RATING REPORT

Garibsons (Pvt.) Ltd. (GPL)

REPORT DATE:
March 11, 2021

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	A-	A-2
Rating Outlook	Positive	
Rating Date	*March 11, 2021*	

COMPANY INFORMATION	
Incorporated in June 1976	**External auditors:** Rahim Jan & Co., Chartered Accountants
Private Limited Company	**Chairman of the Board:** Mr. Farooq Ahmed Garib
Key Shareholders:	**Chief Executive Officer:** Mr. Fuad Hamid Garib
Family owned enterprise – 100%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: ***Industrial Corporates (April 2019)***
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

Garibsons (Pvt.) Ltd.

OVERVIEW OF THE INSTITUTION

Garibsons (Pvt.) Ltd. (GPL) was incorporated in Karachi, Pakistan as a private limited company on June19, 1976. The company is BRC, HACCP & Halal certified company and its IFS (International Foods Standards) certification is in progress.

Profile of Chairman
Mr. Farooq Ahmed Garib is the founder of GPL. He has more than 55 years of experience in C -level positions, with exposure in the areas of management, strategy, planning, marketing, sales, and distribution. Mr. Farooq Ahmed Garib holds a Bachelor's Degree from Elphinstone College – Bombay

Profile of CEO
Mr. Fuad Hamid Garib is seasoned professional with over 30 years of executive level management experience under his belt. He is also a management committee member of the Rice Exporters Association of Pakistan (REAP) and was chairman of the Wheat Traders Association of Pakistan (WTAP) in 2010. He holds a Bachelor's Degree in Electrical Engineering from Columbia University.

RATING RATIONALE

Garibsons (Pvt.) Ltd. (GPL) is engaged in the business of processing, export of Rice, Rice Bran, Rice Husk, Wheat, Maize and manufacturing of Raw and Laminated Chipboard and Medium Density Fibreboard (MDF). The brief description of the company's major business units is presented below:

Rice: The company purchases paddy directly from farmers when the new crop arrives. First processing is done at the husking plants of the company and subsequently the de-husked rice is re-processed in the company's mills in line with the buyer's requirements. Majority of the rice produced by the company is exported to different countries under the company's name; however, GPL also produces its custom brand of rice called 'Mughal', which is sold locally. The 'Mughal' brand has presence across all modern trade outlets in Pakistan, including Makro, Metro and Carrefour as well as in major retail outlets across the country.

Wheat: GPL also procures wheat, processes it further and sells it under the 'Mughal' brand name locally. In the past, when the country had a bumper wheat crop and the government allowed export of the surplus quantity, GPL also exported wheat to other countries (170,000 Tons in FY18).

Hybrid Seeds: Garibsons has also invested in research and development efforts to produce hybrid seeds which enable the farmers to increase their yield per acre and produce a better quality of rice. Hybrid seeds are also sold locally under the 'Mughal' brand.

Panels and Woodworking: NUBoard is Garibsons' flagship brand for panels and woodworks. The umbrella brand has the following products:

- MDF
- HDF
- Particle board
- Lamination

The company's processing and storage facilities are based in Sindh (Karachi, Gharo, Jacobabad and Golarchi) and Punjab (Sheikhupura, Pindi Das, Layyah and Chaubara). Processed products from almost all the locations are transported to the Port Qasim facility for exports. As per management, the company's facility based in Port Qasim provides strategic advantage in terms of exports.

GPL is a family owned organization with three generations of the Garib family participating in the management and supervision of the company's operations. The following table presents the existing shareholding pattern of the company:

Figure 1: Shareholding Pattern

S. No.	Shareholders name	Number of shares	% shareholding
1	Mr. Farooq Ahmed Garib	602,534	6.7%
	Mr. Faisal Farooq Garib	602,533	6.7%
	Mr. Fauzi Farooq Garib	602,533	6.7%
2	Mr. Shahid Ahmed Garib	602,534	6.7%
	Mr. Hani Shahid Garib	602,533	6.7%
	Mr. Hadi Shahid Garib	602,533	6.7%
3	Mr. Zahid Ahmed Garib	1,807,600	20.0%
4	Mr. Fuad Hamid Garib	903,800	10.0%
	Mr. Farhan Hamid Garib	903,800	10.0%
5	Mr. Sami Rashid Garib	903,800	10.0%
	Mr. Saad Rashid Garib	903,800	10.0%
	Total	9,038,000	100.0%

