RATING REPORT

Al Rahim Trading Co. (Private) Limited

REPORT DATE:
March 05, 2019

RATING ANALYSTS:
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RATING DETAILS		
	Initial Rating	
Rating Category	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	February 28, 2019	

COMPANY INFORMATION	
Incorporated in 1990	**External auditors:** Muhammad Farooque Dandia & Co. Chartered Accountants
	Chairman of the Board: Mr. Haji Haroon Kapadia
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Muhammad Munif Kapadia
Mrs. Bilquis Bano	
Mr. Muhammad Munaf Kapadia	
Mr. Muhammad Munif Kapadia	
Mr. Muhammad Anaf Kapadia	
Mr. Muhammad Anas Kapadia	
Mr. Anis Haroon Kapadia	
Mrs. Ghazala Rafiq	
Mrs. Fazeela	
Mrs. Sazeela Wahab Kodvavi	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (May, 2016) http://www.vis.com.pk/kc-meth.aspx

Al Rahim Trading Co. (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Al Rahim Trading Co. (Private) Limited (ATC) was incorporated in 1990. The company's foundation was laid down by the Chairman, Haji Haroon Kapadia; who is a qualified Chartered Accountant. The principal activity of the company is provision of liquid bulk storage facilities for Chemicals, Petrochemicals, Petroleum products and Sugar Cane Molasses/Ethanol etc.

Shareholding pattern of the company demonstrates that it is a family owned business with holding concentrated between children of Mr. Haji Haroon Kapadia.

Group & Company Profile

Al Rahim Trading Co. (Private) Limited (ATC) is a part of the Al Rahim Group (ARG) of Companies which has diversified presence in the liquid storage, trading business of chemicals, petrochemicals and petroleum products, oil marketing, printing & packaging, gas and control atmosphere storage sectors. Installed terminal storage capacity of the group stands at around 180,000 MT at Keamari Port.

ATC is the flagship company of the ARG. Key operating segments of the company include liquid bulk storage facilities, and import & export trading of chemicals, petrochemicals, petroleum products, and sugar cane molasses/Ethanol. ATC is also amongst the leading commercial importers of petrochemicals in the private sector. At end-June'2018, around one-fifth of the total asset base of ATC comprises investments and advances to associated companies. Other major components of the asset base include trade debtors, stocks held for import and export business and liquid investments.

Storage Segment

Installed storage capacity of ATC stands at 33,477 MT (39.5m KL) comprising a total of 27 tanks at Keamari Port, Karachi. The company has direct pipelines at all oil-piers at the berth through which the liquid products are loaded. The terminal also has tank lorry unloading facility with two decantation points to unload petrochemicals vehicles. Moreover, the storage terminal has dedicated loading gantries for petrochemicals and petroleum products with four filling points. Within this ATC provides storage / liquid cargo handling services to Chemicals, Petro-chemicals and Petroleum Products. Billing to clients is undertaken based on two modes i.e. dedicated capacity basis (fixed monthly billing) and product turnover basis (fixed & variable billing). As per management, the terminal has been operating at near full capacity for the past four years. Top five customers contribute around one-half to the revenue from storage services indicating client concentration. Large clients are from the OMC, ethanol and chemical sectors.

Revenue from storage services was reported at Rs. 299m (FY17: Rs. 379m) during FY18 witnessing a decline largely on account of higher billing based on dedicated capacity basis. Revenues have depicted a noticeable jump to Rs. 243.9m in 1HFY19 due to increase in business volumes generated through OMCs which is based on product turnover basis.

Export Trading

ATC also deals in exports of petrochemical products, chemicals and molasses. Product and client concentration in the export segment is on the higher side with major product sales comprising Naphtha and Molasses. The Company has back to back arrangement for export of Naphtha where the company has a contract for 2 years. Revenue from exports was recorded at Rs. 6.5b (FY17: Rs. 4.3b) witnessing an increase of 51% during FY18. Increase was facilitated by both higher volumes and rupee depreciation. Contribution of this segment's income in the company's total revenues increased to 63% (FY17: 38%) during FY18. Revenues from this segment are exposed to significant client concentration. Going forward, revenues from export segment are projected to continue to grow. Profitability is linked to volumes generated and margin is based on dollar per tonne.

Import Trading

ATC also deals in import of various chemicals and petrochemicals. Product and client concentration in import segment is on the higher side with major products comprising Hexane and Xylene. Top clients include companies in the food and oil extraction sector. Revenue from the imports segment was reported at Rs. 424m (FY17: Rs. 1,040m) witnessing a decline of 59% during FY18 primarily on account of lower business activity due to currency devaluation and imposition of duties on various raw materials. This segment's income contributes around 15% (FY17: 16%) to total revenue generated during FY18. Given the challenging operating environment for imports, revenues from this segment are expected to remain under pressure. Profitability from this segment is dependent market price movements of commodities imported.

