

RATING REPORT

Matco Foods (Private) Limited

REPORT DATE:

April 7, 2017

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	<i>April 4, 2017</i>		<i>December 28, 2015</i>	

COMPANY INFORMATION

Incorporated in April 1990	External auditors: Grant Thornton Anjum Rahman Co. Chartered Accountants
Private Limited Company	Chairman of the Board: Mr. Jawed Ali Ghori
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Jawed Ali Ghori
Ghori Group – 80.0%	
International Finance Corporation – 20.0%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Industrial Corporates (May 2016)

<http://jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf>

Matco Foods (Private) Limited

OVERVIEW OF THE INSTITUTION

Matco Foods (Private) Limited (MFL) was founded in 1964 under the name of Mohammed Ali Trading Company (Matco). In tandem with a change in business strategy, the company was renamed to MFL in 2015.

Profile of CEO

Mr. Jawed Ali Ghorri has over 40 years of experience pertaining to rice exports business, rice processing and development of rice industries. He also serves as Chairman of the Board of Directors at MFL.

Financial Snapshot

*Net Equity:
1H17 – Rs. 942.7m,
June'16 – Rs. 851.9m*

*Net Profit (Loss):
1H17 – Rs. 92.0m,
June'16 – Rs. 99.5m*

RATING RATIONALE

Matco Foods (Private) Limited (MFL) is primarily engaged in processing and export of rice along with trade of biscuits and bran oil. The company's head office is located in Karachi while its operations run through seven production facilities. MFL's product portfolio constitutes over 30 varieties pertaining to 3 broad categories. Currently, the company exports its products to more than 65 countries. Additionally, MFL has also established a wholly owned subsidiary named JKT General Trading (JKT) in Sharjah, UAE.

Key Rating Drivers:

- Sponsor Support:** Ghorri Group is the primary stakeholder in MFL with a stake of 80.0%. Remaining shareholding is vested with International Finance Corporation, a member of World Bank Group.
- Product Mix & Strategy:** The ratings incorporate MFL's position as one of the leading rice exporters in the country. Export of basmati rice represents a major portion of sales; local sales comprising almost one-fifth of revenue base. In a bid to diversify product portfolio, the company plans to focus on value added products including organic rice. Moreover, given price volatile nature of rice business, MFL is venturing into manufacture and export of rice glucose – a commodity with significant global demand.
- Profitability:** During FY16, MFL's volumetric growth in basmati exports outperformed the industry. However with falling international prices, the company exhibited a lower revenue base. As a result, margins of the company reduced coupled with higher carrying costs. Consequently, bottom line reported a loss in the outgoing fiscal year. On the back of recovery in international prices, the company reported a positive bottom line in 1H17; management expects this trend to continue for the coming years. Going forward, initiation of rice glucose business along with volumetric growth in value added goods and basmati exports is projected to have a favorable impact on margins and profitability.
- Capitalization and Funding:** Total debt of MFL increased to Rs. 4.4b (FY16: 3.4b; FY15: Rs. 3.7b) at end-1H17. Debt profile largely comprises short term borrowings. With greater funding, debt leverage was reported higher at 2.0x (FY16: 1.7x; FY15: 2.0x) in comparison to the preceding year. Similarly, gearing increased to 1.9x (FY16: 1.5x; FY15: 1.7x) at December 31, 2016. With borrowings primarily short term in nature and the company carrying a sizeable amount of sellable inventory, its ability to retire debt in a timely manner is considered adequate. Currently, MFL is in process of raising equity by transitioning to a public listed entity. This may lead to improvement in capitalization indicators.
- Liquidity:** With contracted margins, fund flow from operations (FFO) was notably lower in FY16. Declining trend in FFO may need to be closely monitored for impact on debt servicing ability. Company's ability to sustain gross margins reported in 1H17 is likely to improve cash flows during ongoing fiscal year.

Matco Foods (Private) Limited
Appendix I

FINANCIAL SUMMARY			
<i>(amounts in PKR millions)</i>			
BALANCE SHEET	Dec 31, 2016 (unaudited)	Jun 30, 2016	Jun 30, 2015
Non-Current Assets	1,972.1	1,830.3	1,928.4
Stock-in-Trade	5,204.0	4,505.7	4,829.6
Trade Debts	367.1	384.2	481.8
Cash & Bank Balances	88.1	89.2	117.6
Total Assets	7,778.1	6,907.0	7,448.5
Trade and Other Payables	314.2	195.2	326.9
Short Term Borrowings	4,005.2	3,197.0	3,487.2
Long Term Finances - Secured	327.4	203.2	252.0
Interest Bearing Debt	4,350.4	3,414.1	3,748.3
Total Equity	2,335.8	2,264.9	2,236.0
INCOME STATEMENT			
	Dec 31, 2016 (unaudited)	Jun 30, 2016	Jun 30, 2015
Net Sales	2,826.3	5,577.9	6,088.9
Gross Profit	373.8	633.8	895.0
Operating Profit	194.4	195.7	455.4
Profit After Tax	71.0	(9.7)	97.8
FFO	n/a*	101.0	253.4
RATIO ANALYSIS			
	Dec 31, 2016 (unaudited)	Jun 30, 2016	Jun 30, 2015
Gross Margin (%)	13.2%	11.4%	14.7%
Net Working Capital	1,418.3	1,369.6	1,329.0
FFO to Total Debt (%)	n/a*	0.03	0.07
Debt Servicing Coverage Ratio (x)	n/a*	1.2	1.5
ROAA (%)	1.9%	-0.1%	1.3%
ROAE (%)	6.2%	-0.4%	4.5%
Gearing (x)	1.86	1.51	1.68
Debt Leverage (x)	2.01	1.72	1.98

*n/a: not available

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.

'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 (Private) Limited				
Sector	Food				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	4-Apr-17	A-	A-2	Stable	Reaffirmed
	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.				
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