

## RATING REPORT

### Matco Foods Limited (MFL)

**REPORT DATE:**

January 06, 2025

**RATING ANALYSTS:**

Zainab Imran

[Zainab.imran@vis.com.pk](mailto:Zainab.imran@vis.com.pk)

#### RATING DETAILS

| Rating Category      | Latest Rating    |            | Previous Rating   |            |
|----------------------|------------------|------------|-------------------|------------|
|                      | Long-term        | Short-term | Long-term         | Short-term |
| Entity               | BBB+             | A2         | BBB+              | A2         |
| Rating Outlook/Watch | Stable           |            | Stable            |            |
| Rating Date          | January 06, 2025 |            | December 29, 2023 |            |
| Rating Action        | Reaffirmed       |            | Reaffirmed        |            |

#### COMPANY INFORMATION

|  |   |
|--|---|
| Incorporated in April 1990                       | <b>External auditors:</b> Grant Thornton Anjum Rahman Co. Chartered Accountants |
| Listed Public Limited Company                    | <b>Chairman of the Board:</b> Mr. Jawed Ali Ghori                               |
| <b>Key Shareholders (with stake 5% or more):</b> | <b>Chief Executive Officer:</b> Mr. Khalid Sarfaraz Ghori                       |
| Ghori Group – 62%                                |   |
| International Finance Corporation – 15%          |   |
| General Public (Local)- 17%                      |   |

#### APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates

<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 2018, it further transitioned 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.*

**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.*

**Corporate Profile:**

Matco Foods Limited (MFL) or ('the Company') was incorporated on April, 1990 in Karachi as a private limited Company and listed on Pakistan Stock Exchange Limited on February, 2018. The Company business primarily engages in the processing and export of rice and associated products. MFL is selling its products under the brand name 'Falak' and private labelling including brand names: Amber, Areej, Bahar, Everyday, Falak, Fiza, Rojan, Sevan, Sunbul, Rice glucose, Rice protein, Maltodextrin, Dextrose monohydrate and cornstarch. The Company's products include predominantly basmati rice, rice glucose, rice protein, rice maltodextrin, corn starch, Himalayan pink salt, and other gourmet salts, spices, dessert mixes, and many more. 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 Corn Starch plant is located in Faisalabad, Punjab.

The majority of the shareholding is vested in the Ghouri family, with Mr. Javaid Ali Ghouri holding 19.62%, Mr. Khalid Sarfaraz Ghouri holding 19.63%, Ms. Sadaf Tariq holding 20%, and other family members collectively holding 2.81%. Additionally, International Finance Corporation holds 15%, while the remaining shares are held by the general public and others. The Company also has 100% ownership of JKT General Trading FZE, a United Arab Emirates-based subsidiary registered with the Government of Sharjah. The subsidiary's business involves the purchase and sale of processed rice. Going forward, the Company is planning to establish a separate entity for its corn starch division and is currently raising capital for this purpose. The entity is expected to be listed on the PSX in FY26.

The Company operates four plants: a rice processing plant with a capacity of 40,410 MT per annum, a rice plant with a production capacity of 138,090 MT per annum, a corn starch plant with a grinding capacity of 72,000 MT per annum, and a rice glucose plant with production capacities of 30,000 MT and 3,000 MT per annum for rice glucose and protein, respectively. In FY24, the Company is operating at full capacity, with the rice processing unit utilizing 62% of its capacity (FY23: 59%), the corn starch plant achieving 68% utilization (FY23: 35%), however the rice glucose plant seeing a decline in capacity utilization at 32% (FY23: 40%).

**Industry Overview:**

The Pakistani rice sector demonstrated remarkable resilience and growth in 2024, driven by increased global demand, particularly from Far Eastern countries such as Indonesia, Malaysia, Singapore, and the Philippines. These nations, affected by the El Niño weather phenomenon, experienced declines in agricultural production, boosting the demand for imported rice. According to the Pakistan Bureau of Statistics, rice exports in FY24 reached \$3.9 billion, reflecting a 78% year-on-year growth. In the first five months of FY25, rice exports totaled \$1.515 billion, a 35% increase compared to the same period in the previous fiscal year. Non-Basmati rice exports showed notable growth, rising to 781,882 tons in November 2024 from 665,851 tons a year earlier, while Basmati rice exports surged by 51% during the first five months, showcasing the increasing global preference for Pakistani rice due to its quality and aroma.

