# RATING REPORT

# Garibsons (Pvt.) Ltd. (GSPL)

**REPORT DATE:**
February 23, 2022

**RATING ANALYSTS:**
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| RATING DETAILS | | | | |
|---|---|---|---|---|
| **Rating Category** | **Final Rating** | | **Previous Rating** | |
| | **Long-term** | **Short-term** | **Long-term** | **Short-term** |
| **Entity** | A- | A-2 | A- | A-2 |
| **Rating Outlook** | Stable | | Positive | |
| ***Rating Date*** | *February 23, 2022* | | *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: Corporates (August 2021)** |
| *https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf* |

## Garibsons (Pvt.) Ltd.

### OVERVIEW OF THE INSTITUTION

Garibsons (Pvt.) Ltd. (GSPL) 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 GSPL. 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. (GSPL) 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, GSPL 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:** GSPL 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, GSPL 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..

**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.

GSPL is a family owned organization with second generations of the Garib family participating in the management and supervision of the company's operations.

**Capacity utilization**

| | FY20 | | | FY21 | | |
|---|---|---|---|---|---|---|
| | Annual Capacity | Actual Production | Capacity Utilization | Annual Capacity | Actual Production | Capacity Utilization |
| Rice Reprocessing Units (in Metric Tons) | 849,600 | 440,185 | 52% | 849600 | 528,110 | 62% |
| Paddy Units (in Metric Tons) | 432,000 | 186,519 | 43% | 432,000 | 199,935 | 46% |

Capacity utilization levels improved in FY21 on account of increase in volumetric production due to timely procurement of raw material and sufficient orders in hand. 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.

In anticipation of a bumper crop this year, rice processing and paddy units capacity has increased by 17% to 993.6k MT and 507.6k MT, respectively at end-Dec'21. In FY22, GSPL's plans to expand its operations at Punjab location.

The total cost of this expansion plan in FY22 is Rs. 297m; Rs. 184m will be financed through equity proceeds and the remaining will be funded with debt drawdown. According to the management, cumulatively, over the course of next 4-5 years, expansion to the tune of Rs. 1.76b, around Rs. 1b (57%) of which will be financed through internal cash generation while the remaining Rs. 760m will be funded through debt drawdown. The impact of the planned developments on revenue, profitability and debt levels will be reflected over the rating horizon.

**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 GSPL 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 3.5% of value added in agriculture and 0.7% in GDP[1]. In FY21, Pakistan produced 8.4m MT of rice annually, out of which around 3.7m MT (FY20: 4.1m MT) is exported while the rest is consumed locally.
- 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. The contraction in rice exports was mainly driven by unavailability of shipment

1 Pakistan Bureau of Statistics

containers that raised the average cost of shipping along with dumping of rice by the Indian market at cheaper rates making Pakistan's pricing uncompetitive.

- Pakistan's exports form more than 8% of world's total rice trade and the country is ranked as the 10th in largest rice producing country in the world.
- 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.
- Middle Eastern countries are the largest buyers of Pakistan's Basmati rice in which UAE possesses a market share of around 26% followed by Saudi Arabia having 12% market share in total basmati rice exports.
- The sector remains exposed to challenges related to international freight charges and raw material availability. Freight cost 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 GSPL in exports. Despite presence of a large number of players, GSPL has commanded a market share (in volumetric terms) of 10% in overall Pakistan's rice exports and 12% in non-basmati rice exports over the last eleven years. GSPL's market share in volumetric terms in overall Pakistan's rice exports was reported at 10% (FY20: 9%; FY19: 11%) in FY21.

**Topline growth of 18% in FY21 contributed by higher volumes and higher average selling prices resulting from rupee devaluation. Going forward, sales are expected to escalate because of management's focus on export of branded rice (Mughal) through expansion plans**

Net sales of the company grew by 18% in FY21 and were reported at Rs. 32.4b (FY20: Rs. 27.5b; FY19: Rs. 28.3b). During FY21, the sales growth was driven by both, higher volumes and higher average selling prices as the company reaped benefit of rupee devaluation. 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; however geographic concentration in export sales has increased with top 5 countries accounting for 77.9% of total export sales (FY20: 62.6%) in FY21. China is the top importer of GSPL's product portfolio. Moreover, client-wise concentration in sales has also increased as top 10 clients accounted for 44.9% of sales in FY21 (FY20: 35.7%). Client concentration risk is mitigated through long-term association with them. More than 80% of exports sales are generated by IRRI followed by Basmati exports. Local sales reported an increase of 35% in FY21 contributed by imported wheat sales. Consequently share of local sales in total revenue base of the company increased to 19.8% (FY20: 17.3%) in FY21.

