

RATING REPORT

Matco Foods Limited (MFL)

REPORT DATE:

December 29, 2023

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 29, 2023		December 12, 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 – 61.3%	
International Finance Corporation – 15.0%	
General Public (Local)- 20.2%	

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (MAY 2023)

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

VIS Rating Scale

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

Matco Foods Limited (MFL)

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Matco Foods Limited (MFL) was initially established as Mohammed Ali Trading Company (Matco) in 1964. Subsequently, in 1990, the company underwent a transformation into a private limited entity known as Matco Rice Processing (Private) Limited. As part of a revised business strategy, the company underwent a name change to Matco Foods (Private) Limited. In 2017, it further transitioned into a public limited company.

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.

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.

Matco Foods Limited (‘MFL’ or ‘the Company’) primarily engages in the processing and export of rice and associated products. These encompass Basmati rice, Irri rice, Rice glucose, and Rice protein. Additionally, the Company markets various food items under the brand name Falak. MFL has ventured into the Corn Starch business recently. The Company's operations span five rice processing and milling plants, incorporating paddy drying, storage, and husking facilities situated in Sadhoke, Punjab, and Karachi, Sindh while the newly established Corn Starch plant is located in Faisalabad, Punjab.

Key Rating Drivers:

Favorable demand dynamics witnessed as world rice consumption increased from 503m MT in FY21 to 520m MT in FY22. However, consumption is projected at 517m MT in FY23.

Rice is one of the major staple foods in Pakistan and its contribution towards GDP was 0.4% in FY23. Rice production decreased from 9.3m MT in FY22 to 7.3m MT in FY23, a decrease of 21.5% mainly due to floods affecting overall production levels. Rice exports accounted for 7.8% (FY22: 7.9%) towards Pakistan’s overall exports revenue. Resultantly, overall USD repatriation decreased from USD 2.51b in FY22 to USD 2.15b in FY23.

- The annual export of rice in quantity increased from 3.6m MT in FY21 to 4.9m MT in FY22. However, the export quantity decreased to 3.7m MT in FY23 due to unprecedented floods, which majorly affected Sindh; wherein an area of around 6,200 km² (1,540,000 acres) of farmland was flooded. With estimated damage of 31% to paddy fields, Pakistan lost about USD 0.4b towards export revenue.
- There was a decrease of 21% on YoY basis in the export of Basmati rice which accounted for 0.60m MT (FY22: 0.75m MT) in FY23. Non-Basmati exports were recorded lower at 3.12m MT (FY22: 4.13m MT) depicting a decrease of 26%.
- Middle Eastern countries have remained the largest buyers of Rice from Pakistan over the years, and FY23 was no exception. During FY23, 10.5% of the overall rice exports were to UAE, 7.9% to Kenya, 7.2% to China, 5.1% to Italy and 4.8% to Saudi Arabia. Export of Basmati rice has been concentrated in Middle East while Kenya remains the largest importer of non-basmati rice from Pakistan.

Diversification initiatives

The recently established corn starch division operated at 35% capacity utilization in FY23. The demand is expected to increase going forward, leading to a projected increase in production. Moreover, MATCO invested in a new facility for the production of Dextrose Monohydrate (DMH), incurred a cost of about Rs. 800m with debt-to-equity ratio of 1:1. DMH serves as a versatile ingredient widely employed in the food and beverage industry, functioning as a sweetener, thickener, and bulking agent. The strategic investment will further help MATCO strengthen its portfolio.

Revenue growth and margin uptick largely supported by price increase and initiation of corn starch sales.

The sales mix is tabulated below:

	FY22			FY23		
	Qty (MT)	Rs./Ton	Value (Rs)	Qty (MT)	Rs./Ton	Value (Rs)
Rice						
Basmati (Exports)	42,114	177,542	7,477	32,829	295,684	9,707
Basmati (Local)	5,174	167,762	868	9,211	218,760	2,015

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.

