

RATING REPORT

Garibsons (Pvt.) Ltd. (GSPL)

REPORT DATE:

March 01, 2024

RATING ANALYST:

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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		Stable	
Rating Date	March 1, 2024		March 14, 2023	

COMPANY INFORMATION

Incorporated in June 1976	External Auditors: Hafizullah & 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

VIS Entity Rating Criteria: Corporates (May 2023)

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

VIS Rating Scale

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

Garibsons (Pvt.) Ltd.

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Garibsons (Pvt.) Ltd. (GSPL) was incorporated in Karachi, Pakistan as a private limited company on June 19, 1976. The company is BRC, HACCP & Halal certified Company.

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 a 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 the chairman of the Wheat Traders Association of Pakistan (WTAP) in 2010. He holds a Bachelor's Degree in Electrical Engineering from Columbia University.

Garibsons (Pvt.) Ltd. (GSPL or “the Company”) has been engaged in the business of rice husking, reprocessing, steaming and parboiling. The company is involved in exports and local sales of Basmati and Non- Basmati Rice, Rice Bran, Rice Husk and Maize, and has also been engaged in trading business of Lentils, Chickpeas and Solar Panels and manufacturer of Raw and Laminated Chipboard and Medium Density Fibreboard (MDF). The company has also recently ventured into Aqua farming business. 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 and subsequently the de-husked rice is re-processed in line with the buyer’s requirements. Majority of the rice produced by the company is exported to different countries of the world; GSPL also sells under its own brand called ‘Mughal’. The said brand has presence all across Pakistan at major retail outlets and malls.

Wheat: GSPL also procures wheat, processes it further and locally sells wheat flour under the same ‘Mughal’ brand.

Panels and Woodworking: Garibsons sells panels and woodwork under the brand name of NUBoard. The following products are sold under the said brand:

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

Aqua Farming: GSPL has ventured into Aqua Farming while the capital farming structures were completed last year. The company plans to initiate operations by April 2024.

Storage And Processing Facilities:

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

Sector update:

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

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

- The annual export of rice in quantity increased from 3.6m MT in FY21 to 4.9m MT in FY22. However, the export quantity decreased to 3.7m MT in FY23 due to unprecedented floods, which majorly affected Sindh; wherein an area of around 6,200 km² (1,540,000 acres) of farmland was flooded. With estimated damage of 31% to paddy fields, Pakistan lost about USD 0.4b towards export revenue.

- There was a decrease of 21% on YoY basis in the export of Basmati rice which accounted for 0.60m MT (FY22: 0.75m MT) in FY23. Non-Basmati exports were recorded lower at 3.12m MT (FY22: 4.13m MT) depicting a decrease of 26%.

- Middle Eastern countries have remained the largest buyers of Rice from Pakistan over the years, and FY23 was no exception. During FY23, 10.5% of the overall rice exports were to UAE, 7.9% to Kenya, 7.2% to China, 5.1% to Italy and 4.8% to Saudi Arabia. Export of Basmati rice has been concentrated in Middle East while Kenya remains the largest importer of non-basmati rice from Pakistan.

During the ongoing year, the decision of India to ban exports of IRRI rice has led to opportunity for other IRRI producing countries including Pakistan; the quantum of exports are expected to increase considerably in FY24. Local prices of the commodity may rise on account of demand supply dynamics.

While sales remained largely muted in FY23, the company posted increase in profitability despite significantly higher financial charges mainly on the back of higher gross margins. Net profit almost doubled in HY24 mainly on account of significantly higher sales.

The company has exhibited growth in sales over the years. Net sales increased to Rs. 49b (FY23: Rs. 42.2b; FY22: Rs. 41.1b) in HY24 on the back of both higher volumetric sales and selling price. GSPL has a broad customer base which is present in over 60 countries worldwide. The proportion of top 10 customers increased to 56% (FY22: 52%; FY21: 36%) of total revenue. Net sales are projected to increase further to Rs. 73b in FY24 on account of both higher volumetric sales and average selling price. Taking advantage of the favorable international market dynamics and higher product prices, the company projects to increase the proportion of export sales during FY24.

Sales (Rs. Million)	FY21	FY22	FY23
Exports	26,001,817	36,227,862	33,777,255
Domestic	6,432,619	4,854,678	8,396,704
Total	32,434,436	41,082,540	42,173,959

With favorable local product price, gross margins increased in FY23. The company remained focused on achieving higher sales in HY24 therefore compromising on margins to a certain extent, though its gross margins still remained higher than FY22. Going forward, the management plans to maintain its focus on exports with efforts to enhance quantum of branded product sales (Mughal) to realize value added margins thus maximize profitability while maintaining product quality.

With increasing trend in FFO, debt coverages improved in HY24 while liquidity profile remained adequate

Funds from operations (FFO) improved on a timeline basis to Rs. 2.1b (FY23: Rs. 2.27b; FY22: 1.76b) in HY24. Cash flow coverages in relation to outstanding obligations is considered adequate as indicated by debt servicing coverage ratio of 4.3x (FY23: 2.2x; FY22: 3.5x). FFO in relation to long term debt and FFO in relation to total debt were reported higher at 3.5x (FY23: 2.3x; FY22: 2.0x) and 0.23x (FY23: 0.17x; FY22: 0.13x), respectively.

