RATING REPORT

Staple Foods (Private) Limited (SFPL)

REPORT DATE:
January 10, 2022

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	*January 10, 2022*	

COMPANY INFORMATION

Incorporated in 2000	**External auditors:** Sajid & Co., Chartered Accountants
Private Limited Company	**Chairman of the Board/CEO:** Mr. Imran Rasheed
Key Shareholders:	
Mr. Imran Rasheed – 97%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: ***Industrial Corporates (August 2021)***
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Staple Foods (Private) Ltd.

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Staple Foods (Private.) Limited. (SFPL) **was** incorporated in Karachi, Pakistan as a private limited company in 2000. The company is engaged in processing and sale of rice. Head office of the company is situated in Karachi.

Staple Foods Private Limited ('SFPL' or 'the Company') was established in 2000 as a sole proprietorship and later converted into private limited Company in 2007. SFPL is a family owned business with major shareholding vested with Mr. Imran Rasheed. Principal business activity of the Company is processing, milling and sale of variety of rice along with small scale setup of selling lentils, pickles and spices. In addition, the Company has stake in rice packaging bags business as well. Head office of the Company is situated in Karachi. The power requirement of the Company is met through K-Electric along with setup of diesel based generators as the backup option.

GPL is an export oriented company as export sales constitute more than four fifth of the total revenues. SFPL has obtained the following certifications:

- Halal Certification (certified by ACTS- Al Waiz Certification and Training Services)
- Food Safety Systems Certification 22000 FSSC 22000 (Bureau Veritas UK)
- Quality Management System ISO 9001:2015 (Bureau Veritas UK)
- US FDA Registration
- BSCI Certification – Business Social Compliance Initiative, A Grade (SGS)

Operations

The Company has processing and milling plant situated at Port Qasim over 3 acres of land along with 2 warehouses for storage purpose. The Company undertook capex during FY20 and added machines to enhance the installed capacity to 160k M/Tons from 130K Mtons. In addition, SFPL also expanded business operations backwards by installing paddy milling unit in region of Thul, Sind, which fulfills ~60% of the raw material requirement. The capacity utilization of the rice processing plant has remained higher at over 80% in the last few years. Majority of the rice produced by the Company is exported to different countries under the brand name 'Anmol'.

M/Tons	FY20	FY21
Installed Capacity	130,000	160,000
Available Capacity	120,000	150,000
Actual Production	103,263	132,416
Capacity Utilization	*86.1%*	*88.3%*

SFPL has also rolled out another capex plan in the ongoing year. The Company is in process of building new office location within Karachi along with construction of a third warehouse facility at Port Qasim. In addition, SFPL will install Solar Power plant, costing Rs. 60-65m, at Port Qasim factory with the aim to replace dependence on K-Electric for the rice milling plants operations and enhance operating efficiencies. The management follows conservative financial approach with majority capex financing to be met through internal cash generation.

Rating Drivers

Business risk is considered moderate in view of significant competition and volatility in input prices; however, growing worldwide population supports demand of rice in the long run.

Rice is the second main staple food crop after wheat and one of the major exportable commodity in Pakistan. In FY21, Pakistan produced 8.4 million tons of rice, exhibiting growth of 10% year-on-year basis. At present, total available stocks for rice are estimated to be around 11.4MT (including carryover stock), out of which ~70% is allocated for export while remaining for domestic consumption. During FY21, Pakistan exported 3.5m tons of rice, registering a decline of 26% in value terms and 27% decrease in quantitative terms. The subdued demand was due to over stock piling at import destinations with the outbreak of Covid-19 and massive surge in freight charges adding to cost woes. However, going forward, growing worldwide population bodes well from the demand perspective in the long run while in medium term some pressure on exports may be seen until freight charges are normalized.

Topline has posted strong growth over the years, albeit gross & net margins took a hit during outgoing fiscal year. Ratings incorporate smooth operations of the Company and well-established position in Basmati rice.

Net sales of the company have grown at a healthy CAGR of 30.9% in the period from end-FY18 to end-FY21 (FY18: Rs. 4.4b; FY19: Rs. 8.2b; FY20: Rs. 8.8b; FY21: Rs. 9.9b) on account of higher average selling prices as the Company also reaped benefit of rupee devaluation. In addition, the Company has over the years achieved stable margins on account of operating efficiencies and low gearing structure. During FY21, sales growth was majorly driven by higher volumes; however margins took a hit on account of higher increase in raw material price without corresponding change in average selling price along with higher freight cost curtailing gross margins altogether (FY19: 8.3%; FY20: 8.3%; FY21: 5.1%). Nevertheless, margins witnessed recovery during Q1'FY22 at 6.7%.

Growth in revenues, stable margins and low gearing structure have culminated into a growing profitability over the years. However, increased raw material prices and rising freight costs reduced net profit during FY21 at Rs. 255m (FY19: Rs. 459m; FY20: 522m). Going forward, management foresee a steady growth in sales volume on account of growing population and stable demand of rice and margins to sustain at levels seen in Q1'FY22.

