

# DRAFT RATING REPORT

## Matco Foods Limited (MFL)

**REPORT DATE:**

December 12, 2022

**RATING ANALYSTS:**

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### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-2	BBB+	A-2
Rating Outlook	Stable		Stable	
Rating Date	December 12, 2022		January 28, 2022	

### 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

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 Gbori 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 Gbori 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 Gbori 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' or 'the Company') is primarily involve in the business of processing and export of rice and other related products. These include Basmati rice, Irri rice, Rice glucose and Rice protein. The Company also sells other food item with the brand name of Falak while MFL is also starting its Corn Strach business in the ongoing fiscal year. The Company operates five rice processing and milling plants including paddy drying, storage and husking facilities situated in Sadhoke, Punjab and Karachi, Sindh, while the new plant of Corn Starch is located at Faisalabad, Punjab.

### Industry & Future Outlook

- Pakistan produces around 8.9 million tonnes of rice annually, whereas only 4m tonnes is consumed in the country.
- Exports in FY22 were recorded at \$ 2.5B. Global supply chain crises and higher freight costs led towards shift in demand for non-basmati rice. Non-basmati rice sales picked up to 3.1m MT (FY21 1.8m MT). Overall sales volume increased by 3.6m MT (FY21 2.5m MT) while sales value appreciated by 23% during the year.
- Pakistan's agriculture industry, including rice suffered extensively due to damage caused by the rainfall and subsequent flooding during FY22. The country has reportedly received 30 year record-breaking rainfall noting 81 districts which had been declared as 'calamity hit'
- Initially, 9m tonne production was expected for the 2022 crop. However, due to a shortage of canal water during the rice planting season, the estimations were revised to 8.6m tonnes. Out of this, Sindh's estimated production at 2.3m tonnes, mainly from its rice zone, which is the worst hit by the floods.
- Production losses are estimated to be 1.8m to 1.9m tonnes. In addition to standing crops, the flood has destroyed the stocks lying in the houses for personal consumption as well as for the next crop seed. Total crop losses are roughly estimated at around 2.2m tonnes, most of which are non-Basmati varieties.
- Pakistan's rice production are projected to be around 6.4m tons despite flood losses. After putting aside local consumption, a 2.4m tonne exportable surplus is expected to be available in the country.
- India, is the largest rice exporter, accounting for almost 40pc of the global grain trade has recently imposed export restrictions on rice in the wake of food security. This provides a favorable position for Pakistani exports especially of Basmati rice.

Table 1: Pakistan Rice Exports (PBS)

Pakistan Bureau of Statistics						
Variety	Jul-20 to Jun-21		Jul-21 to Jun-22		% Change	
	Unit	Value	Unit	Value	Qty MT	Value "000" \$
	Qty (MT)	"000"\$	Qty (MT)	"000" \$it		
Rice (Basmati)	619,428	569,493	750,517	695,318	21.16%	22.09%
Rice (Other)	3,065,509	1,472,243	4,126,674	1,816,099	34.62%	23.36%
Total Sales	3,684,937	2,041,736	4,877,191	2,511,417	32.35%	23.00%

### Key Rating Drivers:

#### Diversification initiatives to bode well for revenue augmentation in the long run.

- In line with the Company's strategy to introduce a new variant from its specialized product line, the Company successfully commenced operations and dispatched initial orders from their recently setup cornstarch plant in Faisalabad. The Cornstarch plant operates on an annual production capacity of 72,000 MTs. The domestic market is dominated majorly by a single producer (Rafhan) which enjoys a strong market position and creates a stiff competitive environment for any new entrant. However, there is large untapped potential demand in the international market for the same.

- Company is now focusing towards introducing modified corn starches to cater the customized needs of various industries including textile, paper, food and pharmaceuticals. Additionally, the Company will increase the grinding capacity and add additional storage capacity in its cornstarch division in the medium term.
- The Company's rice glucose division also performed considerably well, during FY22. Rice glucose exports garnered much attention in the international market achieving volumetric increase in sales. The Company sold 5.5m MT of rice glucose during FY22 whereas only 3.3m MT of the commodity were sold in FY21. Local rice glucose sales continue to remain on the lower side due to exponential rise in raw material prices and surge in demand arising from the country's poultry sector.
- Another unit for Dextrose Monohydrate (a food grade glucose) is expected to be added in the start of next fiscal (FY24).
- While the Company has diversified its product portfolio--- projecting strong topline growth, it remains exposed to economic and political conditions locally and internationally.

