RATING REPORT

Staple Foods (Pvt.) Limited (SFPL)

REPORT DATE:
March 13, 2022

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Ratings		Previous Ratings	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Date	March 13, 2023		January 10, 2022	
Rating Action	Reaffirmed		Initial	
Rating Outlook	Stable		Stable	

COMPANY INFORMATION

Incorporated in 2000	**External auditors:** Sajid & Co., Chartered Accountants
Private Limited Company	**Chairman/CEO:** Mr. Imran Rasheed
Key Shareholders (with stake 5% or more):	
Mr. Imran Rasheed – 97%	

APPLICABLE METHODOLOGY

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

Staple Foods (Pvt.) Limited (SFPL)

OVERVIEW OF THE INSTITUTIO N	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. Head office of the Company is situated in Karachi.

Key Rating Drivers:

Overview of Rice Industry in Pakistan – impact of floods: As per United States Department of Agriculture (USDA), Pakistan's 2022-23 rice production forecast is revised down to 8.3m tons (2021-22: 9.1m tons) due to the impact of floods. Similarly, owing to lower contemplated exportable supplies, rice exports are projected lower at 4.2m tons vis-à-vis 4.5m tons in the preceding period. Ending stocks are expected to decline by ~23% to 1.7m tons. According to Pakistan Bureau of Statistics (PBS), for the first-time rice exports exceeded USD 2.5b during FY22. The flooding has most adversely effected rice production in Sindh, which accounts for nearly 30% of the total rice area. In Punjab, South Punjab was struck severely by floods, where rice area is minimal. On the other hand, above average rainfall during the last monsoon period has benefited this Basmati producing zone. The main challenge faced by rice mills was delay in arrivals of raw materials. As per management, Basmati rice which usually become available for rice mills in mid-October, got delayed by almost 45 days. Another major challenge has been volatile forex parity impacting rice prices. IRRI prices increased exorbitantly leading to higher cost of holding inventory. Additionally, according to Punjab Agriculture Marketing Information System (PAMIS), the price of new super basmati crops in wholesale markets has almost doubled over the last year and even more than the non-basmati hybrid and IRRI varieties grown in Sindh. This is in tandem with substantial increase in basmati prices in international market since April 2022. Six-month average prices (Jun-Nov'22) are up by ~55% in dollar terms alone, rising from USD 760 per ton during 2021 to around USD 1,200 in 2022. In addition, sharp rupee depreciation has further increased the prices in local market.

The 2022/23 global rice production forecast was lowered 0.3m tons to 503.0m tons, more than 2% below the year-earlier record and the first year-to-year decline since 2015/16. On an annual basis, India the second largest rice producing country in the world- accounts for the bulk of the expected global production decline, with its production to drop 5.3m metric tons to 125.0m tons. Rice output in China, the number one global producer of rice, is projected at 145.9m tons, a drop of more than 3.0m tons (USDA). The turmoil in international market is partly an outcome of ~9% reduction in forecasted rice output in India given it has remained the largest exporter of rice for the last five years. Albeit, the Indian Govt. has not put any ban on rice exports, lower anticipated supply has led to price hike in export markets. As per Statista, India exported 21.5m metric tons of rice during TY22, accounting for nearly 30% of the world rice supply. Thailand exported 8.2m tons, followed by Vietnam 6.8m tons, and Pakistan 3.8m tons during TY22. The pricing mechanism in rice producing countries is largely market led and is a function of demand and supply behavior in the major rice trading economies. With consumer price inflation (CPI) in Pakistan hitting around 31.5% in Feb'23 vis-à-vis 27.6% and 24.5% in Jan'23 and Dec'22, respectively, rice demand is expected to remain curbed in the local market leading to higher reserves available for exports.

