

Matco Rice Processing (Private) Limited

Chairman and Chief Executive: Mr. Javed Ali Gbori

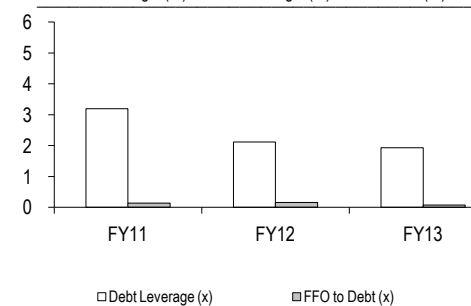
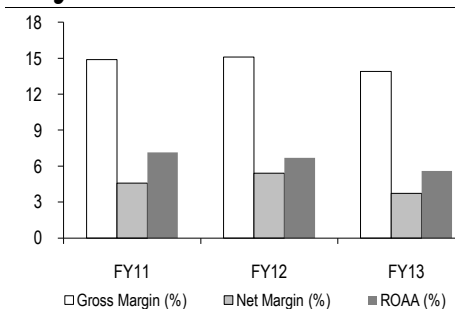
December 2, 2013

Analysts:	Amir Shafique Faiq Sattar	
Category	Latest	Previous
Entity	A-/A-2 Nov 29, '13	A-/A-2 June 15, '12
Outlook	Stable Nov 29, '13	Stable June 15, '12

Rating Rationale

The last three years have not been conducive for the Pakistani rice export industry as a sizable portion of its market share was lost to India. Historically, Pakistani basmati rice has traded at a considerable discount to Indian basmati rice; however Indian rice prices reduced on the back of subsidies provided by the Government to an extent that the price differential between the two countries stood only nominal. Given the competitive price advantage, India gained considerable international market share while also having an impact on Pakistani exports. There has nevertheless been an improvement in export performance by Pakistan during 2H13 as India's subsidized stock depleted and the price gap widened to previous levels.

Key Financial Trends



(Rs. million)	FY11	FY12	FY13
Net Sales	6147	6299	6289
Net Profit	282	341	136
Total Equity (tier-1)	1062	1843	1983
Total Borrowing	2277	2702	3077
Gearing	2.14	1.47	1.55
Debt Leverage (x)	3.19	2.12	1.95
FFO	327	425	246
FFO%Total Debt	14%	16%	8%
ROAE	30.7%	23.5%	7.1%
ROAA	8.7%	6.7%	2.4%

MATCO Rice Processing (Private) Limited (MATCO) is amongst the largest basmati rice exporters of the country. Given the competitive export market, the company was unable to post any growth in total sales, which amounted to Rs. 6.3b (FY12: Rs. 6.3b) in FY13. The company however was able to outperform the market by depicting a relatively lesser decline in comparison to its peers. Consequently, its market share in local basmati rice exports increased to 6.2% (FY12: 5.3%) with major recovery coming in 2HY13 after a sluggish performance during 1HY13. In the absence of growth in the basmati segment, MATCO's focus on non basmati variety, which is generally characterized as a low margin product while its price also remained under pressure during FY13, resulted in a decline in gross margins to 13.5% (FY12: 15.1%). The share of basmati rice in the company's total exports reduced to 59.1% (FY12: 73.2%) in terms of volumes. Going forward, MATCO is making marketing efforts to enhance sales in the Middle Eastern, European and African markets. However, any material impact in this regard has yet to be seen.

Total borrowings amounted to Rs. 3.1b (FY12: 2.7b) at end FY13. Around 92% of financing is for working capital needs while the remaining portion has been acquired for CAPEX and BMR purposes. In FY13, the company incurred CAPEX of Rs. 203m largely channeled towards expansion of plant located at Sadhoke, Punjab and up gradation of the other rice processing facility located in Karachi, Sindh. MATCO plans to make further BMR of Rs. 70m during the ongoing year mainly in lieu of warehousing facilities. Given the decline in profitability, FFO to total debt stood at a marginal 0.08x (FY12: 0.16x) in FY13. With debt being primarily short term in nature and the company also carrying sizeable amount of inventory/receivables, the company's ability to retire debt in a timely manner is considered adequate. FFO to long term debt alone stood at 1.36x (FY12: 2.2x). Future trend in this respect may need to be closely tracked. The company plans to maintain its current level of borrowings by funding additional working capital needs through internal cash generation only. Borrowings may increase if margins remain under pressure. There is no major CAPEX expected in coming years, except for regular nature BMR.

Phase-1 of the Sadhoke plant has commenced operations while its second phase is being completed under IFC equity injection plan. As per IFC's recommendations, MATCO has introduced independent directors on the Board while also constituting a separate Audit and Human Resource Committee. These initiatives have improved the governance framework and are expected to assist in the company's transition to public listing.

Overview of the Institution

Matco is 80% owned by the Ghouri Family and 20% by International Finance Corporation. Processing facilities of the company are located in Karachi and Sadhoke comprising seven production lines, translating into an annual capacity of 186,000MT. Financial Statements of FY13 have been audited by M/s Anjum Asim Shahid Rehman JCR-VIS

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: Entity</u>				
29-Nov-13	A-	Stable	A-2	Reaffirmed
15-Jun-12	A-	Stable	A-2	Upgrade
27-May-11	BBB+	Stable	A-3	Upgrade
05-Apr-10	BBB	Positive	A-3	Initial