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.

**Key Rating Drivers:**

**Strong growth in topline supported by favorable market dynamics, volumetric growth and, price increase.**

A significant increase in the topline was observed during FY24, reaching Rs. 27 billion compared to Rs. 19 billion in FY23, reflecting robust growth of approximately 39%. This surge was driven by higher volumes and increased pricing. Total sales were comprised of 59% exports and 41% local sales. The rice category remained the primary contributor, accounting for 68% of net sales, followed by the corn starch division at 18%, the rice glucose division at 12%, and Falak Spices at 3%.

| Category (In Million)        | FY23              | FY24              | Growth %   |
|------------------------------|-------------------|-------------------|------------|
| <b>Rice</b>                  | 13,852,524        | 18,646,074        | 35%        |
| <b>Rice Glucose Division</b> | 3,461,483         | 3,288,410         | -5%        |
| <b>Falak FFD (Spice)</b>     | 414,960           | 718,861           | 73%        |
| <b>Corn Starch Division</b>  | 2,256,433         | 5,042,323         | 123%       |
| <b>Net Sales</b>             | <b>19,985,401</b> | <b>27,695,668</b> | <b>39%</b> |

The market share of Company in exports remained stable in FY24 compare to the last year, reported at 5.3% in rice segment. The majority of exports are contributed by the rice segment, predominantly basmati rice. Rice exports in volumes increased to 47 million MT in FY24 compared to 39 million MT in FY23). An increase in per-unit prices was also observed, with basmati rice recording a rise of \$0.04 per MT. Followed by the rice segment, the other contributions come from corn starch division.

| S. No | Variety                              | Jul-23 to Jun-24 |                | Jul-22 to Jun-23 |                |
|-------|--------------------------------------|------------------|----------------|------------------|----------------|
|       |                                      | Unit Qty (MT)    | PKR in Million | Unit Qty (MT)    | PKR in Million |
| 1.a   | <b>Basmati (Export)</b>              | 40,923           | 13,408         | 32,829           | 9,183          |
| 1.b   | <b>Basmati (Local)</b>               | 6,174            | 1,427          | 9,211            | 2,015          |
| 2     | <b>Irri (Export)</b>                 | 6,984            | 1,368          | 6,737            | 965            |
| 3.a   | <b>Falak Foods (Export)</b>          | -                | 130            | -                | 50             |
| 3.b   | <b>Falak Foods (Local)</b>           | -                | 276            | -                | 349            |
| 4.a   | <b>Rice Protein (Export)</b>         | 689              | 247            | 578              | 245            |
| 4.b   | <b>Rice Protein (Local)</b>          | 1,408            | 355            | 980              | 284            |
| 5.a   | <b>Rice Glucose (Export)</b>         | 4,188            | 1,045          | 4,305            | 1,011          |
| 5.b   | <b>Rice Glucose (Local)</b>          | 4,455            | 631            | 7,112            | 834            |
| 6.a   | <b>Maltodextrin (Export)</b>         | 5                | 1.81           | 102              | 32             |
| 6.b   | <b>Maltodextrin (Local)</b>          | 1,237            | 307            | 1,545            | 363            |
| 7.a   | <b>Dextrose Monohydrate (Export)</b> | 2                | 1              | -                | -              |
| 7.b   | <b>Dextrose Monohydrate (Local)</b>  | 707              | 165            | -                | -              |
| 8.a   | <b>Corn Starch (Export)</b>          | 5,477            | 572            | 1,729            | 402            |
| 8.b   | <b>Corn Starch (Local)</b>           | 30,953           | 3,689          | 15,080           | 1,626          |
|       | <b>Total Finished Goods</b>          | <b>103,202</b>   | <b>23,622</b>  | <b>80,207</b>    | <b>17,359</b>  |
| 9     | <b>Total By-Product (MRP)</b>        | 50,971           | 4,075          | 44,797           | 2,627          |
|       | <b>Total Sales</b>                   | <b>154,173</b>   | <b>27,696</b>  | <b>125,004</b>   | <b>19,985</b>  |