Production update: The available rice processing capacity remained unchanged at 150K metric tons while capacity utilization decreased slightly to 86.1% (FY21: 88.3%) during FY22. SFPL's capacity utilization is relatively higher than most of the peer companies with product mix largely tilted towards IRRI rice, which has lower recovery rates of around 45-55%, vis-à-vis SFPL, which is majorly involved in processing of basmati rice having higher recovery rates normally ranging from 85-95%. The difference between installed and available capacity is kept to maintain quality and achieving desired proportion of different grades of broken rice. The installed and available capacity along with capacity utilization is given as follows:

M/Tons	**FY20**	**FY21**	**FY22**
Installed Capacity	130,000	160,000	160,000
Available Capacity	120,000	150,000	150,000
Actual Production	103,263	132,416	129,088
Capacity Utilization	***86.1%***	***88.3%***	***86.1%***

The management also execute balancing, modernization and replacement (BMR) on a regular basis to improve process efficiencies. During the outgoing year, addition in plant and machinery of Rs. 35.8m largely pertained to two rice color sorting machines with complete air system, two double SM polisher machines, paddy separator machine, six thickness grading machines, lifter and electrical installations. The company is in process of constructing a new office building in DHA, Karachi, on which expenditure of Rs. 155.8m has been incurred by the end-1HY23. In addition, installation of solar power plant of 1 MW has suffered some delays owing to current issues relating to LCs payments while the company has incurred an expenditure of Rs. 58.1m by the end-Dec'22. Total cost of the solar project is estimated at around Rs.130m. Total power requirements of the company are around 710 KW which are currently being met through sanctioned load from national grid. The company would be self sufficient in meeting its energy requirements after the solar project comes online. The Company has financed all these capital expenditures through own sources. Accounting for revaluation surplus of Rs. 208.5m on factory building located at Port Qasim during the outgoing year, property, plant and equipment (PPE) stood higher at Rs. 961.2m (FY22: Rs. 930.0m; FY21: Rs. 640.2m) at end-1HY23.

In addition to the above, the Company is also contemplating to make long-term investment to the tune of around Rs. 70m in an oil blending plant (lubricants) at Port Qasim *(Alpha Oil Blending Plant),* which is expected to become operational by the end-FY23. The investment involves a joint venture with two other parties, all holding equal share in the total investment. SFPL holds various international certifications in pursuance of quality and food safety management:

- 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)
- Kosher Product Certificate-GITCHIA
- BRC Global Standard for Food Safety - DQS CFS GmbH – German Association for Sustainability

Revenue growth on the back of higher average prices; rupee devaluation continued to support export competitiveness: During FY22, net sales were recorded higher at Rs. 11.2b (FY21: Rs. 9.9b) with a YoY growth of ~13%, driven by higher product prices. Export sales contribution remained at 93.2% (FY21: 93.3%), out of which around 60.2% (FY21: 60.4%) constituted various varieties of basmati rice and 39.1% (FY21: 38.9%) included IRRI rice while the rest entailed lentils. The company sell its products under the brand 'Anmol'. Major rice verities exported by the company, constituting around 90% of the export sales are given below:

Breakdown of Major Rice Varieties Exported by SFPL	**FY20**	**FY21**	**FY22**
Super Basmati Brown	41.6%	41.8%	39.6%
IRRI White	38.9%	38.6%	38.8%
Super Basmati	6.4%	9.3%	5.1%
Super Basmati+PK386 Basmati	-	-	5.5%

The Company has distribution agreements with various vendors in USA, Italy, Portugal, Scandinavia, Benelux, Maldives, Thailand, Singapore, Bahrain, Mauritius, Oceania, Reunion Island. In addition, SFPL is also providing rice, beans, flour and lentils to UN peacekeeping camps all over the world. The distribution is done internally within the camps while camps are located in DR Congo, South Sudan, Lebanon, Morocco, Haiti and Somalia. The Company has established longstanding relationship with its clients underpinned by quality products, timely delivery and competitive pricing. In terms of volumetric sales, export sales have remained largely tilted towards Europe and China along with some countries sin Southeast Asia; contribution of these two regions have increased over the years, standing at ~94% (FY21: 82%) of export volumes in FY22. Region-wise breakdown of export volumes is tabulated below:

