RATING REPORT

Garibsons (Pvt.) Ltd. (GSPL)

REPORT DATE:
March 14, 2023

RATING ANALYST:
Hasan Rashid
hasan.rashid@vis.com.pk

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		Stable	
Rating Date	*March 14, 2023*		*February 23, 2022*	

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 have got their IFS (International Foods Standards) certification, which was is in progress last year.

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 and export of Rice, Rice Bran, Rice Husk, Wheat, Maize and manufacturing of Raw and Laminated Chipboard and Medium Density Fibreboard (MDF). The company has also recently ventured into Aqua farming business. The diversification in other businesses which constitute about 10% of topline mitigates single commodity trading business risk to a certain extent. The brief description of GSPL'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'. The 'Mughal' brand has presence across all modern trade outlets in Pakistan, including Metro and Carrefour as well as in major retail outlets across the country.

Wheat: GSPL also procures wheat, processes it further and sells wheat flour 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.

Hybrid Seeds: GSPL 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 in panels and woodwork industry. The umbrella brand has the following products:

- MDF
- HDF
- Particle board
- Lamination (PVC & UV)
- Exotique
- Ultra-Gloss
- Naturals

Aqua Farming: GSPL has ventured into Aqua Farming, and currently their capital farming structures are in the process of being completed. The company has tested its products i.e. Pangasius & Tilapia; Shrimps hatchery has also been started as an expansion of this project. As per the CEO, these products have been accepted in the market and have greater margins than any of the existing products.

STORAGE AND PROCESSING FACILITIES:

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 final processing, grading and packaging for exports and local sales. As per management, the company's facility based in Port Qasim provides strategic advantage in terms of exports.

Capacity utilization:

	FY21			FY22		
	Annual Capacity	Actual Production	Capacity Utilization	Annual Capacity	Actual Production	Capacity Utilization
Rice Reprocessing Units (in Metric Tons)	849,600	528,110	62%	1,008,000	609,882	61%
Paddy Units (in Metric Tons)	432,000	199,935	46%	507,600	215,532	42%

While the capacity utilization has remained around the same levels, the company managed to increase, through BMR, annual capacity for both Rice Processing and Paddy by 158,400 & 75,600 Metric Tons respectively. There has been a volumetric increase in production.

As rice is a commodity which is cyclical in nature, the average capacity utilization has remained quite low. However, average utilization remains around 90% to 95% during the peak season. The management may occasionally need to outsource the production process to ensure that orders are delivered in a timely manner during the peak season.

The company incurred capital expenditure in Land and Building amounting Rs. 163Mn, plant & machinery amounting Rs. 1.32b, Vehicles, Furniture and Office Equipment amounting to Rs. 90.30Mn to enhance and maximize operating capacities and improve efficiency and effectiveness; this includes debt of Rs. 195m and equity contribution of Rs. 1.38bn. There are expansion plans of Rs. 2b (approx.) in the next 3 to 4 years, including addition of 7 Silos, 6 dryers, 2 husking plants and 4 reprocessing plants and expansion of godowns at different locations mostly at Port Qasim, Golarchi and Gharo. The said expansion is planned to be majorly financed through equity.

With capacity and storage enhancement, GSPL intends to increase its market share, which has remained stagnant around 10% for last 3 years. The strategy envisages sales increase in Pakistan as well as initiation of brand sales in the export market. For the said purpose, the company embarked on a complete re-branding & re-packaging of its Mughal Brand Rice & Flour.

Rating Drivers

Business risk is considered medium as world rice consumption is increasing by 1.4% on YoY basis reaching 511Mn MT in FY22 and expected to increase by 0.18% in FY23. The ratings take into account sizeable market share of GSPL in overall rice exports of Pakistan.

- Rice is one of the major staple foods in Pakistan and in FY22, rice production has increased by 10.9% and contribution towards GDP is 0.7% (FY21: 0.6%). Rice exports accounted for 7.9% (FY21: 8.1%) towards Pakistan's overall exports revenue. Though the rice export quantum has declined nevertheless; overall USD repatriation increased and accounted for USD 2.51b as against USD 2.04b in FY21 which shows an increase of 23% on YoY.
- The annual export of rice was projected at 4.1m MT, however due to unprecedented floods, which majorly affected Sindh; wherein an area of around 6,200 km2 (1,540,000 acres) of farmland has been flooded. With estimated damage of 31% to paddy fields, Pakistan may end-up losing USD 1.2b towards export revenue.
- There was an increase of 21.2% on YoY basis in the export of Basmati rice which accounted for 0.8m MT (FY21: 0.6m MT) in FY22. Non-Basmati exports were recorded higher at 4.1m MT (FY21: 3.1m MT) depicting an increase of 34.6%. The increase in exports was primarily due to Govt. of India's policy of putting trade restrictions on export of rice to fulfil local demand.
- Middle Eastern countries have remained the largest buyers of Rice from Pakistan over the years, and FY22 was no exception. Around 26% of Pakistan's Basmati Rice was exported to UAE, 12% to Saudi Arabia, 8% to Oman and 6% to Kenya. Kenya is the largest importer of non-basmati rice from Pakistan and accounted for 20% of total Pakistan's exports.
- Given the global inflation along with high interest rates and loss of cultivating area in Sindh due to floods; meeting the production targets for the upcoming year seems difficult. Though the consumption pattern would show an increasing trend due to growing population world over, but exports are expected to fall due to aforementioned reasons. With regards to national exchequer, despite of decrease in rice exports, rice mills are not susceptible to face losses as Rupee continues to fall against USD.
- The assigned rating takes into account the GSPL's market share of exports which has remained around 10% since last 4 years. In FY22, the market share has increased slightly to 10.7%, whereas it stood at 10% in FY21, and 9% in FY20.