Profitability

With declining income from contractual services, import trading and commission services; total income of ATC witnessed attrition of 25% and amounted to Rs. 424m (FY17: Rs. 568m) during FY18 despite an increase in export business. The management forecasts earnings from export business and contractual services to grow in the ongoing year with income from import business projected to witness some decline vis-a-vis current level. Administrative expenses increased by 24% during FY18 due to increase in employee related cost and higher legal & professional charges. Accounting for finance cost, the Company reported profit before tax of Rs. 322m (FY17: Rs. 488.2m) in FY18. Profit after tax was reported at Rs. 214m (FY17: Rs. 363m) during FY18.

Liquidity

With lower profitability during FY18, fund flow from operations decreased to Rs. 253m (FY17: Rs. 401m); however it provides strong coverage of outstanding obligations while debt servicing ability remains healthy at 36.04x (FY17: 111.6x) at end-FY18. With current assets being higher than current liabilities, current ratio was reported at 1.88x (FY17: 2.51x) at end-June'2018. Given that most of the expansion capex has already been completed, cash flow requirements associated with the same are expected to be limited. Routine maintenance capex are planned to be funded through internal cash flows. With a number of subsidiaries currently in growth phase, cash flow requirements from investments in associate/subsidiaries are expected to remain elevated and limited dividend income is projected to materialize from the same.

Capitalization

Equity base of the company has grown on a timeline basis on account of profit retention. Given the company's philosophy of no dividend payouts and funding of capital expenditures through internally generated cash flows, gearing and leverage indicators have historically been reported on the lower side at 0.16x (FY17: Nil) and 0.82x (FY17: 0.49x) at end-June'2018. Adjusted for sizeable investment and advances to associates, gearing indicators will increase. Borrowing requirements are expected to primarily emanate to fund working capital needs for exports. However, gearing is expected to remain at conservative levels over the rating horizon.

Corporate Governance & Controls

Shareholding of the Company is held by family members with board of directors comprising 2 members. Board oversight may be enhanced through inclusion of independent directors on board and detailed discussion on future strategy and expansion plans. Management team comprises experienced professionals who have been associated with the Company for a number of years. On the audit front, ATC has an in-house internal audit department whose scope is limited to operational aspects of business. External auditors of the Company are neither on SBP panel of auditors and are also not QCR rated. The Company uses an integrated ERP using LAMP (Linux, Apache, MySQL & PHP) technology which includes modules such as accounts payable, accounts receivable, inventory, storage management and payroll. Further strengthening reports generated through the ERP is considered important.

Al Rahim Trading Co. (Private) Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**FY16**	**FY17**	**FY18**
Fixed Assets	170.9	216.0	223.5
Long Term Investment	105.4	105.4	170.4
Inventory	281.5	241.4	1094.5
Trade Debts	157.8	253.6	268.8
Investments, Advances, Prepayments and Other Receivables	364.4	630.4	693.4
Cash & Bank Balances	123.8	224.5	14.3
Total Assets	1311.2	1837.9	2635.8
Trade and Other Payables	337.1	480.9	855.8
Long Term Debt	0.0	0.0	0.0
Short Term Debt	0.0	0.0	224.6
Total Debt	0.0	0.0	224.6
Provision for Taxation	103.7	123.5	108.5
INCOME STATEMENT			
Revenue from three operating segments	3,498.7	5,690.4	7,190.6
Total Income	**443.1**	**568.3**	**424.0**
Profit Before Tax	366.5	488.2	322.0
Profit After Tax	236.6	363.1	213.6
RATIO ANALYSIS			
Proportion of income from contractual services in total income	36.6%	30.2%	18.0%
Proportion of income on import and trading in total income	15.7%	16.1%	15.4%
Proportion of income on exports in total income	29.7%	38.3%	63.1%
Proportion of commission income in total income	17.7%	14.4%	1.8%
Net Working Capital	592.5	910.0	1051.0
FFO	266.0	400.5	252.6
FFO to Total Debt (%)	NA	NA	112%
FFO to Long Term Debt (%)	NA	NA	NA
Current Ratio (x)	2.3	2.5	1.9
Debt Servicing Coverage Ratio (x)	174.2	111.6	36.0
Gearing (x)	-	-	0.16
Leverage (x)	0.51	0.49	0.82
ROAA (%)	NA	23%	10%
ROAE (%)	NA	35%	16%

ISSUE/ISSUER RATING SCALE & DEFINITION — Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	Al Rahim Trading Co. (Private) Limited
Sector	Oil Storage Industry
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	
Instrument Structure	N/A
Statement by the Rating Team	VIS, 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(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
05-Mar-2019	A-	A-2	Stable	Initial