Although the company's product portfolio is diversified, rice contributes around 80% of the total revenue in FY21 with IRRI contributing around 70% in the total sales pie. The company reported revenue to the tune of Rs. 18.9b in 1HFY22 on account of higher average selling prices at the end of the season. In the ongoing year, the management is projecting healthy growth in revenues because of management's focus on export of branded rice (Mughal) through expansion plans.

| (Rs. in millions) | FY19 | % | FY20 | % | FY21 | % |
|---|---|---|---|---|---|---|
| **Export Sales** | 24,672 | 87% | 22,753 | 83% | 26,002 | 80% |
| **Local Sales** | 3,633 | 13% | 4,765 | 17% | 6,433 | 20% |
| **Total** | 28,305 | | 27,518 | | 32,435 | |

**Despite growth in topline, gross margin was reported on the lower side in FY21 primarily due to rise in manufacturing overheads in form of higher freight charges amidst shipping cancellations and elevated energy costs. However, the same improved in HY22 on the back of inventory gains.**

Gross margins of the company are primarily a function of product mix of the company. Despite growth in revenue, gross margins decreased to 6.0% (FY20: 6.4%) primarily due to higher freight charges amidst shipping cancellations and elevated energy costs. In FY21, IRRI-6 rice contributed the highest in overall sales mix and overall gross margins of the company. With lower contribution of higher margin based Basmati rice in the sales mix, gross margins of the company remain on the lower side vis-à-vis peers. The improvement in margins in HY22 was mainly attributable to better average selling prices and inventory gains.

Despite increase in short term borrowing, finance charges depicted a decrease on a timeline basis owing to 82% of short-term debt employed by the company on concessionary rates. Lower finance charges and absence of exchange loss in FY21 led the company to report higher net margins at 3.1% (FY20: 2.9%) in FY21. In absolute terms, net profit after tax improved to Rs. 1b (FY20: Rs. 812m) on account of higher sales revenue. Going forward, management's strategy is to maintain its focus on exports, while enhancing the quantum of branded product sales (Mughal brand) in order to utilize value added margins and maximize profitability going forward.

**Adequate liquidity profile**

In line with improvement in profitability levels in absolute terms, liquidity profile of the company has improved during FY21 with adequate coverage of cash flows in relation to outstanding obligations, manageable ageing of trade debts and sound debt servicing ability. Funds from Operations (FFO) improved on a timeline basis to Rs. 1.1b (FY20: Rs. 0.9b; FY19: Rs. 0.8b)) in FY21. Cash flow coverages in relation to outstanding obligations is considered adequate as indicated by debt servicing coverage ratio of 6.8x (FY21: 3.2x; FY20: 3.6) in 1HY22. FFO in relation to long term debt and FFO in relation to total debt were reported higher at 123.0% (FY20: 117.1%; FY19: 273.4%) and 11.8% (FY20: 11.3%; FY19: 9.2%), respectively in 1HY22 due to improved profitability. 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, while current ratio is also considered satisfactory as it remained at 1.0x at end 1HY22. Going forward, with projected growth in profitability of the company, liquidity indicators are also expected to improve.

**Leverage indicators have depicted an increase during HY22 primarily on account of working capital needs to fund inventory and BMR requirements; despite additional debt drawdown plans, the same are expected to remain within manageable levels going forward due to projected growth in equity base through profit retention.**

Equity base was reported higher at Rs. 6.1b (FY21: Rs. 5.4b; FY20: Rs. 4.4b) at end-1HFY22 on account of profit retention. The company has not paid any dividend during the last three financial years. Debt profile of the company comprises 94% of short-term borrowings and remaining proportion is provided by long-term debt. In absolute terms, total debt has amounted to Rs. 14.0b (FY21: Rs. 9.2b; FY20: Rs. 8.0b) at end-1HFY22. Short-term borrowing is utilized primarily for paddy procurement. Both gearing (1HY22: 2.3x; FY21: 1.7x; FY20: 1.81x) and leverage ratio (1HY22: 2.50x; FY21: 2.10x FY20: 2.09x) have depicted an increase at-end 1HY22. Despite the projected increase in debt to finance BMR, capitalization indicators are expected to remain within manageable levels due to projected growth in equity base through profit retention.