The Topline exhibited 26.7% growth in FY22, as a result of both higher volumetric sales and selling price in the international market along with devaluation of Rupee against USD. Going forward, the sales are expected to remain range bound.

Net sales for FY22 were reported at Rs. 41.1b as compared to Rs. 32.4b in FY21. This was due to volumetric increase of rice sales (FY22: 536,599 MT: FY21: 389,565 MT) along with higher selling price. GSPL has a broad customer base which comprises over 60 countries worldwide. The top 10 customer-wise concentration in sales increased to 52% (FY21: 36%) in FY22; the increasing concentration needs to be addressed. GSPL exhibited long-term association with these customers. Local sales contribution to total sales decreased from 20% in FY21 to 12% in FY22.

(Rs. in millions)	FY20	%	FY21	%	FY22	%
Export Sales	22,753	83%	26,002	80%	36,228	88%
Local Sales	4,765	17%	6,433	20%	4,854	12%
Total	27,518		32,435		41,082	

The topline for HY23 stood at Rs. 20.2b. The floods in Sindh have disrupted 35% to 40% of cultivating area of rice which may have adverse implication on overall sales for FY23. While anticipating shortage of crop, the company indulged in bulk buying of paddy both in Punjab and Sindh regions, to ensure availability of sufficient stock. Nevertheless, speculative stocking of inventories exposes the company to price risk and increase leverage to support enhanced working capital.

Benefit shall be drawn from increase in prices of rice in international market over the last 6 to 8 months as prices of IRRI increased from USD 380 per Ton to USD 435 Per Ton. Price of Basmati paddy has also shown an increasing trend from Rs. 70 per KG to Rs. 122 per KG while the price for Finished Basmati 1121 rice has reached the high of Rs. 330 per KG.

The improvement in gross margins in FY22 and HY23 was mainly attributed to better average selling prices and inventory gains. Net profit stood higher at Rs. 1.65b (FY21: 1.0b) with net margin of 4.0% (FY21: 3.1). Volatility in gross margins, being in commodity trade, increases the business risk. Net profit stood at Rs. 1.03b in HY23 with further increase in net margins to 5.1%. Going forward, the management's strategy is to maintain its focus on exports with efforts to enhance quantum of branded product sales (Mughal) to realize value added margins and maximizing profitability.

In line with improvement in profitability levels in absolute terms, liquidity profile of the company has improved during FY22 with adequate coverage of cash flows in relation to outstanding obligations and sound debt servicing ability.

The trade debts stood higher at Rs. 4.38b (FY21: 2b) due to increase in revenue and higher outstanding sales at year end. According to the management, there has been no change in credit terms. The company may not take any provisioning against overdue trade debts as these are against customer with long term relations.

Amount in USD	30-06-2021		31-12-2022		30-06-2022	
	Amount	% age	Amount	% age	Amount	% age
1 to 30 days	8,263,150	50.33%	10,377,673	69.27%	18,838,188	96.40%
21 to 60 days	6,075,443	37.00%	3,680,897	24.57%	352,682	1.67%
61 to 90 days	2,068,869	12.60%	755,314	5.04%	134,612	0.69%
91 to 120 days	10,725	0.07%	167,914	1.12%	243,001	1.24%
	16,418,187	**100.00%**	**14,981,798**	**100.00%**	**19,568,483**	**100.00%**

Funds from Operations (FFO) improved on a timeline basis to Rs. 1.73b (FY21: Rs. 1.07b) in FY22. Cash flow coverages in relation to outstanding obligations is considered adequate as indicated by debt servicing coverage ratio of 3.42x (FY21: 3.21x). FFO in relation to long term debt and FFO in relation to total debt were reported higher at 202% (FY21: 123%) and 12.7% (FY21: 11.8%), respectively.

There is increasing trend in cash conversion cycle of the company (HY23: 180 days; FY22: 120 days; FY21: 111 days). The projected cash cycle also stands high at 198 days in FY23; that would require higher working capital with increasing interest rates, which may impart pressure on profitability and liquidity.