The export regions targeted by MFL include Africa, Asia, Australia & New Zealand, USA, Canada and Europe. Going forward, management anticipates robust growth in rice exports,

targeting a volume increase of ~10% (FY25P: 62,000MT, FY24: 56,359MT), driven by rising demand. The Company is strategically focusing on the UAE market to enhance export performance further. Additionally, the introduction of new product varieties is expected to contribute positively to the bottom line

#### **Subdued margins impacting profitability.**

Gross margins declined in FY24, recording 11.45% compared to 12.28% in FY23. This decrease was primarily attributed to a contraction in the gross profit margin of the rice glucose segment, driven by a substantial rise in raw material costs. Rising utility expenses further pressured margins. Net margins were also constrained due to increased financial charges resulting from higher interest rates. Elevated working capital costs continued to weigh on bottom-line profitability.

Looking ahead, gross margin improvement is anticipated, supported by the stabilization of newer divisions such as the corn starch and rice glucose segments, which became operational in FY22 and FY24, respectively. The Company also plans to implement cost-reduction strategies, target new markets—particularly in the pharmaceutical sector—and reduce operating expenses. Additionally, the installation of a 1.5MW boiler is expected to lower utility costs and enhance operational efficiencies. Future margin recovery is expected to benefit from current reduction in policy rate.

#### **Improving Liquidity Amid Challenges: Focus on Cash Conversion Cycle Reduction and Strategic Reprofiting**

The Company's current ratio has been deteriorating over time, standing at 1.06x in FY24 (FY23: 1.15x, FY22: 1.27x), primarily due to a balance sheet mismatch and an extended cash conversion cycle (CCC). Continuous expansion in recent years and increased working capital requirements have further strained liquidity. However, the Company has been actively working to improve its working capital cycle, evidenced by a notable reduction in the CCC from 270 days in FY22 to 193 days in FY23 and further to 158 days in FY24.

Additionally, the Company is considering balance sheet reprofiling, including restructuring the corn starch business with fresh equity injection. Going forward, the Company aims to continue reducing the CCC, supported by its business diversification beyond the rice category. As these initiatives take effect, liquidity metrics are expected to improve in the coming periods.

#### **Capitalization profile remain under pressure.**

The Company's capitalization profile remains under pressure, with leverage and gearing indicators reflecting increased financial strain. As of FY24, leverage stood at 2.75x (FY23: 2.11x), while gearing rose to 3.66x (FY23: 2.67x). These metrics have been adversely affected by subdued profitability, high financial charges, and significant cash outflows to finance consecutive years of capital expenditures.

Debt servicing capacity has also been constrained due to these factors, further emphasizing the need for financial optimization. However, the Company's capitalization profile remains under pressure, with leverage and gearing indicators reflecting increased financial strain. As of FY24, leverage stood at 2.75x (FY23: 2.11x), while gearing rose to 3.66x (FY23: 2.67x). These metrics have been adversely affected by subdued profitability, high financial charges, and significant cash outflows to finance consecutive years of capital expenditures. However, the Company is taking proactive steps to improve its financial position. The issuance of a short-

term Sukuk is expected to provide immediate relief by enhancing liquidity and reducing reliance on short-term financing. Additionally, with no further capital expenditure planned in the near term and anticipated improvement in margins and profitability, the Company anticipates an easing of its leverage and gearing ratios, leading to a more stable capitalization profile. Going forward, ratings will remain underpinned on sustained sponsor support and a recovery in financial metrics.

