

## RATING REPORT

### Matco Foods Limited (MFL)

**REPORT DATE:**

January 28, 2022

**RATING ANALYSTS:**

Sara Ahmed

[sara.abmed@vis.com.pk](mailto:sara.abmed@vis.com.pk)

Syeda Batool Zehra Zaidi

[batool.zaidi@vis.com.pk](mailto:batool.zaidi@vis.com.pk)

#### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	January 28, 2022		January 6, 2021	

#### 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 – 60.70%	
International Finance Corporation – 15.0%	
General Public (Local)- 15.83%	

#### APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (August 2021)

<https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf>

**Matco Foods Limited (MFL)**

**OVERVIEW OF THE INSTITUTION**

**RATING RATIONALE**

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. Javed 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, Mr. 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. Mr. 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.

Matco Foods Limited ('MFL' or 'the Company') is in the business of processing and export of rice, primarily Basmati rice, rice glucose, rice protein and pink salt, bran oil, masala and kheer. The company operates five rice processing and milling plants including paddy drying, storage and husking facilities situated in Sadhoke, Punjab and Karachi, Sindh.

**Industry and Business Risk**

- Pakistan produced 8.41m MT of rice during the year in Kharif crops, total available stocks for rice are estimated to be around 11.4 MT end-Dec'21 out of which 72% of the stock is allocated for export surplus while the remaining is for domestic consumption.
- During FY21, rice exports of Pakistan recorded a decline of 6% on account of lower Basmati exports, although Irri sales in value terms remained up.
- Pakistan's Basmati rice exports declined by 27% in terms of volume and 26% in terms of value. A lower quantity of 0.629m MT of Basmati rice was exported during the year (FY20 0.866m MT) as last year buyers had over stockpiled post COVID outbreak. Exports were also challenged by exponential increase in freight and container charges, which together with the currency volatility disrupted exports. The sector remains exposed to challenges related to international freight charges.

**Table 1: Pakistan Rice Exports (PBS)**

Pakistan Bureau of Statistics						
Variety	Jul-20 to Jun-21		Jul-19 to Jun-20		% Change	
	Unit	Value	Unit	Value	Qty MT	Value "000" \$
	Qty (MT)	"000"\$	Qty (MT)	"000" \$		
Rice (Basmati)	629,069	575,657	865,949	783,277	-27.35%	-26.51%
Rice (Other)	3,062,368	1,465,683	3,283,236	1,392,235	-6.73%	5.28%
Total Sales	3,691,437	2,041,340	4,149,185	2,175,512	-11.03%	-6.17%

- Matco's total sales declined by 13% in terms of value and 17% in terms of volume. A total of 0.048m MT of Basmati rice was sold during FY21 (0.055m MT). Lower international demand for rice and post-COVID19 induced slumber in the industry added to the volumetric decline in sales.
- Dollar rate fluctuations caused paddy rates to go up in the local market while high volatility in freight charges remained a challenge for the company in the international market. Freight charges are expected to settle down by 2023 but the COVID19 pandemic remains an uncertainty going forward.
- During the year, Australia, Saudi Arabia, Malaysia and England remained the company's prime markets for Basmati rice. Trading volumes in UAE declined compared to historical basis as two major clients seized trading but the market still has potential for growth. Going forward, the Company is planning to target exports to the Middle East region due manageable freight charges.

