RATING REPORT

Matco Foods Limited

REPORT DATE:
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RATING ANALYSTS:
Muniba Khan
muniba.khan@jcrvis.com.pk

Sidra Ahsan Qureshi
sidra.qureshi@jcrvis.com.pk

RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	*January 1, 2018*		*April 4, 2017*	

COMPANY INFORMATION

Incorporated in April 1990	**External auditors:** Grant Thornton Anjum Rahman Co. Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Jawed Ali Ghori
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Khalid Sarfarz 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 Limited

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. It is primarily engaged in processing and export of rice along with other products.

Profile of Chairman:

Mr. Jawed Ali Ghori 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, Khalid Ghori 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. Khalid Ghori 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

Ratings assigned to Matco Foods Limited (MFL) derive strength from the company's leading position in the Basmati rice export market. Current ratings also take into account realignment of MFL's business strategy, with increased focus on higher margin rice categories, branded packaged food and value addition from by-products of rice. The company has seven production facilities with sufficient production capacity being a rating driver. On a standalone basis, current ratings reflect MFL's adequate liquidity profile and capitalization levels.

Key Rating Drivers:

Product Mix and Strategy: MFL's product portfolio comprises three broad categories, namely; Basmati rice, Irri rice and brown rice. MFL's business strategy entails greater focus and enhanced marketing efforts on its branded Basmati rice given that price of the same are sticky with a positive trend. Moreover, MFL has successfully built up on its initiative of manufacturing and exporting rice-glucose, a commodity with significant global demand. The glucose plant has come online and the company forecasts to sell almost 6,000 tons of glucose in the coming year. Rice glucose is primarily used by pharmaceutical companies in medicines; MFL is currently supplying to almost all local pharmaceutical companies. However, given stringent vendor qualification standards by multinational pharmacies, agreements with them have not been finalized yet. With more than 40% higher prices than the local market, MFL plans to enter the export market for rice glucose once it receives certification for the same.

Business and Industry Risk Factors: Commodity price risk for MFL is inherent in the nature of its business. Nonetheless, inventory risk is mitigated through dovetailing all procurements with sale orders. Other challenges include fulfilling stringent compliance parameters by international end customers. These primarily entail maintenance of product quality, third party liability, and safety checks. The company is also exposed to exchange rate risk. However, the same is minimized by taking exposure in forward contracts. Considering the current US-dollar parity, MFL does not intend on entering into any forward contracts in the foreseeable horizon.

Profitability & Liquidity: During FY17, overall sales of the company grew by 10.5% and reached Rs.6b mark. Majority sales of MFL comprise exports with one-third sales contributed by domestic sales. Moreover, country wise concentration in sales of MFL is on the higher side; top three countries contributing around half and 2/3rd of export sales in Basmati and Irri rice, respectively. Growth in sales was largely a function of higher prices. As per management, commodity prices have started to increase as a result of which margins of the company improved. On the back of recovery in international prices, bottom line witnessed exponential growth in FY17 to Rs. 268.9m vis-à-vis Rs. 3.9m in FY16. Management expects this trend to continue for the coming years. With improved margins, fund flow from operations (FFO) was notably higher in FY17 translating into an improved debt servicing coverage ratio of 2.2x (FY16: 1.2x) in FY17. Going forward, growth in rice glucose business along with volumetric growth in value added goods is projected to have a favorable impact on margins and profitability.

Capitalization and Funding: Total debt of MFL increased to Rs. 4.3b (FY16: 3.4b; FY15: Rs. 3.7b) at end-FY17. With greater funding, debt leverage was reported higher at 2.0x (FY16: 1.7x; FY15: 2.0x). Similarly, gearing increased to 1.7x (FY16: 1.5x; FY15: 1.7x) at end-FY17. With borrowings primarily short term in nature against a sizeable amount of inventory, its ability to retire debt in a timely manner is considered adequate. In order to fund completion of its rice glucose plant and installation of its newly purchased rice mill, MFL plans to procure additional debt. Total project cost is estimated to be Rs. 150m for FY18, half of which is expected to be funded through debt.

Company Status: The company is currently engaged in listing itself on Pakistan Stock Exchange. The process is expected to complete in 2018 with issuance of 29m new shares at a price of Rs. 26/share. Funds generated from the Initial Public Offering (IPO) are to be utilized towards development of a second rice glucose plant increasing production capacity of rice glucose by 20,000 tons. In line with requirements of listing, company's status was changed from being a private limited company to a public limited company in 2017.

Future Outlook: As per the latest regulation imposed by European Union (EU), import of Basmati rice containing Tricyclazole, a pesticide, of more than 0.01 mg per kg will be prohibited from January 1, 2018. To date, EU was accepting 0.03 mg per kg from different countries, including India. Given this recent development in the international market, there is a fair chance of Pakistan taken over India's share of the market given that the former does not use such chemicals. For India, level of Tricyclazole is expected to reach the acceptable threshold after 2 to 3 crop cycles. MFL expects to capitalize on this opportunity resulting in higher exports. Along with this, MFL has also developed its retail network in second tier cities to order to boost local sales.

Matco Foods Limited **Appendix I**

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	June 30, 2017	Jun 30, 2016	Jun 30, 2015
Non-Current Assets	2,175.8	1,830.3	1,928.4
Stock-in-Trade	5,204.5	4,505.7	4,829.6
Trade Debts	541.5	384.2	481.8
Cash & Bank Balances	111.0	89.2	117.6
Total Assets	8,235.2	6,907.0	7,448.5
Trade and Other Payables	332.8	195.2	326.9
Short Term Borrowings	3,886.8	3,197.0	3,487.2
Long Term Finances - Secured	419.5	203.2	252.0
Interest Bearing Debt	4,331.5	3,414.1	3,748.3
Total Equity	2,571.5	2,285.6	2,236.0
INCOME STATEMENT	**June 30, 2017**	**Jun 30, 2016**	**Jun 30, 2015**
Net Sales	6,134.4	5,577.9	6,088.9
Gross Profit	965.3	638.8	895.0
Operating Profit	498.2	195.7	455.4
Profit After Tax	268.9	3.9	97.8
FFO	389.9	101.0	253.4
RATIO ANALYSIS	**June 30, 2017**	**Jun 30, 2016**	**Jun 30, 2015**
Gross Margin (%)	15.7%	11.4%	14.7%
Net Working Capital	1,466.5	1,369.6	1,329.0
FFO to Total Debt (%)	0.09	0.03	0.07
Debt Servicing Coverage Ratio (x)	2.2	1.2	1.5
ROAA (%)	3.6%	0.1%	1.3%
ROAE (%)	11.1%	0.2%	4.5%
Gearing (x)	1.68	1.49	1.68
Debt Leverage (x)	1.98	1.75	1.98

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.

REGULATORY DISCLOSURES	Appendix III
Name of Rated Entity	Matco Foods Limited
Sector	Food
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	(see table below)

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
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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