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

| <b>Financial Summary</b>               |                  |                  |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|------------------|
| <b>Balance Sheet (PKR Millions)</b>    | <b>FY21A</b>     | <b>FY22A</b>     | <b>FY23A</b>     | <b>FY24A</b>     | <b>3MFY25M</b>   |
| Property, plant and equipment          | 4,907.93         | 6,569.62         | 7,741.82         | 11,419.86        | 11,301.94        |
| Right-of-use Assets                    | 0.00             | 0.00             | 243.53           | 239.64           | 227.22           |
| Stock-in-trade                         | 7,171.28         | 7,662.05         | 9,574.43         | 11,613.57        | 10,971.18        |
| Trade debts                            | 1,041.12         | 1,818.34         | 2,194.18         | 2,334.77         | 2,306.37         |
| Short-term Investments                 | 1.58             | 4.25             | 4.22             | 1.20             | 1.20             |
| Cash & Bank Balances                   | 104.96           | 303.57           | 359.00           | 357.42           | 234.27           |
| Other Assets                           | 570.73           | 660.15           | 864.41           | 1,517.05         | 2,201.35         |
| <b>Total Assets</b>                    | <b>13,853.18</b> | <b>17,080.72</b> | <b>21,046.90</b> | <b>27,539.09</b> | <b>27,299.11</b> |
| Creditors                              | 459.36           | 539.06           | 1,658.59         | 2,228.58         | 2,246.42         |
| Long-term Debt (incl. current portion) | 824.44           | 1,960.08         | 2,296.79         | 2,045.08         | 1,939.04         |
| Short-Term Borrowings                  | 5,533.01         | 6,979.64         | 8,416.68         | 11,123.99        | 11,168.78        |
| <b>Total Debt</b>                      | <b>6,357.45</b>  | <b>8,939.72</b>  | <b>10,713.47</b> | <b>13,169.07</b> | <b>13,107.82</b> |
| Other Liabilities                      | 385.28           | 543.60           | 1,190.70         | 2,153.80         | 1,851.76         |
| <b>Total Liabilities</b>               | <b>7,202.09</b>  | <b>10,022.38</b> | <b>13,562.76</b> | <b>17,551.45</b> | <b>17,206.00</b> |
| Paid up Capital                        | 1,224.01         | 1,224.01         | 1,224.01         | 1,224.01         | 1,224.01         |
| Revenue Reserve                        | 2,287.14         | 2,723.39         | 3,171.67         | 2,888.86         | 3,036.31         |
| Equity (excl. Revaluation Surplus)     | 4,191.62         | 4,627.87         | 5,076.15         | 4,793.34         | 4,940.79         |

| <b>Income Statement (PKR Millions)</b> | <b>FY21A</b> | <b>FY22A</b> | <b>FY23A</b> | <b>FY24A</b> | <b>3MFY25M</b> |
|--|--------------|--------------|--------------|--------------|----------------|
| Net Sales                              | 10,556.62    | 12,375.93    | 19,985.41    | 27,695.67    | 6,575.24       |
| Gross Profit                           | 647.19       | 1,319.83     | 2,453.26     | 3,171.02     | 907.28         |
| Operating Profit                       | 292.38       | 919.03       | 1,946.16     | 2,175.56     | 711.70         |
| Finance Costs                          | 272.83       | 387.87       | 1,182.36     | 2,243.88     | 556.55         |
| Profit Before Tax                      | 19.55        | 531.16       | 763.80       | -68.32       | 155.15         |
| Profit After Tax                       | -60.87       | 422.43       | 555.61       | -262.47      | 105.52         |