**Table 2: Matco's Rice Exports**

Matco Foods						
Variety	Jul-20-Jun-21		Jul-19 to Jun-20		% Change	
	Unit	Value	Unit	Value	Qty MT	Value "000" \$
	Qty (MT)	"000"\$	Qty (MT)	"000" \$		
Rice (Basmati)	41,066	44,199	52,051	51,004	-21.10%	-13.34%
Rice (Other)	6,845	3,453	5,698	3,628	20.13%	-4.82%
Total Sales	47,911	47,652	57,749	54,632	-17.04%	-12.78%

**New projects and expansion**

- Matco sells Basmati Rice under various the brand names (Al-Mashaal, Amber, Areej, Bahar, Every, Falak, Fiza, Rojan, Sevan, Sunbul, Deluxe) with ‘Falak’ being their flagship brand. Private label constitutes 73% in terms of value while Falak constitutes 15% of the total value generated.
- Company’s strategy focuses on introducing a new variant from its primary and specialized product line every 4-6 months. In the domestic market, these products are readily available in local retail outlets. Recently, the company has diversified its specialized product line with new products consisting mainly of rice glucose, rice protein and cornstarch; the most recent addition.
- During the year, the company has started to setup a new cornstarch plant in Faisalabad, where civil works and construction are underway, the project is expected to be fully operational by FY22.
- The company is now focusing towards penetrating its product line entirely to exports as the international market is more favorable. Rice glucose volumes sold in local market did not receive an optimistic response therefore affecting the plant’s capacity utilization and cost of sales. Presence of new market entrants in the domestic rice glucose market have also suppressed prices in the confectionary segment while higher demand from poultry sector increased glucose prices during FY21.

**Capacity Utilization**

- Capacity utilization of rice processing plant registered a decline to 66% (FY20 81%) on account of operational challenges including, shortage of gas supply, higher electricity costs and nationwide lockdowns along with planned maintenance and shutdown of the plant.
- Rice glucose plant capacity while ramping up remained low on account of competitive pressures in the industry which kept demand subdued.

**Table 2: Capacity Utilization**

Capacity	FY18	FY19	FY20	FY21
<b>Rice Processing</b>	35%	61%	81%	66%
<b>Rice Glucose</b>	28%	42%	31%	40%

**Sales volume and gross margins remained under pressure in FY21 and Q1’22**

- Major portion of the company’s revenue base emanates from Basmati export sales. During the year, Matco’s revenues were reported to be at PKR 10.5b (FY20 PKR 11.2b) depicting a 6% decline, contributed mainly due to 17% decline in sales volumes. Demand in the international market was affected by stockpiling by importers last year amid COVID and significant increase in international freight costs which deterred demand. Volumes continue to remain strained in Q1’22 recording a 48% decline in volumes sales (Q1’22: 5,971MT, Q1’21: 11,447MT) Buyers are deferring purchases to allow freight pricing to rationalize.
- The same has impacted gross margins adversely in FY21, declining to 6% from 9% in FY20. The Company had to absorb the higher freight costs as most of the orders were FOB based. Q1’22 however depicts recovery on account of higher selling prices pulling gross margins back to 9%. Nevertheless, gross profit in the quarter remained lower due to lower sales volume.
- Sales mix depicts a shift with rice sales accounting for a smaller share of 75% relative to past years. Contribution of rice glucose sales increased in FY21 and are expected to further increase going forward. Irri sales recorded an uptick, in line with the industry, albeit remaining a small proportion of total sales.

**Table 3: Sales Mix**

	FY20			FY21		
	Qty (MT)	Rs./MT	Value (Rs. Mn)	Qty (MT)	Rs./MT	Value (Rs. Mn)
<b>Rice</b>						
Basmati (Exports)	52,051	152,965	7,962	41,066	166,050	6,819
Basmati (Local)	5,352	144,806	775	4,668	154,884	723
Irri (Export)	5,698	100,913	575	6,845	102,264	700
<b>Total</b>	<b>63,101</b>	<b>147,573</b>	<b>9,312</b>	<b>52,579</b>	<b>156,755</b>	<b>8,242</b>
<b>Rice Glucose/Protein</b>						
Rice Protein (Export)	1,252	128,594	161	1,869	129,481	242
Rice Protein (Local)	N/A	N/A	N/A	747	89,692	67
Rice Glucose (Export)	1,246	146,870	183	3,354	138,044	463
Rice Glucose (Local)	8,161	63,350	517	8,601	66,155	569
<b>Total</b>	<b>10,659</b>	<b>80,777</b>	<b>861</b>	<b>14,571</b>	<b>92,032</b>	<b>1,341</b>
<b>Other Items</b>						
Maltodextrin (Local)	142	98,592	14	1,066	106,924	114
Export (NPD)	N/A	N/A	17.2	N/A	N/A	24
Local (NPD)	N/A	N/A	44	N/A	N/A	71
By- Product	39,180	33,563	1,315	31,598	36,996	1,169
<b>Total</b>	<b>39,322</b>	<b>35,351</b>	<b>1,390</b>	<b>32,664</b>	<b>42,194</b>	<b>1,378</b>
<b>Total Sales</b>	<b>113,082</b>	<b>102,254</b>	<b>11,563</b>	<b>99,814</b>	<b>109,816</b>	<b>10,961</b>