**Table 2: Sales Mix**

	FY21			FY22		
	Qty (MT)	Rs./MT	Value (Rs. Mn)	Qty (MT)	Rs./MT	Value (Rs. Mn)
<b>Rice</b>						
<b>Basmati (Exports)</b>	41,066	166,050	6,819	42,114	177,542	7,477
<b>Basmati (Local)</b>	4,668	154,884	723	5,174	167,762	868
<b>Irri (Export)</b>	6,845	102,264	700	19,875	83,170	1,653
<b>Total</b>	52,579	156,755	8,242	67,163	148,862	9,998
<b>Rice Glucose/Protein</b>						
<b>Rice Protein (Export)</b>	1,869	129,481	242	1,172	211,604	248
<b>Rice Protein (Local)</b>	747	89,692	67	726	111,570	81
<b>Rice Glucose (Export)</b>	3,354	138,044	463	5,501	171,781	945
<b>Rice Glucose (Local)</b>	8,601	66,155	569	4,728	77,623	367
<b>Total</b>	14,571	92,032	1,341	12,127	135,318	1,641
<b>Other Items</b>						
<b>Maltodextrin (Export)</b>	-	-	-	510	239,216	122
<b>Maltodextrin (Local)</b>	1,066	106,924	114	1,330	160,150	213
<b>Export (NPD)</b>	N/A	N/A	24	-	-	-
<b>Local (NPD)</b>	N/A	N/A	71	-	-	-
<b>By- Product</b>	31,598	36,996	1,169	34,655	42,447	1,471
<b>Total</b>	32,664	42,194	1,378	35,985	50,188	1,806
<b>Total Sales</b>	99,814	109,816	10,961	115,275	116,634	13,445

**Revenue growth and margin uptick largely supported by rupee devaluation and volume growth.**

- Post-pandemic subdued market volumes during FY21, sales volumes picked up during FY22 due to favorable market dynamics and shift in demand towards Pakistan as many western countries face global supply chain crises.
- During FY22, the Company's earning profile witnessed significant improvement on the back of volumetric growth as well as rupee devaluation, the Company's net sales increased by 17% as compared to FY21.
- Gross margins increased to 10.7% (FY21 6.1%) and were supported on the back of inventory gains, increase in average price of products, exchange gain and contribution by the Company's rice glucose segment. Net profitability also improved, the company's negative bottom line of Rs. 61m reversed to Rs. 422m.
- Basmati sales constitute over 62% of the total sales mix. Overall, volumes for Basmati rice witnessed an uptick during FY22, volumes steadily increased by 3% and 10% in domestic and international markets respectively.
- The Company's Irri exports registered the highest growth in volumes. Malaysia, Russia and Djibouti remain the Company's prime markets for exporting Irri rice.

- Australia, Saudi Arabia and England continued to remain as the company's prime markets for Basmati rice. Although sales in the Netherlands and Italy depict significant increase during FY22.

#### **Liquidity metrics remains adequate. Cash flow indicators Depict**

- FFO has improved on account of improvement in profitability during FY22, however, FFO/Total debt and FFO/Long Term Debt have slightly improved but remain low relative to historical levels at 0.30x (FY21: 0.16x) and 0.07x (FY21: 0.03x) respectively.
- Liquidity is considered to be adequate with 1.27x current ratio (FY21: 1.37x) and Short term borrowing coverage at 1.36 (FY21: 1.48x).
- Going forward, we expect liquidity to remain under pressure given higher working capital requirements to support new business segments as well as higher commodity prices.

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

**Table 3: Capitalization**

	Jun'19	Jun'20	Jun'21	Jun'22
<b>Equity</b>	4,062	4,146	4,192	4,628
<b>Gearing</b>	1.12x	1.38x	1.52x	1.93x
<b>Leverage</b>	1.25x	1.70x	1.72x	2.17x