Stock in trade and trade debts provide adequate coverage for short-term borrowings, while current ratio is also considered satisfactory at 1.23x at end FY22. Going forward, with projected growth in profitability, liquidity indicators are expected to improve.

Increasing trend in leverage indicators has been witnessed; expected to be normalized by end-FY23.

Equity base was reported at Rs. 8.08b (FY22: Rs. 7.05b; FY21: Rs. 5.40b) at end-HY23 on account of profit retention. The company has not paid any dividend during the last three financial years. The company is supported by directors and family to some extent in liquidity management by providing short term loans.

Debt profile of the company comprises 94% short-term in nature. In absolute terms, total debt increased to Rs. 18.83b (FY22: Rs. 13.63b; FY21: Rs. 9.17b) at end-HY23 mainly mobilized for bulk procurement of paddy during the season. Both gearing (HY23: 2.3x; FY22: 1.9x; FY21: 1.7x) and leverage ratios (HY23: 2.63x; FY22: 2.38x FY21: 2.06x) increased. However, the management is projecting decrease in leverage ratios by end-FY23. Despite the projected increase in debt to finance BMR in FY24 and beyond, capitalization indicators are expected to remain within manageable levels due to projected growth in equity base through profit retention.

The short-term investment amounting to Rs. 25.1m (FY21: 23.1m) are carried on mark to market. Long-term investment related to Garibsons Commodities (Pvt.) Limited amounted to Rs. 23.3m. The remaining investments of Rs. 24.3m pertained to current year.

Corporate governance infrastructure is reflective of a family-owned private entity

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	**FY19**	**FY20**	**FY21**	**FY22**	**HY23**
Property, plant and equipment	2,110.1	2,561.1	3,014.2	3,927.0	4,173.0
Long term Investments	20.4	19.1	23.7	48.0	51.0
Stock-in-Trade	7,227.6	7,110.1	9,508.4	13,521.0	17,764.0
Trade Debts	2,520.6	2,128.3	2,002.4	4,387.0	5,641.0
Cash & Bank Balances	230.2	212.0	198.9	449.0	320.0
Total Assets	13,436.3	13,590.8	16,515.7	23,831.0	29,379.0
Trade and Other Payables	1,226.0	1,087.2	1,302.1	2,706.0	2,026.0
Long Term Debt	285.8	768.6	876.4	861.0	765.0
Short Term Debt	8,182.5	7,201.4	8,297.7	12,771.0	18,065.0
Total Debt	8,468.3	7,970.0	9,174.0	13,632.0	18,830.0
Total Liabilities	9,843.5	9,187.4	11,110.3	16,776.0	21,294.0
Paid Up Capital	903.8	903.8	903.8	904.0	904.0
Total Equity	3,592.8	4,403.3	5,405.4	7,054.0	8,085.0
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**FY22**	**HY23**
Net Sales	28,303.6	27,517.9	32,434.4	41,082.0	20,128.0
Gross Profit	1,527.4	1,760.2	1,956.4	2,871.0	2,060.0
Operating Profit	1,349.8	1,409.2	1,630.9	2,469.0	1,806.0
Profit Before Tax	1,007.1	1,095.2	1,322.6	2,082.0	1,232.0
Profit After Tax	706.2	811.7	1,002.5	1,650.0	1,031.0
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**FY22**	**HY23**
Gross Margin (%)	5.4%	6.4%	6.0%	7.0%	10.2%
Net Margin (%)	2.5%	2.9%	3.1%	4.0%	5.1%
Net Working Capital	1,740.8	2,487.6	3,033.5	3,780.0	4,571.0
Trade debts/Sales	8.9%	7.7%	6.2%	10.7%	14.0%
FFO	781.4	899.7	1,078.0	1,737.4	1,116.0
FFO to Total Debt (%)	9.2%	11.3%	11.8%	12.7%	11.9%
FFO to Long Term Debt (%)	273.4%	117.1%	123.0%	201.8%	291.8%
Current Ratio (x)	1.2	1.3	1.3	1.2	1.2
Debt Servicing Coverage Ratio (x)	2.8	3.6	3.2	3.4	NA
Gearing (x)	2.4	1.8	1.7	1.9	2.3
Leverage (x)	2.7	2.1	2.1	2.4	2.6
(Stock in Trade+Trade Debts)/STD	119.1%	128.3%	138.7%	140.2%	129.6%
ROAA (%)	6.2%	6.0%	6.7%	8.2%	7.8%
ROAE (%)	24.6%	20.3%	20.4%	26.5%	27.2%
Cash Conversion Cycle	98	118	111	120	180

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix 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 Ratings
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.
Due Diligence Meetings Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
13/03/2023	A-	A-2	Stable	Reaffirmed
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	February 13, 2023
2	Mr. Waqas	Chief Financial Officer	February 13, 2023