

RATING REPORT

Matco Foods Limited (MFL)

REPORT DATE:

November 15, 2018

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	November 15, 2018		January 1, 2018	

COMPANY INFORMATION

Incorporated in April 1990	External auditors: Grant Thornton Anjum Rahman Co. Chartered Accountants
Listed Public Limited Company	Chairman of the Board: Mr. Jawed Ali Ghori
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Khalid Sarfaraz Ghori
Ghori Group – 60.02%	
International Finance Corporation – 15.0%	
General Public (Local)- 14.15%	

APPLICABLE METHODOLOGY(IES)

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

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

Matco Foods Limited (MFL)

OVERVIEW OF THE INSTITUTION

Initially, Matco Foods Limited (MFL) was incorporated under the name of Mohammed Ali Trading Company (Matco) in 1964. However, the company was subsequently converted into a private limited company in 1990 as Matco Rice Processing (Private) Limited. With change in business strategy, the company was renamed to Matco Foods (Private) Limited. In 2017, the company was converted into a public limited company.

Profile of Chairman

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 to the Board of Directors at MFL.

Profile of CEO

With experience of over 30 years in the purchase and processing of rice, Mr. Khalid Ghorri utilizes his vast experience in assessing the qualities of agri-products and oversees the procurement and production process. His insights into crop survey and harvest are aimed to help farmers and Matco to achieve procurement targets. Mr. Khalid Ghorri graduated from University of Karachi in 1981 and pursued an article ship from ICAP (Institute of Chartered Accountants of Pakistan) Karachi between 1981 and 1984.

RATING RATIONALE

Matco Foods Limited (MFL) is a food processing and export company. Apart from rice, the company's product suite comprises masalas, bran oil, salt, rice flour, biscuits, kheer and rice glucose. MFL exports its products to over 43 countries under 19 different brand labels. The company aims to diversify its revenue base through focus on developing a varied assortment of products. In February 2018, MFL successfully completed its Initial Public Offering (IPO) and is now listed on Pakistan Stock Exchange.

Board composition is line with best practices. Senior management has largely remained stable during period under review. On the information technology front, the company has migrated to a new server. Moreover, modules for workflow integration, work order management and budget control for customer facilities have been implemented.

Rice Glucose Plant Phase II

In February 2018, MFL raised Rs. 758m through Initial Public Offering (IPO) for setting up a new Rice Glucose (RG) processing facility having a capacity of 20,000 MT per annum taking total capacity of this division to 30,000 MT per annum. The project cost is fully funded by the IPO amount. The company had to relocate plant location of Phase II to the existing rice processing mill situated at Super Highway, Karachi as the previous site at Port Qasim did not have adequate supply of water – a key input for RG processing. Management believes there is significant demand for the product domestically as well as internationally. Demand for RG is derived from pharmaceuticals, confectionary and baby cereal industry as it is a key raw material for these sectors.

Rating Drivers

Industry Performance and Business Risk

In FY18, Pakistani basmati rice export growth was reported at 10.97% in volumetric terms and 19.14% in value terms. Growth in Pakistani basmati rice exports has been primarily driven by demand for brown basmati. This is attributed to changes in European law for pesticide MRLs which constrained Indian basmati rice exports to European Union (EU) market and allowed Pakistani basmati rice exports to grow. Further volume growth is also expected in FY19 for European exports of Pakistani basmati. However, Pakistani basmati has witnessed subdued demand in other destinations. In Middle East and GCC countries, demand for basmati has declined mainly due to implementation of value added tax, lower public spending due to inflationary effect of taxation and political disturbance in Middle East region. Demand from Iran for Pakistani basmati rice is also non-existent due to sharp currency depreciation in Iran and strict currency controls.

Most of the large to medium sized players (millers) or those intending to grow in scale try to stock a significant quantity of paddy/rice). This exposes firms to inventory price risk. This risk is mitigated by MFL through dovetailing all procurements with sale orders. Apart from high volatility in local and export prices, other business risk factors include stiff competition and entrance of new competitors, government regulations, adverse movement in exchange rates and overall production and harvesting of rice crop.

Product Mix and Strategy

The ratings incorporate MFL's position as one of the leading rice exporters in the country. Export sales continue to represent majority proportion of sales at 72% (FY17: 66%) in FY18. Capacity utilization of the rice business has remained around prior year's level. With respect to core rice business, MFL is now geared towards brown rice which has sizeable demand in the EU

where Pakistani brown rice has witnessed tremendous growth following suspension of Indian rice exports to the region. Completion of RG Phase II, along with existing RG operations are projected to contribute to revenues.