Capacity utilization

	FY20		
	Annual Capacity	Actual Production	Capacity Utilization
Rice Reprocessing Units (in Metric Tons)	**849,600**	440,185	52%
Paddy Units (in Metric Tons)	**432,000**	186,519	43%

Given the seasonal nature of the business, annual average capacity utilization remains approximately half of the total capacity. However, during the peak seasons, the plants operate at 95% capacity and the management even outsources production to meet demand.

Rating Drivers

Business risk is considered moderate in view of significant competition and volatility in prices due to demand supply dynamics; however, growing worldwide population supports demand of rice in the long run. The ratings take into account sizeable market share of GPL in overall rice exports of Pakistan

Rice is the second main staple food crop after wheat and second major exportable commodity after cotton in Pakistan. It contributes 3.1% of value added in agriculture and 0.6% in GDP[1]. In FY20, Pakistan produced 7.4 million tons of rice annually, out of which over 4 million tons is exported while the rest is consumed locally. Pakistan's exports form more than 8 percent of world's total rice trade and the country is ranked as the 10th in largest rice producing country

[1] Federal Bureau of Statistics

in the world. Despite the pandemic, Pakistan's rice export revenue increased to an all-time high of USD 2.175bn in FY20, registering a growth of 5.1% over the preceding year. During this period, many countries, including Thailand, suspended their rice exports in anticipation of securing domestic supply due to uncertainty with regards to lockdowns. This factor indirectly benefited Pakistan and India, whose rice exports were not majorly hindered, except for the slowdown in operational and port activities. Hence, prices were less vulnerable during this period. In 1HFY21, Pakistan's rice exports have remained subdued due to low prices offered by India in case of non-basmati rice and issues of higher freight and shipments costs from October 2020 amid the COVID-19 pandemic. The country's overall rice export declined by 10% in volumetric terms to 1.824 million tons and 6.7% in value terms to USD 963m in the period July-Dec 2020 vis-à-vis the corresponding period in the preceding year. Hence, price fluctuations due to competition and demand supply dynamics remains a key risk in terms of rice exports. However, growing worldwide population bodes favorably from the demand perspective in the long run. The assigned ratings take into sizeable market of GPL in exports. Despite presence of a large number of players, GPL has commanded a market share (in volumetric terms) of more than 7% in overall Pakistan's rice exports and more than 9% in non-basmati rice exports over the last ten years. GPL's market share in volumetric terms in overall Pakistan's rice exports was reported at 14% (FY20: 9%; FY19: 11%) in 1HFY21.

Topline has depicted healthy growth in the period from end-FY17 to end-FY20 primarily on account of increase in average selling prices; GPL is an export oriented company as export sales constitute more than four fifth of the total revenues

Net sales of the company have grown at a healthy CAGR of 24.5% in the period from end-FY17 to end-FY20 and were reported at Rs. 27.5b (FY19: Rs. 28.3b; FY18: Rs. 27.4b; FY17: Rs. 14.3b) in FY20. During FY18, the sales growth was majorly driven by higher volumes; in the subsequent years, the topline was sustained on account of higher average selling prices as the company also reaped benefit of rupee devaluation. Slight decline in sales was observed in FY20 due to reduced production and supply chain disruptions on account of COVID-19 pandemic. Sales mix of the company indicates that export sales have historically constituted more than 80% of the total topline of the company. The company exports to more than 60 countries across the world; geographic concentration in export sales is considered adequate with top 5 countries accounting for 58.2% of total export sales. Client-wise concentration in sales is considered manageable as top 10 clients accounted for 35.7% of sales in FY20. Although the company's product portfolio is diversified, rice (especially IRRI) contributes more than 70% of the total revenue.