| <b>Ratio Analysis</b>                     | <b>FY21A</b> | <b>FY22A</b> | <b>FY23A</b> | <b>FY24A</b> | <b>3MFY25M</b> |
|---|--------------|--------------|--------------|--------------|----------------|
| Gross Margin (%)                          | 6.13%        | 10.66%       | 12.28%       | 11.45%       | 13.80%         |
| Operating Margin (%)                      | 2.77%        | 7.43%        | 9.74%        | 7.86%        | 10.82%         |
| Net Margin (%)                            | -0.58%       | 3.41%        | 2.78%        | -0.95%       | 1.60%          |
| Funds from Operation (FFO) (PKR Millions) | 133.40       | 589.66       | 803.70       | 284.67       | -115.28        |
| FFO to Total Debt* (%)                    | 2.10%        | 6.60%        | 7.50%        | 2.16%        | -3.52%         |
| FFO to Long Term Debt* (%)                | 16.18%       | 30.08%       | 34.99%       | 13.92%       | -23.78%        |
| Gearing (x)                               | 1.52         | 1.93         | 2.11         | 2.75         | 2.65           |
| Leverage (x)                              | 1.72         | 2.17         | 2.67         | 3.66         | 3.48           |
| Debt Servicing Coverage Ratio* (x)        | 0.85         | 1.57         | 1.14         | 0.89         | 0.93           |
| Current Ratio (x)                         | 1.37         | 1.27         | 1.15         | 1.06         | 1.07           |
| (Stock in trade + trade debts) / STD (x)  | 1.50         | 1.37         | 1.41         | 1.28         | 1.22           |
| Return on Average Assets* (%)             | -0.44%       | 2.73%        | 2.91%        | -1.08%       | 1.54%          |
| Return on Average Equity* (%)             | -1.46%       | 9.58%        | 11.45%       | -5.32%       | 8.67%          |
| Cash Conversion Cycle (days)              | 287.02       | 270.54       | 193.19       | 158.59       | 177.98         |

\*Annualized, if required

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

| REGULATORY DISCLOSURES                      |   |                            |                   | Appendix II                 |                      |
|---|---|----------------------------|-------------------|-----------------------------|----------------------|
| <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 and Instrument Rating  |                            |                   |                             |                      |
| <b>Rating History</b>                       | <b>Rating Date</b>  | <b>Medium to Long Term</b> | <b>Short Term</b> | <b>Rating Outlook/Watch</b> | <b>Rating Action</b> |
|   | <b><u>RATING TYPE: ENTITY</u></b>   |                            |                   |                             |                      |
|   | 06-Jan-25   | BBB+                       | A2                | Stable                      | Reaffirmed           |
|   | 29-Dec-23   | BBB+                       | A2                | Stable                      | Reaffirmed           |
|   | 12-Dec-22   | BBB+                       | A2                | Stable                      | Reaffirmed           |
|   | 28-Jan-22   | BBB+                       | A2                | Stable                      | Downgrade            |
|   | 6-Jan-21  | A-                         | A2                | Stable                      | Maintained           |
|   | 10-Dec-19   | A-                         | A2                | Positive                    | Maintained           |
|   | 15-Nov-18   | A-                         | A2                | Stable                      | Reaffirmed           |
|   | 01-Jan-18   | A-                         | A2                | Stable                      | Reaffirmed           |
|   | 4-Apr-17  | A-                         | A2                | Stable                      | Reaffirmed           |
|   | 28-Dec-15   | A-                         | A2                | Stable                      | Reaffirmed           |
|   | 29-Dec-14   | A-                         | A2                | Stable                      | Reaffirmed           |
|   | 15-Jun-12   | A-                         | A2                | Stable                      | Reaffirmed           |
|   | 12-Jun-12   | A-                         | A2                | Stable                      | Upgrade              |
| 27-May-11                                   | BBB+  | A3                         | Stable            | Upgrade                     |                      |
| <b><u>RATING TYPE: SHORT TERM SUKUK</u></b> |   |                            |                   |                             |                      |
|   | 06-Jan-25   |                            | A1(plim)          |                             | <b>Preliminary</b>   |
| <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>                 |                      |
|   | Mr. Faizan Ghouri   | Director                   |                   | December 17, 2024           |                      |
|   | Mr. Muhammad Aamir Farooqui   | CFO                        |                   |                             |                      |
|   | Mr. Danish Ahmed  | Company Secretary          |                   |                             |                      |