Profitability

While majority sales of MFL comprise exports, local sales have also contributed a significant proportion to the topline. During FY18, net sales increased on the back of higher export prices although volumes declined on account of greater focus on white vis-à-vis brown rice. Slight decline in margins, along with rise in finance cost, offset by lower taxation charges, resulted in moderate growth in bottom line. Management expects volumetric growth in rice sales and higher margin rice glucose to support profitability. Going forward, profitability of the company is expected to be a function of volumetric growth in rice exports, trend followed by international rice prices and procurement cost, RG revenues and finance cost.

Capitalization and Funding

Given lower margins, Funds from Operations (FFO) was reported lower at 364.2m (FY17: Rs. 416.1m) in FY18. Lower FFO and higher quantum of debt repayment, translated into a lower debt servicing coverage ratio of 1.76x (FY17: 2.27x). Total debt of MFL increased to Rs. 4.5b (FY17: Rs. 4.3b; FY16: 3.4b) at end-FY18. With a larger equity base, debt leverage was reported lower at 1.4x (FY17: 2.0x; FY16: 1.8x). Similarly, gearing reduced to 1.2x (FY17: 1.7x; FY16: 1.5x) at end-FY18. Proportion of short-term borrowings in relation to long term borrowings was reported at 92:8 at end-FY18. With borrowings primarily short term in nature against a sizeable amount of inventory, the company's ability to retire debt in a timely manner is considered adequate. The company plans to retire part of borrowing by sale of land. With growth in equity base on account of retained earnings and debt repayments, leverage indicators are projected to decrease over the medium term.

JCR-VIS Credit Rating Company Limited

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

Matco Foods Limited**Appendix I**

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
BALANCE SHEET	30-Jun-18	30-Jun-17	30-Jun-16
Non-Current Assets	2,212.7	2,175.9	1,830.3
Stock-in-Trade	5,139.0	5,240.5	4,505.7
Trade Debts	674.5	541.5	384.2
Short Term Loans & Advances	83.7	58.2	12.7
Cash & Bank Balances	823.1	111.1	89.2
Total Assets	9,048.4	8,235.2	6,907
Trade and Other Payables	225.9	332.6	195.2
Short Term Borrowings	4,081.8	3,886.8	3,197.0
Long Term Finances - Secured	246.6	322.8	145
Total Interest Bearing Debt	4,453.9	4,331.5	3,414.1
Total Liabilities	4,919.7	5,092.0	4,022.5
Total Equity	4,128.7	3,143.2	2,884.5
INCOME STATEMENT	30-Jun-18	30-Jun-17	30-Jun-16
Net Sales	6,869.4	6,134.4	5,577.9
Cost of Sales	5,862.0	5,169.1	4,939.1
Gross Profit	1,007.4	965.4	638.8
Distribution Expenses	300.1	291.9	284.3
Administrative Expenses	198.1	175.2	158.9
Other Income	17.8	36.6	18.0
Finance Cost	239.7	211.9	203.7
Profit before Tax	337.8	342.0	37.9
Taxation	29.5	73.1	34.0
Profit After Tax	308.3	269.0	3.9
RATIO ANALYSIS	30-Jun-18	30-Jun-17	30-Jun-16
Gross Margin (%)	14.7%	15.7%	11.5%
PBT Margin (%)	4.9%	5.6%	0.7%
Net Margin (%)	4.5%	4.4%	0.1%
Current Ratio (x)	1.52	1.19	1.37
Net Working Capital	2,336.1	1,466.5	1,369.6
Working Capital Cycle	339.4	353.3	354.5
Gearing (x)	1.24	1.68	1.49
Debt Leverage (x)	1.37	1.98	1.76
FFO	364.2	416.1	100.3
FFO to Total Debt (%)	8%	10%	3%
Debt Servicing Coverage Ratio (x)	1.76	2.27	1.18
ROAA (%)	3.6%	3.6%	0.1%

ROAE (%)	10.02%	11.08%	0.35%
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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.

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

REGULATORY DISCLOSURES					Appendix III
Name of Rated Entity	Matco Foods 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
	RATING TYPE: ENTITY				
	15-Nov-18	A-	A-2	Stable	Reaffirmed
	01-Jan-18	A-	A-2	Stable	Reaffirmed
	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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