(Rs. in millions)	FY17	%	FY18	%	FY19	%	FY20	%
Export Sales	11,522	81%	24,714	90%	24,672	87%	22,753	83%
Local Sales of Local Goods	2,576	18%	2,685	10%	3,047	11%	4,432	16%
Local Sale of Imported Goods	152	1%	11	0%	586	2%	333	1%
Total	14,250		27,410		28,305		27,518	

In the ongoing year, the management is projecting healthy growth in revenues on account of sufficient orders in hand in lieu of stable demand. The company reported revenue to the tune of Rs. 19.8b (1HFY20: Rs. 13.7b) in 1HFY21, which reflects sizeable growth of 20% in terms of volumes vis-à-vis the corresponding period in 1HFY20.

Growth in topline coupled with improvement in margins has translated to higher profitability on a timeline basis. Gross margins are primarily impact by product mix in overall sales. Gross margins are on the lower side vis-à-vis peers due to high competition

Gross margins of the company are primarily a function of product mix of the company. In FY20, higher proportion of basmati rice in overall sales mix contributed to improvement in overall gross margins of the company. Margins in case of basmati rice are almost twice those in case of IRRI rice. Higher increase in average selling prices vis-à-vis the increase in cost of raw materials have also contributed to improvement in gross margins on a timeline basis. Gross margins of the company remain on the lower side vis-à-vis peers. Growths in revenues and improved margins have culminated to higher bottom-line over the years. Going forward, management's strategy is to maintain its focus on exports, while enhancing the quantum of branded product sales (Mughal brand). As per management, branded products command high margins and will help enhance profitability going forward. Management also plans to increase its product portfolio through addition of new products in the long run; the same will also ensure diversification in revenue sources.

Liquidity profile of the company is considered satisfactory as evident from sound debt servicing ability and improving cash flows

Liquidity profile of the company has improved on a timeline basis in line with improving profitability which has resulted in higher cash flow generation. In absolute terms, Funds from Operations (FFO) amounted to Rs. 922m (FY19: Rs. 793m; FY18: Rs. 781m) during FY20. Higher FFO has translated to improvement in liquidity indicators with Debt Servicing Coverage Ratio (DSCR) being reported at 3.62x (FY19: 2.94; FY18: 3.44x) in FY20. Given the nature of the industry, days' inventory outstanding is on the higher side; however, working capital cycle is considered manageable. Stock in trade and trade debts provide adequate coverage for short term borrowings (FY20: 128.3%; FY19: 119.1%; FY18: 113.1%). The current ratio has consistently stayed over 1x over the financial performance timeline (FY20: 1.29x; FY19: 1.18; FY18: 1.15x).

Leverage indicators are on the higher side due to utilization of short term borrowings, however, the same have depicted improvement on a timeline basis due to increase in equity base. Given the projected increase in profitability, capitalization indicators are also expected to improve going forward

Equity base was reported higher at Rs. 4.9b (FY20: Rs. 4.4b; FY19: Rs. 3.6b; FY18: Rs. 2.9b) at end-1HFY21 on account of profit retention. The company has not paid any divided during the last three financial years. Debt profile of the company comprises 90% of short term borrowings and remaining proportion is provided by long term debt. In absolute terms, total debt has amounted to Rs. 13.1b (FY20: Rs. 8.0b; FY19: Rs. 8.5b; FY18: Rs. 8.2b) at end-1HFY21. Short term borrowing is utilized for paddy procurement primarily. Both gearing (FY20: 1.81x; FY19: 2.36x; FY18: 2.83x) and leverage ratio (FY20: 2.09x; FY19: 2.74x; FY18: Rs. 3.10x) have depicted considerable improvement on a timeline basis. Going forward, the management is projecting to incur capex to the tune of Rs. 1.4b over the next three years for Balancing, Modernization and Replacement (BMR) purpose. Out of this total amount, two-third amount will be funded through internally generated capital, while the remaining one-third through long term debt. Despite the increase in long term debt, capitalization indicators are expected to improve given the projected improvement in profitability & production.