Iri (Export)	19,875	83,170	1,653	6,737	151,403	1,020
Total	67,163	148,862	9,998	48,777	261,230	12,742
Rice Glucose/Protein						
Rice Protein (Export)	1,172	211,604	248	578	448,097	259
Rice Protein (Local)	726	111,570	81	980	289,796	284
Rice Glucose (Export)	5,501	171,787	945	4,305	248,316	1,069
Rice Glucose (Local)	4,728	77,623	367	7,112	117,267	834
Total	12,127	135,318	1,641	12,975	188,516	2,446
Other Items						
Maltodextrin (Export)	510	239,216	122	102	333,333	34
Maltodextrin (Local)	1,330	160,150	213	1,545	234,951	363
Total Corn Starch	-	-	-	16,809	120,828	2,031
Total By- Product	34,655	42,447	1,471	39,634	60,075	2,381
Corn Starch By- Product	-	-	-	5,163	47,453	245
FALAK FFD	-	-	167	-	-	402
Total	36,495	54,062	1,973	57,988	94,088	5,456
Total Sales	115,785	117,563	13,612	125,004	165,145	20,645

The company exhibited growth in sales over the years. Net sales depicted a ~62% (FY22: ~17%) growth during FY23 reaching Rs. 20b (FY22: Rs. 12.4b; FY21: Rs. 10.6b) on the back of higher product prices and Rs. 2.0b worth of sales emanating from the newly added cornstarch plant. Rice glucose sales also increased considerably. For the FY23, MATCO's customer base for basmati exports are spread across 49 countries worldwide. The top 5 country-wise concentration in export sales is high at ~62% in FY23 with Australia, Netherlands and United Kingdom remained as prime markets for Basmati rice. The proportion of local sales in total sales has been increasing in recent years. During FY23, domestic sales contributed 31.6% (FY22: 23.3%) to the total sales as tabulated below:

Gross Sales (Rs. Million)	FY22	%	FY23	%
Local	3,264	23.75%	8,644	40.79%
Export	10,476	76.25%	12,547	59.21%
Total	13,740		21,192	

Net sales stood at Rs. 6.8b during 1QFY24. MATCO remained largely resilient to last year's floods due to its predominant market presence in the basmati rice category as basmati cultivation is primarily concentrated in the Punjab region while floods mainly affected area in Sindh province.

The company was able to increase its gross margins to 12.3% (FY22: 10.7%; FY21: 6.1%) during FY23. Despite the impact of high inflation on the cost of raw material, the pressure on gross margins was alleviated by higher product prices. Despite considerably higher finance cost of Rs. 1.2b (FY22: Rs. 388m), higher operating expenses (FY23: Rs. 920m; FY22: 586m) and incidence of taxation at 27.3% (FY22: 20.5%), net profit increased to Rs. 555m (FY22: Rs. 422m) on account of higher sales, increased margins, and higher exchange gain of Rs. 412m (FY22: Rs. 202m) during FY23.

Coverages have remained sound and overall liquidity has been adequate.

Funds from Operations (FFO) increased to Rs. 804m (FY22: Rs. 590m; FY21: Rs. 133m) during FY23. FFO to total debt and FFO to long-term debt improved slightly to 0.08x (FY22: 0.07x) and 0.36x (FY22: 0.31x) respectively while debt servicing coverage ratio stood at 1.6x (FY22: 1.7x) in FY23. Trade debts to total sales decreased to 11.0% (FY22: 14.7%). Aging of trade receivables is as follows:

Receivable Positions (Rs. Million)	FY22	FY23
0 to 90 days	1510	1987
91 to 180 days	264	97
181 to 360 days	44	110
Above 360 days	-	-
Total	1818	2194

Short-term liquidity is considered adequate with current ratio and short-term borrowing coverage at 1.2x (FY22: 1.3x) and 1.4x (FY22: 1.4x) respectively at end-FY23. Cash conversion cycle, though improved, remained high at 201 days (FY22: 284 days; FY21: 281 days) during FY23 mainly due to high inventory days.