**Global supply chain crisis and higher cost of moving cargo has increased working capital pressure, impacting bottom line profitability.**

- Rise in international freight charges and delay in customer orders led to greater working capital pressures which ultimately translated into suppressed margins. Net margins declined to -1% (FY20 1%) and further to -2% in 1QFY22. In addition to freight issues, volatility in exchange rates along with pandemic induced uncertainty will continue to impact business volumes in the ongoing financial year. Historically, net margins have trailed the peer group. Improvement in business volumes along with operational efficiency will remain important for ratings, going forward.

**Cash flow indicators to remain under stress. Liquidity profile remains adequate.**

- Cash flow coverage indicators deteriorated on account of losses posted in FY21 and in Q1'22. FFO/Total Debt significantly reduced, while debt service coverage ratio deteriorated to 1.15x, albeit remaining adequate. Short term liquidity remains adequate with current ratio recorded at 1.3x. It is expected that cash flow coverages may remain under stress in the ongoing year till markets stabilize and business volumes pick up.

**Capitalization indicators depict an increase on timeline basis.**

	FY19	FY20	FY21	1QFY22
<b>Equity</b>	4,062	4,146	4,191.6	4,167.9
<b>Gearing</b>	1.12x	1.38x	1.52x	1.75x
<b>Leverage</b>	1.25x	1.70x	1.72x	1.92x

- The company's capitalization indicators have increased on a timeline basis. Approximately 87% of the company's total debt comprises of short-term debt out of which 72% is obtained from export re-finance facility while the remaining is internally resourced.
- Gearing increased to 1.75x during the first quarter of FY22 (FY21 1.52x, FY20 1.38x) while leverage increased to 1.92x (FY21 1.72x, FY20 1.70x) respectively. Gearing is expected to further increase in the medium term as long-term loan gradually draws down for the cornstarch plant while profitability

will accrue subsequently. At the same time, inflationary pressures will also continue to push short-term working capital requirements up.

- Equity base stood at Rs.4.2b in FY21 & Rs. 4.16b in 1Q'22 and has been impacted by the losses as well as dividend payout of Rs. 55m in FY21, albeit supported by realization of revaluation gains. Averting equity erosion will be important for ratings going forward.

**Corporate Governance framework**

- Business risk profile of the company is supported by sound corporate governance framework, operating as a public listed company with IFC at its shareholder.
- Board composition is line with best practices and strong disclosure levels, with 9 members including 4 independent directors, 1 non-executive director, 2 executive directors, CEO and the Chairman.
- The Board also consists of 2 female directors (Non-executive and Independent director) which further reaffirms sound governance framework.
- Disclosure levels remain adequate.

