

RATING REPORT

MATCO Foods (Pvt.) Limited

REPORT DATE:

December 31, 2015

RATING ANALYSTS:

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RATING DETAILS

| Rating Category | Latest Rating | | Previous Rating | |
|-----------------------|---------------|------------|-----------------|------------|
| | Long-term | Short-term | Long-term | Short-term |
| Entity | A- | A-2 | A- | A-2 |
| Rating Outlook | Stable | | Stable | |
| Rating Date | Dec 28, 2015 | | Dec 29, 2014 | |

COMPANY INFORMATION

| | |
|--|---|
| Incorporated in April 1990 | Auditors: Grant Thornton Anjum Rahman |
| Private Limited Company | |
| Key Shareholders (with stake 5% or more): | Chairman of the Board: Mr. Jawed Ali Ghori |
| <i>Ghori Group –80%</i> | Chief Executive Officer: Mr. Jawed Ali Ghori |
| <i>International Finance Corporation – 20%</i> | |

APPLICABLE METHODOLOGY(IES)
Methodology: *Industrial Corporates (October 2003)*
<http://www.jcrvis.com.pk/images/IndustrialCorp.pdf>

MATCO Foods (Pvt.) Limited

| OVERVIEW OF THE INSTITUTION | RATING RATIONALE |
|---|--|
| <p>MATCO Foods (Pvt.) Limited was incorporated in 1990. The company’s primary business activity involves manufacturing of rice and its by-products. Shareholding of the company is concentrated in the hands of Ghorī Group with 80% stake, while International Finance Corporation also possesses 20% stake in the company.</p> | <p>The assigned ratings to MATCO Foods (Private) Limited (MFL) incorporate the company’s position as the largest basmati rice exporter in the country having a market share of 6.5% (FY14: 7.2%) in total basmati exports. Ratings also reflect the company’s steady performance in the backdrop of a challenging operating environment given the oversupply situation and pressure on commodity prices.</p> <p>Rice industry in Pakistan is fragmented with significant number of small growers and producers. Given the industry structure, market forces determine price levels. Rice production in Pakistan stood at around 7m tons (FY14: 6.8m tons) during FY15. In quantity terms, exports stood higher at 3.73m tons (FY14: 3.36m tons); however in dollar terms rice exports were lower at \$1.85b (FY14: \$ 2.06b) due to decline in basmati rice exports where prices are significantly higher than non-basmati rice exports. Current challenges facing the industry include higher pre-harvest losses, low seed quality and comparatively higher cost of inputs. Moreover, sluggish demand and decline in prices of rice has resulted in significant rise in unsold stock for industry players. Resultantly, area under cultivation and production for FY16 is projected to decline. Inventory planning and margin management along with focus on branding and marketing would be key driver for business stability and growth.</p> <p>Top-line of the company exhibited decline in FY15 due to lower rice prices and decrease in quantity sold. Export of basmati rice represents the major portion of sales with local sales comprising almost one-fifth of total sales. Given the enhanced focus on branding, sales of company’s branded product now represent almost one-third of total sales. Concentration risk in revenues is high; the risk is partly mitigated by long standing relationship of the company with most top revenue contributing clients and MFL’s widespread geographical presence.</p> <p>Reduction in raw materials procurement costs (cost of paddy represents around 80% of total cost of sales) along with booking contracts at favorable rates translated in improved gross margins. Management expects gross margins to remain at similar levels, going forward. While overall profitability was reported lower during FY15, net profits after adjusting for exchange gains were higher, on account of improved margins. Management expects sales and gross margins to remain at similar levels during FY16. Nevertheless, improvement in profitability is expected on account of significant reduction in finance costs. Going forward, management is focused on improving return on equity by enhancing asset turnover & venturing into higher margin rice categories (organic rice), branded packaged food and value addition from by-products of rice.</p> <p>With improved margins, fund flow from operations (FFO) was reported higher during FY15. FFO of the company remains adequate to meet long term debt obligations and fund routine capex while inventory balances are higher than the outstanding short-term debt. Capitalization levels have increased over time due to internal capital generation while leverage indicators have been maintained at prior year level. Level of stock in trade has witnessed an increasing trend. Given the orders in hand, management expects inventory levels to decline. Resultantly, utilization of short-term borrowing is also expected to be lower during FY16.</p> |

MATCO Foods (Private) Limited**Appendix I**

| FINANCIAL SUMMARY | | | |
|---|---------------|---------------|---------------|
| <i>(amounts in PKR millions)</i> | | | |
| <u>BALANCE SHEET</u> | FY15 | FY14 | FY13 |
| Fixed Assets | 1896.4 | 1968.6 | 1350.9 |
| Property, plant & equipment | 1886.6 | 1968.6 | 1350.9 |
| Stock-in-Trade | 4829.6 | 4689.7 | 3369.6 |
| Trade Debts | 481.8 | 520.7 | 575.3 |
| Cash & Bank Balances | 117.6 | 100.3 | 165.7 |
| Total Assets | 7448.5 | 7407.9 | 5844.0 |
| Trade and Other Payables | 326.9 | 363.7 | 83.4 |
| Long Term Debt <i>(*incl. current maturity)</i> | 261.2 | 275.7 | 237.4 |
| Short Term Debt | 3487.2 | 3294.1 | 2839.6 |
| Total Equity | 2236.0 | 2098.6 | 1968.7 |
| <u>INCOME STATEMENT</u> | | | |
| | FY15 | FY14 | FY13 |
| Net Sales | 6088.9 | 8160.0 | 6289.4 |
| Gross Profit | 895.0 | 880.7 | 848.9 |
| Operating Profit | 455.4 | 410.7 | 445.9 |
| Profit After Tax | 97.8 | 177.1 | 130.8 |
| <u>RATIO ANALYSIS</u> | | | |
| | FY15 | FY14 | FY13 |
| Gross Margin (%) | 14.7 | 10.8 | 13.5 |
| Net Working Capital | 1329.0 | 1157.4 | 1075.1 |
| FFO to Total Debt (x) | 0.07 | 0.03 | 0.08 |
| FFO to Long Term Debt (x) | 1.0 | 0.4 | 1.0 |
| Debt Servicing Coverage Ratio (x) | 1.5 | 1.1 | 1.7 |
| ROAA (%) | 1.3 | 2.7 | 2.3 |
| ROAE (%) | 4.5 | 8.7 | 6.9 |

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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.

JCR-VIS Credit Rating Company Limited

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

| REGULATORY DISCLOSURES | | | | Appendix III | |
|-------------------------------------|---|-----------------------------------|-------------------|-----------------------|----------------------|
| Name of Rated Entity | MATCO Foods (Pvt.) Limited | | | | |
| Sector | Food | | | | |
| Type of Relationship | Solicited | | | | |
| Purpose of Rating | Entity Rating | | | | |
| Rating History | | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
| | | <u>RATING TYPE: ENTITY</u> | | | |
| | 28-Dec-15 | A- | A-2 | Stable | Reaffirmed |
| | 29-Dec-14 | A- | A-2 | Stable | Reaffirmed |
| | 15-Jun-12 | A- | A-2 | Stable | Reaffirmed |
| | 12-Jun-12 | A- | A-2 | Stable | Upgrade |
| | 27-May-11 | BBB+ | A-3 | Stable | Upgrade |
| Instrument Structure | N/A | | | | |
| Statement by the Rating Team | JCR-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 | JCR-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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