Sound infrastructure and experienced management team

The company uses customized ERP application and Oracle 10g database management system to integrate various departments within the organization. Data backup is undertaken on a daily basis and offsite data backup is also maintained. Management team comprises seasoned professionals with significant experience within their respective domains. Management may consider inclusion of independent directors in the Board to further improve and enhance governance framework.

Garibsons Private Limited Appendix I

FINANCIAL SUMMARY (Rs. in millions)					
BALANCE SHEET	FY17	FY18	FY19	FY20	HY21
Property, plant and equipment	1,468.8	1,621.8	2,110.1	2,561.1	2,649.0
Long term Investments	20.7	20.5	20.4	19.1	25.0
Stock-in-Trade	6,380.6	5,899.7	7,227.6	7,110.1	8,712.0
Trade Debts	373.2	3,189.2	2,520.6	2,128.3	5,379.0
Cash & Bank Balances	192.0	119.1	230.2	212.0	189.0
Total Assets	9,208.3	11,845.8	13,436.3	13,590.8	17,992.0
Trade and Other Payables	471.2	486.5	1,226.0	1,087.2	782.0
Long Term Debt	217.2	130.8	285.8	768.6	719.0
Short Term Debt	6,102.3	8,033.8	8,182.5	7,201.4	11,501.0
Total Debt	6,319.5	8,164.7	8,468.3	7,970.0	12,220.0
Total Liabilities	7,064.2	8,959.1	9,843.5	9,187.4	13,117.0
Paid Up Capital	903.8	903.8	903.8	903.8	904.0
Total Equity	2,144.0	2,886.8	3,592.8	4,403.3	4,875.0
INCOME STATEMENT	FY17	FY18	FY19	FY20	HY21
Net Sales	14,250.2	27,409.6	28,303.6	27,517.9	19,815.0
Gross Profit	567.2	1,518.9	1,527.4	1,760.2	1,091.0
Operating Profit	366.8	1,322.4	1,349.8	1,409.2	N/A
Profit Before Tax	147.3	1,004.3	1,007.1	1,095.2	669.0
Profit After Tax	10.5	742.9	706.2	811.7	471.0
RATIO ANALYSIS	FY17	FY18	FY19	FY20	HY21
Gross Margin (%)	4.0%	5.5%	5.4%	6.4%	5.5%
Net Margin (%)	0.1%	2.7%	2.5%	2.9%	2.4%
Net Working Capital	834.2	1,356.2	1,740.8	2,487.6	2,878.0
Trade debts/Sales	2.6%	11.6%	8.9%	7.7%	27.1%
FFO	80.1	792.6	781.4	921.7	N/A
FFO to Total Debt (%)	1.3%	9.7%	9.2%	11.6%	N/A
FFO to Long Term Debt (%)	36.9%	605.8%	273.4%	119.9%	N/A
Current Ratio (x)	1.1	1.2	1.2	1.3	1.2
Debt Servicing Coverage Ratio (x)	N/A	3.4	2.9	3.6	N/A
Gearing (x)	2.9	2.8	2.4	1.8	2.5
Leverage (x)	3.3	3.1	2.7	2.1	2.7
(Stock in Trade + Trade Debts)/STD	110.7%	113.1%	119.1%	128.3%	122.5%
ROAA (%)	N/A	7.1%	5.6%	6.0%	N/A
ROAE (%)	N/A	29.5%	21.8%	20.3%	N/A

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

VIS Credit Rating Company Limited

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

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

(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

'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
Name of Rated Entity	Garibsons Private Limited
Sector	Food
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
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.
Probability of Default	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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Due Diligence Meetings Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
11/03/2021	A-	A-2	Positive	Initial

Due Diligence Meetings Conducted

S. No.	Name	Designation	Date
1	Mr. Faisal Garib	Director	February 11, 2021
2	Mr. Waqas	Chief Financial Officer	February 11, 2021