**Matco Foods Limited**
**Appendix I**

<u>BALANCE SHEET</u>	FY19	FY20	FY21	1QFY22
Non-Current Assets	2,744.6	5,166.1	5,151	5,978
Stock-in-Trade	5,204.9	6,642.5	7,171	7,311
Trade Debts	941.1	1,334.5	1,041	647.6
Short Term Loans & Advances	355.3	118.6	103.7	298.6
Cash & Bank Balances	78.4	297.1	105.0	113.4
<b>Total Assets</b>	<b>9,574.9</b>	<b>13,836.3</b>	<b>13,852.1</b>	<b>14,622.8</b>
Trade and Other Payables	248.1	1,015.2	519.9	342.8
Short Term Borrowings	4,139.2	5,115.9	5,533.0	5,920.1
Long Term Debt (Inc Current Maturity)	409.8	596.6	818.3	1,385.1
<b>Total Interest Bearing Debt</b>	<b>4,549.0</b>	<b>5,712.5</b>	<b>6,351.3</b>	<b>7,305.2</b>
<b>Total Liabilities</b>	<b>5,068.0</b>	<b>7,068.2</b>	<b>7,202.1</b>	<b>8,001.4</b>
Paid Up Capital	1,224.0	1,224.0	1,224.0	1,224.0
Total Equity (Exc Revaluation Surplus)	4,061.8	4,145.9	4,191.6	4,167.9
<u>INCOME STATEMENT</u>	FY19	FY20	FY21	1QFY22
Net Sales	7,863.1	11,290.0	10,556.6	1,589.2
Cost of Sales	6,948.5	10,274.0	9,909.4	1,439.7
<b>Gross Profit</b>	<b>914.0</b>	<b>1,016.0</b>	<b>647.2</b>	<b>149.5</b>
Distribution Expenses	167.1	207.0	186.0	36.9
Administrative Expenses	240.3	271.4	309.7	66.8
Other Income	106.7	56.5	77.0	5.5
Finance Cost	275.5	350.3	272.8	78.2
<b>Profit / (Loss) Before Tax</b>	<b>460.5</b>	<b>238.5</b>	<b>19.6</b>	<b>(15.0)</b>
Taxation	46.7	86.6	80.4	14.7
<b>Profit After Tax</b>	<b>413.8</b>	<b>151.9</b>	<b>(60.9)</b>	<b>(29.7)</b>
<u>RATIO ANALYSIS</u>	30-Jun-19	30-Jun-20	30-Jun-21	30-Sep-21
Gross Margin (%)	11.6%	9.00%	6.13%	9.41%
PBT Margin (%)	5.86%	2.11%	0.19%	-0.94%
Net Margin (%)	5.26%	1.35%	-0.58%	-1.87%
Current Ratio (x)	1.48	1.37	1.37	1.31
Gearing (x)	1.12	1.38	1.52	1.75
Debt Leverage (x)	1.25	1.70	1.72	1.92
FFO	349.8	381.7	133.4	14.0
FFO to Total Debt (%)	7.7%	6.7%	2.10%	0.77%
Debt Servicing Coverage Ratio (x)	1.71	1.61	1.15	0.71
ROAA (%)	4.44%	1.3%	-0.4%	-0.8%
ROAE (%)	10.83%	3.70%	-1.46%	-2.84%

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Appendix II**

**RATING SCALE & DEFINITIONS: ISSUES / ISSUERS**

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:** 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.vis.com.pk/images/criteria\\_watch.pdf](http://www.vis.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.vis.com.pk/images/criteria\\_outlook.pdf](http://www.vis.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.vis.com.pk/images/policy\\_ratings.pdf](http://www.vis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when 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	
<b>Name of Rated Entity</b>	Matco Foods Limited				
<b>Sector</b>	Food				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	28-Jan-22	BBB+	A-2	Stable	Downgrade
	6-Jan-21	A-	A-2	Stable	Maintained
	10-Dec-19	A-	A-2	Positive	Maintained
	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	
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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.				
<b>Disclaimer</b>	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2022 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>		<b>Date</b>	
	<b>Mr. Muhammad Aamir Farooqui</b>	CFO		December 20, 2021	
	<b>Mr. Danish Ahmed</b>	Company Secretary			
	<b>Yousuf Iqbal</b>	Senior Manager Accounts			