

Matco Rice Processing (Private) Limited

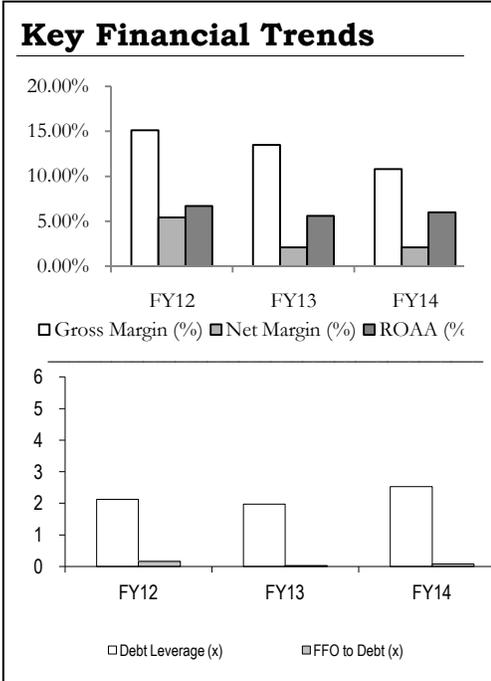
Chairman and Chief Executive: Mr. Javed Ali Ghorri

January 02, 2015

Analysts: Sobia Maqbool, CFA Syed Abdul Qadeer		
Category	Latest	Previous
Entity	A-/A-2 Dec 29, '14	A-/A-2 Nov 29, '13
Outlook	Stable Dec 29, '14	Stable Nov 29, '13

Rating Rationale

The global rice trade is expected to be around 40.9m tons for the calendar year ending 2014. Export forecasts were raised for Pakistan; 2014/15 rice production forecast for Pakistan has been increased, on the back of greater area under cultivation and a slightly higher yield due to nutrient deposits from flooding. This is Pakistan's largest crop after 3 years of flood-damaged crops. Total rice exported from Pakistan in fiscal year 2014 was modestly higher than the preceding year at USD 1.9b. Matco Rice Processing (Private) Limited (Matco) was able to capture a larger share of the same as the company's exports increased from USD 52.41m in FY13 to USD 65.15m in FY14. This has been achieved on the back of increased sale of basmati rice, having a much higher price point compared to IRRI.



Net sales increased by almost 30% which was attributable to higher international prices and volumetric growth in basmati segment, which entails better margins vis-à-vis IRRI. In addition to almost 94% of exports pertaining to Basmati rice, local sales which represent 20% of total sales are also entirely in the Basmati rice segment. Local sales are limited to large retailers, where the company has placed significant emphasis on branding of its products.

Despite higher output prices, gross margins of the company reduced to 10.8% (FY13: 13.5%) as input costs were notably higher in FY14. While core earnings came under pressure on account of squeezed margins, profitability was driven by foreign exchange gains on export proceeds. In order to augment margins, management has made a conscious decision to pursue increased exports of basmati rice. Decline in oil prices is also projected to have a favorable impact on other input costs. In 1Q15, recovery in gross margins to 12.8% has been observed.

In view of the reduction in gross margins, Funds from Operations (FFO) declined notably in FY14. The company's debt profile is largely short term in nature. JCR-VIS expects the company to be able to meet its long term debt obligations through internal cash generation while inventory balances are higher than the outstanding short-term debt. Nevertheless, the declining trend in FFO may need to be closely monitored for impact on the company's debt servicing ability. If the company is able to sustain the gross margins reported in 1Q15, improvement in cash flows may be expected during the on-going year.

In 2012, International Finance Corporation (IFC) had acquired 20% shareholding in the company while the remaining shares are held by the Ghorri family, who have long standing experience in the sector. In line with IFC's recommendations for transition to a public listed entity, the management has taken steps to improve the governance framework. This includes the recent engagement of services of Ernst & Young as the internal auditor of the company.

The company is looking to expand into other food and non food sectors, and has set up a company in UAE for distribution and is now looking to expand into Germany and other European countries. The company is a qualified pre-bidder for the Government project of storage facility in Sindh which if executed will augment the top line of the company; this however may take long to materialize.

(Rs. million)	FY12	FY13	FY14
Net Sales	6299	6289	8160
Net Profit	341	130	175
Total Equity (tier-1)	1843	1968	2095
Total Borrowing	2702	3077	3569
Gearing	1.47	1.56	1.7
Debt Leverage (x)	2.12	1.97	2.53
FFO	425	241	109
FFO%Total Debt	16%	8%	3%
ROAE	23.5%	7.1%	8.61
ROAA	6.7%	2.4%	2.64

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 FY14 have been audited by M/s Anjum Asim Shahid Rehman JCR-VIS

JCR-VIS Credit Rating Company Limited

Affiliate of Japan Credit Rating Agency, Ltd.

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