Region-Wise Export sales	**FY20**	**FY21**	**FY22**
Europe	39.8%	38.2%	46.2%
China, Thailand, Indonesia &Philippines	30.9%	43.9%	47.5%
Africa	26.2%	15.7%	1.6%
Australia & New Zealand	1.5%	1.3%	1.4%
USA/Canada	1.0%	0.4%	0.4%
Middle East	0.7%	0.6%	3.0%
Total Quantity in Metric Tons	**89,063.0**	**101,863.0**	**99,642.8**

Local sales amounted to Rs. 763.2m (FY21: Rs. 664.8m) which majorly comprised Basmati rice and its by-products (FY22: 47.5%; FY21: 48.4%), IRRI rice and its by-products (FY22: 28.9%; FY21: 43.5%) and mixed by-products (FY22: 26.6%; FY21: 8.1%) in the outgoing year.

Gross margins improved to 6.5% (FY21: 5.1%) on account of higher average product prices during FY22. Cost of raw material consumed increased by ~4% while its proportion in cost of sales decreased to 86% (FY21: 93%). Average rates of different varieties of basmati rice witnessed an increase in range of around 23% to 35% while IRRI rice average rates largely remained stable during the outgoing year. Freight and cartage cost increased by nearly 2.6x in the outgoing year owing to issues of port congestion along with post-covid hike in shipping charges at global level. Administrative and selling expenses remained largely rationalized with sales and inflationary pressure. Other income of Rs. 0.7m (FY21: Rs. 0.6m) majorly comprised rent on Korangi factory building. Finance cost remained largely unchanged. Accounting for taxation, net profits were reported higher at Rs. 455.7m (FY21: 254.7m) with increase in net margin to 4.1% (FY21: 2.6%).

During 1HFY23, net sales were reported at Rs. 4.8b with marginal uptick in gross margins to 6.9%. Sales are lower in months of July to September as the new crop usually become available in October. Furthermore, demand is also subdued in these months due to higher rates and pick up pace when the new stocks come in market. Meanwhile, the management projects growth of around 10% in full year primarily on the back of favorable pricing backed by overall competitiveness of rice exporters amid depreciated local currency. Gross margins are also expected to remain largely stable, going forward.

Sound liquidity profile in terms of working capital management and cash flow coverages: Liquidity position is underpinned by healthy cash flow generation in line with profitability. Funds from operations (FFO) amounted to Rs. 234.9m (FY22: Rs. 496.0m; FY21: 290.4m) during 1HFY23. Annualized FFO to total debt, albeit decreased in 1HFY23 to 0.74x (FY22: 1.35x; FY21: 1.03x) due to higher short-term financing, has remained fairly adequate. Furthermore, given no contractual repayment in the absence of long-term financing, debt service coverage ratio has also remained sizeable.

Stock in trade augmented to Rs. 1.6b (FY22: Rs. 734.8m; FY21: 911.6m) by end-1HFY23. Around 40% of the stock in trade comprised unprocessed rice while the remaining included finished rice. The Company meets around two-third of the unprocessed rice is met through in-house rice sheller/husker located at Thull. The rest of the rice stock is purchased from various markets (Mandis) and brokers in Punjab and Sindh. Trade debts amounted to Rs. 1.2b (FY22: Rs. 2.0b; FY21: Rs. 1.2b); trade debts as percentage of net sales were 13% (FY22: 18%; FY21: 13%). Aging of receivables has also remained satisfactory, with around 93% of trade debts were due for less than 60 days at end-Jun'22 while the rest were outstanding for less than 90 days. Credit terms with export clients largely entail cash against documents and thirty days bill discounting under Export Finance Scheme (EFS) by SBP. Advances and other receivables increased to Rs. 197.6m (FY22: Rs. 52.9m; FY21: 271.3m) mainly due to higher advances to suppliers. Cash and bank balances stood at Rs. 49.5m (FY22: Rs.

39.7m; FY21: 46.9m) at end-1HFY23. Tarde and other payables decreased to Rs. 201.2m (FY22: Rs. 436.9m; FY21: 432.3m) by end-1HFY23 and as proportion of cost of sales remained at 4% (FY22: 5%; FY21: 3%). Purchases from rice markets are done on cash/advance basis while 15-30 days credit is availed from brokers. Current ratio and coverage of short-term borrowings via stock in trade and trade dents have remained sizeable on a timeline basis. Cash conversion cycle has also remained manageable over the years.

