows and STBs. STBs stood at PKR 90mln at end-Dec16.</li> <li>During CY16, the long term debt was at PKR 34mln (end-Dec15: PKR 24mln). Out of the total borrowing, PKR 550mln is non funded. Total debt to debt plus equity ratio increased at 10.9% (3QCY17: 19.4%; end-Dec15: 4.9%).</li> <li>During 3QCY17 EBITDA remained high at PKR 362mln; hence increased FCFO at PKR 337mln. Hence, interest coverage and core coverage are at high level to 28x and 26x.</li> <li>Short term borrowings stand at PKR 243bln which are increased during 3QCY17; there is still room to borrow.</li> </ul>	



**Sayban International**

BALANCE SHEET	30-Sep-17	30-Dec-16	30-Sep-16	31-Dec-15	30-Dec-14
	9M	Annual	9M	Annual	Annual
<b>Non-Current Assets</b>	<b>348</b>	<b>287</b>	<b>261</b>	<b>103</b>	<b>65</b>
<b>Investments (Incl. Associates)</b>	-	-	-	-	-
Equity	-	-	-	-	-
Debt Securities	-	-	-	-	-
Investment Property	-	-	-	-	-
<b>Current Assets</b>	<b>1,767</b>	<b>1,396</b>	<b>1,587</b>	<b>1,340</b>	<b>1,253</b>
Inventory	473	381	517	281	299
Trade Receivables	928	734	881	778	560
Others	367	281	190	281	394
<b>Total Assets</b>	<b>2,115</b>	<b>1,683</b>	<b>1,848</b>	<b>1,443</b>	<b>1,317</b>
<b>Debt</b>	<b>346</b>	<b>157</b>	<b>128</b>	<b>60</b>	<b>35</b>
Short-Term	243	90	67	-	-
Long-term (Incl. Current Maturity of Long-Term Debt)	103	68	61	60	35
Other Short-Term Liabilities	334	239	255	114	145
Other Long-Term Liabilities	-	-	-	-	-
<b>Shareholder's Equity</b>	<b>1,435</b>	<b>1,287</b>	<b>1,465</b>	<b>1,270</b>	<b>1,138</b>
<b>Total Liabilities &amp; Equity</b>	<b>2,115</b>	<b>1,683</b>	<b>1,848</b>	<b>1,443</b>	<b>1,317</b>

**INCOME STATEMENT**

<b>Turnover</b>	<b>2,350</b>	<b>2,313</b>	<b>1,822</b>	<b>2,211</b>	<b>2,100</b>
Gross Profit	645	676	472	667	627
Other Income	3	11	1	1	1
Financial Charges	(13)	(15)	(8)	(19)	(29)
<b>Net Income</b>	<b>298</b>	<b>265</b>	<b>213</b>	<b>282</b>	<b>259</b>

**Cashflow Statement**

EBITDA	362	326	260	334	315
Free Cashflow from Operations (FCFO)	337	315	249	323	305
Net Cash changes in Working Capital	(279)	66	(76)	(150)	(101)
Net Cash from Operating Activities	45	366	165	154	174
Net Cash from Investing Activities	(34)	(164)	(149)	1	35
Net Cash from Financing Activities	140	44	38	(37)	(86)
Net Cash Generated during the period	151	247	54	119	123

**Ratio Analysis**

**Performance**

Turnover Growth (same period last year)	29.0%	4.6%	29.0%	5.3%	n.a
Gross Margin	27.5%	29.2%	25.9%	30.1%	29.8%
Net Margin	12.7%	11.5%	11.7%	12.8%	12.3%
ROE	23.1%	22.2%	21.7%	23.2%	22.8%

**Coverages**

Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	12.4	6.5	5.6	6.0	6.4
Interest Coverage (x) (FCFO/Gross Interest)	26.0	21.1	30.4	17.4	10.6
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Term Borrow	0.2	0.2	0.2	0.2	0.1

**Liquidity**

Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	66	80	39	42	148
--	----	----	----	----	-----

<b>Capital Structure</b> (Total Debt/Total Debt+Equity)	19%	11%	8%	4%	3%
---	-----	-----	----	----	----

## 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.

<b>LONG TERM RATINGS</b>		<b>SHORT TERM RATINGS</b>
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<p><b>A1+:</b> The highest capacity for timely repayment.</p> <p><b>A1:</b> A strong capacity for timely repayment.</p> <p><b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>C:</b> An inadequate capacity to ensure timely repayment.</p>
<b>AA+</b>	<b>Very high credit quality.</b> Very low expectation of credit risk.	
<b>AA</b>	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
<b>AA-</b>		
<b>A+</b>	<b>High credit quality.</b> Low expectation of credit risk.	
<b>A</b>	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>A-</b>		
<b>BBB+</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk.	
<b>BBB</b>	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>BBB-</b>		
<b>BB+</b>	<b>Moderate risk.</b> Possibility of credit risk developing.	
<b>BB</b>	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>BB-</b>		
<b>B+</b>	<b>High credit risk.</b>	
<b>B</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>B-</b>		
<b>CCC</b>	<b>Very high credit risk.</b> Substantial credit risk	
<b>CC</b>	“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>C</b>		
<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

**Disclaimer:** PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.



[Rated Entity](#)

**Entity**  
**Sector**  
**Type of Relationship**

Sayban International  
Agricultural Products  
Solicited

[Purpose of the Rating](#)

Independent Risk Assessment

[Rating History](#)

Notification Date	LT Rating	ST Rating	Action	Outlook
30-Dec-17	BB+	A3	Initial	Stable

[Related Criteria and Research](#)

[Methodology](#)  
[Sector Research](#)

Corporate Rating Methodology  
Agriculture Input & Services

[Rating Analysts](#)

Saliha Sajid <a href="mailto:saliha.sajid@pacra.com">saliha.sajid@pacra.com</a> (92-42-35869504)	Jhangeer Hanif <a href="mailto:jhangeer@pacra.com">jhangeer@pacra.com</a> (92-42-35869504)
--	--

[Rating Team Statement](#)

**Rating Procedure**

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)

**Rating Shopping**

PACRA maintains principle of integrity in seeking rating business.

PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information.

**Conflict of Interest**

PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them.

The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest.

The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Office PACRA.

The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees

PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities.

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 ii) fee mandate - signed with the payer, which can be different from the entity.

PACRA ensures that the credit rating assigned to an entity or instrument should 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

**Surveillance**

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer.

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so.

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

**Reporting of Misconduct**

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

**Confidentiality**

PACRA has framed a confidentiality policy to prevent; abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter;

**Prohibition**

None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent. PACRA reports and ratings constitute opinions, not recommendations to buy or to sell.

[Probability of Default \(PD\)](#)

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](http://www.pacra.com)). However, actual transition of rating may not follow the pattern observed in the past.