**Corporate governance infrastructure is reflective of a family-owned privateentity**

Corporate Governance infrastructure depicts a family-owned private entity with sponsor family possessing significant experience in the industry. Inclusion of independent directors on the Board may enhance governance framework.

Operational setup includes implementation of customized ERP application and Oracle 10g database management system for integrating various departments within the organization. Data backup is undertaken on a daily basis and offsite data backup is also maintained.

## Garibsons Private Limited Appendix I

| FINANCIAL SUMMARY (Rs. in millions) | | | | |
|---|---|---|---|---|
| **BALANCE SHEET** | **FY18** | **FY19** | **FY20** | **FY21** |
| Property, plant and equipment | 1,621.8 | 2,110.1 | 2,561.1 | 3,014.2 |
| Long term Investments | 20.5 | 20.4 | 19.1 | 23.7 |
| Stock-in-Trade | 5,899.7 | 7,227.6 | 7,110.1 | 9,508.4 |
| Trade Debts | 3,189.2 | 2,520.6 | 2,128.3 | 2,002.4 |
| Cash & Bank Balances | 119.1 | 230.2 | 212.0 | 198.9 |
| Total Assets | 11,845.8 | 13,436.3 | 13,590.8 | 16,515.7 |
| Trade and Other Payables | 486.5 | 1,226.0 | 1,087.2 | 1,302.1 |
| Long Term Debt | 130.8 | 285.8 | 768.6 | 876.4 |
| Short Term Debt | 8,033.8 | 8,182.5 | 7,201.4 | 8,297.7 |
| Total Debt | 8,164.7 | 8,468.3 | 7,970.0 | 9,174.0 |
| Total Liabilities | 8,959.1 | 9,843.5 | 9,187.4 | 11,110.3 |
| Paid Up Capital | 903.8 | 903.8 | 903.8 | 903.8 |
| Total Equity | 2,886.8 | 3,592.8 | 4,403.3 | 5,405.4 |
| | | | | |
| **INCOME STATEMENT** | **FY18** | **FY19** | **FY20** | **FY21** |
| Net Sales | 27,409.6 | 28,303.6 | 27,517.9 | 32,434.4 |
| Gross Profit | 1,518.9 | 1,527.4 | 1,760.2 | 1,956.4 |
| Operating Profit | 1,322.4 | 1,349.8 | 1,409.2 | 1,630.9 |
| Profit Before Tax | 1,004.3 | 1,007.1 | 1,095.2 | 1,322.6 |
| Profit After Tax | 742.9 | 706.2 | 811.7 | 1,002.5 |
| | | | | |
| **RATIO ANALYSIS** | **FY18** | **FY19** | **FY20** | **FY21** |
| Gross Margin (%) | 5.5% | 5.4% | 6.4% | 6.0% |
| Net Margin (%) | 2.7% | 2.5% | 2.9% | 3.1% |
| Net Working Capital | 1,356.2 | 1,740.8 | 2,487.6 | 3,033.5 |
| Trade debts/Sales | 11.6% | 8.9% | 7.7% | 6.2% |
| FFO | 792.6 | 781.4 | 899.7 | 1,078.0 |
| FFO to Total Debt (%) | 9.7% | 9.2% | 11.3% | 11.8% |
| FFO to Long Term Debt (%) | 605.8% | 273.4% | 117.1% | 123.0% |
| Current Ratio (x) | 1.2 | 1.2 | 1.3 | 1.3 |
| Debt Servicing Coverage Ratio (x) | 3.4 | 2.9 | 3.6 | 3.2 |
| Gearing (x) | 2.8 | 2.4 | 1.8 | 1.7 |
| Leverage (x) | 3.1 | 2.7 | 2.1 | 2.1 |
| (Stock in Trade+Trade Debts)/STD | 113.1% | 119.1% | 128.3% | 138.7% |
| ROAA (%) | 7.1% | 5.6% | 6.0% | 6.7% |
| ROAE (%) | 29.5% | 21.8% | 20.3% | 20.4% |

## 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 |
| **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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**Rating History**

| Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
|---|---|---|---|---|
| **RATING TYPE: ENTITY** | | | | |
| 23/02/2022 | A- | A-2 | Stable | Maintained |
| 11/03/2021 | A- | A-2 | Positive | Initial |

**Due Diligence Meetings Conducted**

| S. No. | Name | Designation | Date |
|---|---|---|---|
| 1 | Mr. Faisal Garib | Director | January 28, 2022 |
| 2 | Mr. Waqas | Chief Financial Officer | January 28, 2022 |