An increasing trend in gearing has been witnessed over the years. Gradual decrease in leverage indicators is projected, going forward.

Leverage indicators are tabulated below:

	Jun'20	Jun'21	Jun'22	Jun'23
Equity	4,146	4,192	4,628	5,076
Gearing	1.38x	1.52x	1.93x	2.10x
Leverage	1.70x	1.72x	2.17x	2.67x

Given profit retention, equity base has enhanced on a timeline basis to Rs. 5.1b (FY22: Rs. 4.6b; FY21: Rs. 4.2b). Apart from equity, the balance sheet is funded mainly through short-term borrowings while long-term borrowings increased to fund capex. Capitalization have witnessed deterioration on timeline basis; gearing and leverage ratios stood at 2.1x (FY22: 1.9x) and 2.7x (FY22: 2.2x) respectively at end-FY23. As the company has no plans to mobilize long-term financing in the medium term, the management is projecting gradual decrease in leverage indicators, going forward.

Matco Foods Limited
Appendix I

Financial Summary				
<i>(Amount in Million)</i>				
BALANCE SHEET	FY21	FY22	FY23	1Q24
Property, Plant & Equipment	4,908	6,570	7,742	7,754
Long-term deposits	16	17	17	17
Long Term Investments	56	63	65	66
Stock in Trade	7,171	7,662	9,574	9,683
Trade Debts	1,041	1,818	2,194	2,255
Cash & Bank Balances	105	304	359	431
Other Assets	556	648	1,095	1,185
Total Assets	13,853	17,081	21,047	21,392
Trade and Other Payables	520	671	1,849	1,402
Short Term Borrowings	5,533	6,980	8,417	9,241
Long-Term Borrowings <i>(Inc. current matur)</i>	818	1,932	2,261	2,203
Deferred Liabilities	229	257	309	304
Other Liabilities	102	182	728	681
Total Liabilities	7,202	10,022	13,563	13,830
Issued, Subs, and Paid-Up Capital	1,224	1,224	1,224	1,224
Equity (Exc. Surplus on Reval. of PPE)	4,192	4,628	5,076	5,158
INCOME STATEMENT	FY21	FY22	FY23	1Q24
Net Sales	10,557	12,376	19,985	6,838
Gross Profit	647	1,320	2,453	808
Operating Profit	152	734	1,534	545
Profit Before Tax	20	531	764	145
Profit After Tax	-61	422	556	77
RATIO ANALYSIS	FY21	FY22	FY23	1Q24
Gross Margin (%)	6.1%	10.7%	12.3%	11.8%
Net Margin (%)	-0.6%	3.4%	2.8%	1.1%
FFO	133	590	804	82
FFO to Long-Term Debt *	0.16	0.31	0.36	0.15
FFO to Total Debt *	0.02	0.07	0.08	0.03
Debt Servicing Coverage Ratio (x)	1.15	1.73	1.56	1.07
ROAA (%) *	-0.4%	3.6%	3.9%	1.6%
ROAE (%) *	-1.5%	12.8%	15.3%	6.2%
Gearing (x)	1.52	1.93	2.10	2.22
Debt Leverage (x)	1.72	2.17	2.67	2.68
Current Ratio	1.37	1.27	1.15	1.14
Inventory + Receivables/Short-term Borrowings	1.48	1.36	1.40	1.29
Cash Conversion Cycle	281	284	201	-

*Annualized

REGULATORY DISCLOSURES				Appendix II		
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					
	29-Dec-23	BBB+	A-2	Stable	Reaffirmed	
	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		
Instrument Structure	N/A					
Statement by the Rating Team	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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Due Diligence Meetings Conducted	Name	Designation		Date		
	Mr. Muhammad Aamir Farooqui	CFO		December		
	Mr. Danish Ahmed	Senior Manager Accounts & Reporting		18, 2023		