At end-HY24, trade debts stood higher at Rs. 9.3b (FY23: 4.9b; FY22: 4.4b) due to significant increase in sales while trade debts to sales (annualized) decreased. 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 customers with long term relations. Stock in trade and trade debts provide adequate coverage against short-term borrowings while current ratio is considered satisfactory at 1.3x at HY24. Given the inherent business model to retain high inventory levels of paddy and rice, cash conversion cycle has remained high, though improved to 94 days in HY24 (FY23: 154 days; FY22: 142 days). Going forward, with projected growth in FFO, liquidity indicators are expected to improve further.

Increasing trend in equity base on account of profit retention. Gearing has remained range bound, though projected to decrease, going forward.

Equity base was reported higher at Rs. 11b (FY23: Rs. 9.1b; FY22: 7.1b) at end-HY24 on account of profit retention. The company mobilized long-term borrowings in FY23 and HY24 for capacity expansion and BMR mainly related to the rice segment. The short-term borrowings are mobilized primarily to finance stock in trade; as inventory levels increased during HY24 for procurement of paddy, short-term borrowings increased to Rs. 17.2b (FY23: Rs. 12.3b; FY22: Rs. 12.8b). With the sales of finished goods inventory, the short-term debt levels are projected to normalize by end-FY24. Gearing (HY24: 1.7x; FY23: 1.5x; FY22: 1.9x; FY21: 1.7x) and debt leverage (HY24: 2.3x; FY23: 1.7; FY22: 2.4x; FY21: 2.1x)

have remained range bound. However, with higher profit retention and some decrease in debt levels, leverage ratios are projected to decrease by end-FY24.

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 sector specific experience. 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.

GSPL is currently using Customized Enterprise Resource Planning (ERP) to cater to the segment wise reporting and the assessment of operating margins. The company has signed Service Level agreement (SLA) with Innovative Network Solution Private Limited (INPL) to deploy customized software based on new technological advancement in order to meet local and international reporting standards.

Garibsons (Pvt.) Limited
Appendix I

FINANCIAL SUMMARY (Rs. in millions)				
BALANCE SHEET	FY21	FY22	FY23	HY24
Property, plant and equipment	2,951.3	3,829.3	4,313.8	4,673.0
Long term Investments	23.7	47.6	204.4	235.0
Investment property	-	427.5	397.3	386.8
Stock-in-Trade	9,508.4	13,521.1	12,741.7	19,833.0
Trade Debts	2,002.4	4,387.0	4,904.8	9,300.0
Cash & Bank Balances	198.9	446.8	548.5	280.5
Other Assets	1,831.0	1,170.2	1,051.7	1,351.5
Total Assets	16,515.7	23,829.5	24,162.2	36,059.8
Trade and Other Payables	1,302.1	2,705.5	1,275.9	4,872.0
Long Term Debt	876.4	860.5	1,003.5	1,202.0
Short Term Debt	8,297.7	12,770.9	12,295.7	17,229.0
Total Debt	9,174.1	13,631.4	13,299.2	18,431.0
Other Liabilities	634.1	437.8	529.4	1,763.0
Total Liabilities	11,110.3	16,774.7	15,104.5	25,066.0
Paid Up Capital	903.8	903.8	7,903.8	7,903.8
Total Equity	5,405.4	7,054.9	9,057.7	10,993.8
INCOME STATEMENT	FY21	FY22	FY23	HY24
Net Sales	32,434.4	41,082.5	42,173.9	49,639.0
Gross Profit	1,956.4	2,871.5	4,688.7	4,013.0
Operating Expenses	(361.5)	(474.0)	(613.6)	(440.0)
Finance Cost	(308.3)	(386.4)	(1,555.1)	(1,163.0)
Profit before Tax	1,322.6	2,082.7	2,484.7	2,433.0
Profit After Tax	1,002.5	1,649.9	1,944.3	1,936.0
RATIO ANALYSIS	FY21	FY22	FY23	HY24
Gross Margin (%)	6.0	7.0	11.1	8.1
Net Margin (%)	3.1	4.0	4.6	3.9
Net Working Capital	3,033.6	3,782.9	4,819.3	6,587.9
Trade Debts/Sales (%)	6.2	10.7	11.6	9.4
FFO	1,078.0	1,758.3	2,273.2	2,110.9
FFO to Total Debt (x)	0.12	0.13	0.17	0.23
FFO to Long Term Debt (x)	1.23	2.04	2.27	3.51
Current Ratio (x)	1.3	1.2	1.3	1.3
Debt Servicing Coverage Ratio (x)	3.2	3.5	2.2	4.3
Gearing (x)	1.7	1.9	1.5	1.7
Leverage (x)	2.1	2.4	1.7	2.3
(Stock in Trade+Trade Debts)/STD (x)	1.4	1.4	1.4	1.7
Cash conversion cycle	121	142	154	94
ROAA (%)	6.7	8.2	8.1	12.9
ROAE (%)	20.4	26.5	24.1	38.6

REGULATORY DISCLOSURES						Appendix II
Name of Rated Entity	Garibsons (Pvt.) Limited					
Sector	Food					
Type of Relationship	Solicited					
Purpose of Rating	Entity Ratings					
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action	
	RATING TYPE: ENTITY					
	01/03/2024	A	A-2	Stable	Upgrade	
	14/03/2023	A-	A-2	Stable	Initial	
Instrument Structure	N/A					
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.					
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Due Diligence Meetings Conducted	S. No.	Name	Designation	Date		
	1	Mr. Faisal Garib	Director	25 January, 2024		
	2	Mr. Waqas	Chief Financial Officer	25 January, 2024		