Over the years SFPL has established its name within Basmati rice along with developing long standing relationships amongst its client which enabled the Company to negotiate sales terms in times of surging freight costs. Product wise sale mix indicates Basmati Brown rice (41.8%) constituting the major proportion in revenue, followed by IRRI White rice (38.6%) and Basmati rice (9.8%). Basmati rice fetches comparatively higher margins than IRRI rice enabling the Company to fetch higher gross margins. SFPL exports across the globe with Europe considered as major market for its Brown rice. China has also picked up a sizeable share in exports over time. Geographic concentration in export sales is considered adequate with Europe accounting for 48% of sales followed by China and Far East (44%) and Africa (16%). Client wise concentration in sales is considered manageable.

% in revenue	FY19	FY20	FY21
Super Basmati Brown	33.9%	41.6%	41.8%
IRRI White	24.3%	38.9%	38.6%
Super Basmati	10.3%	6.4%	9.3%

Ratings take note of healthy liquidity profile of the Company

Liquidity profile of the company is considered satisfactory on account of healthy internal capital generation and cash flows. However, the funds from operations exhibited decline in FY21 due to reduced profits. In absolute terms, Funds from Operations (FFO) amounted to Rs. 290m (FY19: Rs. 491m; FY20: Rs. 558m) during FY21. Due to SFPL's conservative financial management stance, only short term borrowing lines have been utilized, which has resulted in strong coverage for debt servicing capability as reflected in Debt Service Coverage ratio (FY19: 9.84; FY20: 15.23; FY21: 8.37x). Stock in trade and trade debts provide more than sufficient coverage for short term borrowings. The current ratio has consistently stayed over 1x on a timeline basis.

Conservative financial policy lends supports to risk profile of the Company

Equity base of the Company has grown over the last few years. This consistent increase has been ensured by the management policy's to reinvest profits in to the entity. Equity base was reported higher at Rs. 2.5b (FY20: Rs. 2.1b; FY21: Rs. 2.4b) in Q1'FY22.

Over the years debt profile of the Company has relied entirely of short term borrowings in the form of export re-finance facility. Both gearing (FY20: 0.28x; FY21: 0.12x; Q1'FY22: 0.06x) and leverage ratio (FY20: 0.4x; FY21: 0.3x; Q1'FY22: 0.12x) remain on the lower side.

Corporate Governance reflective of Company's operational status as a family-owned entity.

Ratings of the Company are constraint on account of Corporate Governance infrastructure in place which is reflective of company's operational status as a family-owned entity. At present, the Chairman and CEO position is held by the same individual. Corporate governance setup may be strengthened through improvement in board composition and oversight.

Internal controls including internal audit function presents room for improvement. External control framework may also be enhanced through onboarding auditors that are from the approved list of auditors

Staple Foods Private Limited Appendix I

Financial Summary (Rs. in m)					
Balance Sheet	**FY18**	**FY19**	**FY20**	**FY21**	**Q1'FY22**
PPE	471	575	608	640	640
Stock-in-Trade	529	714	757	912	857
Trade Debts	734	907	1,329	1,238	999
Cash and Bank Balances	16	19	24	47	18
Total Assets	1,878	2,306	3,031	3,149	2,836
Trade and other Payables	94	534	264	432	133
Short Term Debt	621	112	587	281	153
Long Term Debt	-	-	-	2	2
Total Debt	621	112	587	283	155
Total Liabilities	715	646	850	716	288
Equity-excluding surplus reval.	1,151	1,609	2,131	2,386	2,502
Paid Up Capital	50	50	50	50	50
Income Statement					
Revenue	4,419	8,177	8,762	9,899	2,622
Gross Profit	409	683	730	507	177
Profit Before Tax	287	531	583	355	142
Net Profit After Tax	256	459	522	255	116
Ratio Analysis					
Gross Margin	9.3%	8.3%	8.3%	5.1%	6.7%
Net Margin	5.8%	5.6%	6.0%	2.6%	4.4%
FFO	284	491	558	290	131
FFO To Total Debt (%)	46%	438%	95%	103%	84%
Debt Servicing Coverage Ratio (x)	8.20	9.84	15.23	8.37	13.94*
Gearing (x)	0.54	0.07	0.28	0.12	0.06
Leverage (x)	0.62	0.40	0.40	0.30	0.12
Current Ratio (x)	1.91	2.61	2.80	3.46	7.54
STD Coverage (%)	203%	1445%	355%	764%	1214%
ROAA (%)		21.9%	19.6%	8.2%	15.5%*
ROAE (%)		33.2%	27.9%	11.3%	19.0%*

**annualized ratios*

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	Staple Foods 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.
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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				
10/01/2022	A-	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Azam Raza	Chief Accountant	January 06, 2022
Mr. Saad Imran	Chief Operating Officer	January 06, 2022