- Equity base improved to Rs. 4.6b in FY22 (FY21 4.2b) on account of improvement in profitability.
- The Company's long term debt mainly encompasses subsidized financing as 98% of the total LT borrowings are under LTFF, ERF and Salary Refinance Schemes. However, with the recent increase in SBP rate, MTL's weighted average LT borrowing rate is calculated at ~11.7% as at Jun'22.
- Capitalization have witnessed deterioration on timeline basis, at present gearing ratio stands increased to at 1.93x during (FY21: 1.52x) while leverage stands increased at 2.17x (FY21: 1.72x) respectively.
- The Company has a CAPEX planned for the coming half in order to expand its new Dextrose Monohydrate unit which is estimated at around Rs. 400m. Management has planned to finance the same by taking LT borrowings of Rs. 300m while the remaining from Equity.
- Going forward, due to working capital constraints, short term borrowing of MTL is projected to increase by around Rs. 1.25b, also the Company is also planning to issue commercial paper of around Rs. 500m to further support working capital.
- The same will also increase the effective weighted average financing rate of MTL assuming no further increase in policy rates.
- Overall capitalization indicators are expected to increase further during the rating horizon, while maintaining the same under the benchmarks of given rating is important from the rating perspective.

#### **Corporate Governance framework**

- Business risk profile of the company is supported by sound corporate governance framework.
- The Company has two board level committees with female, independent representation and certified members. Board composition is in line with best practices and strong disclosure levels. Board is represented by 9 members including 4 independent directors, 2 non-executive director, and 3 executive directors.
- Overall disclosure levels are considered to be sound.

Financial Summary	(Amount in Million)				
<b><u>BALANCE SHEET</u></b>	<b>Jun'18</b>	<b>Jun'19</b>	<b>Jun'20</b>	<b>Jun'21</b>	<b>Jun'22</b>
Property, Plant & Equipment	2,169	2,704	4,938	4,908	6,570
Long-term deposits	13	10	13	16	17
Long Term Investments	31	31	56	56	63
Stock in Trade	5,139	5,205	6,643	7,171	7,662
Trade Debts	674	941	1,335	1,041	1,818
Cash & Bank Balances	823	78	297	105	304
Other Assets	199	606	556	556	648
<b>Total Assets</b>	<b>9,048</b>	<b>9,575</b>	<b>13,836</b>	<b>13,853</b>	<b>17,081</b>
Trade and Other Payables	226	240	1,015	520	671
Short Term Borrowings	4,082	4,139	5,116	5,533	6,980
Long-Term Borrowings <i>(Inc. current maturity)</i>	372	410	597	818	1,959
Deferred Liabilities	144	147	212	229	253
Other Liabilities	96	132	129	102	160
<b>Total Liabilities</b>	<b>4,920</b>	<b>5,068</b>	<b>7,068</b>	<b>7,202</b>	<b>10,022</b>
Issued, Subs, and Paid Up Capital	1,166	1,224	1,224	1,224	1,224
Equity (Exc. Surplus on Reval. of PPE)	<b>3,582</b>	<b>4,062</b>	<b>4,146</b>	<b>4,192</b>	<b>4,628</b>
<b><u>INCOME STATEMENT</u></b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>
Net Sales	6,723	7,863	11,290	10,557	12,376
Gross Profit	861	915	1,016	647	1,320
Operating Profit	509	507	538	152	734
Profit Before Tax	338	460	239	20	531
Profit After Tax	308	414	152	-61	422
<b><u>RATIO ANALYSIS</u></b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>
Gross Margin (%)	12.8%	11.6%	9.0%	6.1%	10.7%
Net Margin (%)	4.6%	5.3%	1.3%	-0.6%	3.4%
FFO	390	350	382	133	589
FFO to Long-Term Debt	1.05	0.85	0.64	0.16	0.30
FFO to Total Debt	0.09	0.08	0.07	0.02	0.07
Debt Servicing Coverage Ratio (x)	1.84	1.71	1.61	1.15	1.73
ROAA (%)	3.6%	4.4%	1.3%	-0.4%	2.7%
ROAE (%)	10.0%	10.8%	3.7%	-1.5%	9.6%
Gearing (x)	1.24	1.12	1.38	1.52	1.93
Debt Leverage (x)	1.37	1.25	1.70	1.72	2.17
Current Ratio	1.52	1.48	1.37	1.37	1.27
Inventory + Receivables/Short-term Borrowings	1.42	1.48	1.56	1.48	1.36

**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 credits 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.

<b>REGULATORY DISCLOSURES</b>	<b>Appendix III</b>
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<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>					
	12-Dec-22	BBB+	A-2	Stable	Reaffirmed	
	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.					
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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>			<b>Date</b>	
	<b>Mr. Faizan Ghori</b>	Director			October 05, 2022	
	<b>Mr. Muhammad Aamir Farooqui</b>	CFO				
	<b>Mr. Danish Ahmed</b>	Company Secretary				