Low leveraged capital structure; equity base supported by profit retention over the years: Tier- 1 equity augmented to Rs. 3.0b (FY22: Rs. 2.8b; FY21: Rs. 2.4b) on the back of internal capital generation by end-1HFY23. Accounting for revaluation surplus, total equity was reported at Rs. 3.2b (FY22: Rs. 3.0b; FY21: 2.4b). Debt profile of the company includes only short-term export refinance facilities amounting Rs. 631.6m; FY22: 368.3m; FY21: 281.1m) in line with working capital requirements. The Company has total working capital lines of Rs. 950m from a bank. With growth in equity base, debt leverage and gearing have remained comfortable at 0.28x (FY22: 0.30x; FY21: 0.40x) and 0.13x (FY22: 0.12x; FY21: 0.28x), respectively, at end-1HFY23. As the Company does not intend to obtain any long-term financing in the medium term, capitalization indicators are projected to improve further in line with strengthened equity base due to profit generation.

Corporate governance and internal controls: Being a private limited company, corporate governance structure provides room for improvement. The Board comprises shareholders, who are also members of the same family. The position of Chairman and CEO is held by the same person. For FY23, the Company has appointed Syed Faisal Maaz & Co. Chartered Accountants for external audit, who are on the Institute of Chartered Accountants of Pakistan (ICAP) approved list of auditors.

Staple Foods (Pvt.) Limited (SFPL) Annexure I

Financial Summary (Rs. millions)				
Balance Sheet	**FY20**	**FY21**	**FY22**	**HY23**
Property, Plant and Equipment	608	640	930	961
Stock-in-Trade	757	912	735	1,580
Trade Debts	1,329	1,238	2,046	1,238
Loans & Advances	274	271	53	198
Cash and Bank Balances	24	47	40	50
Total Assets	3,031	3,149	3,845	4,068
Trade and other Payables	264	432	437	201
Other Assets	41	41	41	41
Short Term Debt/Export Refinance	587	281	368	632
Long Term Debt	-	2	-	-
Total Debt	587	283	368	632
Total Liabilities	850	716	805	833
Paid-Up Capital	50	50	50	50
Tier-1 Equity	2,131	2,386	2,842	3,042
Total Equity	2,181	2,433	3,040	3,235
Income Statement	**FY20**	**FY21**	**FY22**	**HY23**
Revenue	8,762	9,899	11,215	4,797
Gross Profit	730	507	729	330
Finance Cost	39	39	39	11
Other Income	0	1	1	0
Profit Before Tax	583	355	552	249
Net Profit After Tax	522	255	456	200
Ratio Analysis	**FY20**	**FY21**	**FY22**	**HY23**
Gross Margin	8.3%	5.1%	6.5%	6.9%
Net Margin	6.0%	2.6%	4.1%	4.2%
FFO	558	290	496	235
FFO To Total Debt (x)	0.95	1.03	1.35	0.74*
Debt Servicing Coverage Ratio (x)	15.23	8.37	17.85	22.12
Gearing (x)	0.28	0.12	0.13	0.21
Leverage (x)	0.40	0.30	0.28	0.27
Current Ratio (x)	2.80	3.46	3.57	3.68
(Stock in trade + Trade debts) to ST Borrowing coverage (x)	3.55	7.64	7.55	4.46
ROAA (%)	19.6%	8.2%	13.0%	10.1%*
ROAE (%)	27.9%	11.3%	17.4%	13.6%*

**Annualized*

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	Annexure III
Name of Rated Entity	Staple Foods (Pvt.) Limited
Sector	Food
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	(see table below)

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
Mar-13-2023	A-	A-2	Stable	Reaffirmed
Jan-10-2022	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.
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)

Name	Designation	Date
Mr. Saad Imran	Chief Operating Officer	February 21, 2023
Mr. Azam Raza	Chief Accountant	