RATING REPORT

Staple Foods (Pvt.) Limited (SFPL)

REPORT DATE:
May 08, 2024

RATING ANALYSTS:

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RATING DETAILS				
	Latest Ratings		Previous Ratings	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A	A-1	A-	A-2
Rating Date	May 08, 2024		March 13, 2023	
Rating Action	Upgraded		Reaffirmed	
Rating Outlook	Stable		Stable	

COMPANY INFORMATION	
Incorporated in 2000	**External auditors:** Mohiuddin & Company, 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
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

VIS Rating Scale
https://docs.vis.com.pk/docs/ratingscale.pdf

OVERVIEW OF THE INSTITUTION

Staple Foods (Private.) Limited. (SFPL) was incorporated in 2000. The company is engaged in processing and sale of rice.

Profile of Chairman/CEO: Mr. Imran, the Chairman/CEO of SFPL has a bachelor's degree from Saint Patrick's, Karachi, and has 30 years of experience in the field. He is a majority shareholder of the company.

RATING RATIONALE

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. Head office of the Company is situated in Karachi. 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.

Key Rating Drivers:

Overview of Rice Industry:

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. As per United States Department of Agriculture (USDA), the FY24's milled rice production is forecasted to reach 9m MT, which would make it the second largest crop ever, after the 2021-22 production.

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%. Nonetheless, Pakistan's rice exports are also expected to be record-breaking at 5m MT in FY24, increasing from 4.9m MT in FY22. Rice exports accounted for 7.8% (FY22: 7.9%) towards Pakistan's overall exports revenue in FY23. Resultantly, overall USD repatriation decreased from USD 2.51b in FY22 to USD 2.15b.

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. In FY23, India placed a ban on the exports of its non-Basmati white rice (IRRI) just before their upcoming general elections in May to safeguard their local consumption. This has surged the demand of other non-Basmati producers & exporters including Pakistan, Thailand, Cambodia, Myanmar, Philippines, etc. thus, the quantum of exports are expected to increase considerably in FY24. According to sources, Pakistani non-Basmati rice are the substitute for many players including Iran, and African destinations, due to the logistical advantage it has. However, there is a downside risk as well i.e. local prices of the commodity may rise on account of demand supply dynamics.

Production update: The Company's available rice processing capacity remained unchanged at 150K MT per annum. The difference between installed and available capacity is kept to maintain quality and achieve desired proportion of different grades of broken rice. The capacity utilization dropped significantly to 48.4% in FY23 due to the impact of floods and thus low availability of rice paddy. Capacity utilization partially recovered in 1HY24, which is expected to improve further in the 2HY24. The installed and available capacity along with capacity utilization is as follows:

M/Tons	**FY21**	**FY22**	**FY23**	**HY24**
Installed Capacity	160,000	160,000	160,000	80,000
Available Capacity	150,000	150,000	150,000	75,000
Actual Production	132,416	129,088	72,661	53,282
Capacity Utilization	***88.3%***	***86.1%***	***48.4%***	***71.0%***

During the outgoing year, the company completed some major PPE projects including the replacement of machines at Thull plant and of Rice Holding Tanks of Hopper Feeding & Finished Product. SFPL also managed to increase the load capacity of K-Electric. The construction of a new office building in DHA, Karachi was also completed during the review period. In addition, installation of solar power plant of 1 MW has been completed and the Company is awaiting the license from NEPRA. 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, and the excess production of around 290 kW will be supplied to K-Electric. A pending purchase of auto packing machine with metal detector has been initiated and is expected to be completed by end of FY24. The Company has financed all the capital expenditure through own sources. Property, plant and equipment (PPE) stood at Rs. 1b (FY23: Rs. 1b; FY22: Rs. 930m) at end-1HY24.

The Company has also initiated long-term investment to the tune of around Rs. 70m in an oil blending plant (lubricants) at Port Qasim *(Alpha Oil Blending Plant),* the first phase of which has been completed. The investment involves a joint venture with two other parties, all holding equal share in the total investment. Another long-term investment that SFPL holds is in its associated undertaking M/s. Threadz, Karachi amounted to Rs. 50m (FY22: Rs. 40m) at end-1HFY24. The increase in investment was to support a set-up of a solar power plant.

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)

Revenue growth on the back of higher volumetric sales; rupee devaluation continued to support export competitiveness: During FY23, net sales were recorded higher at Rs. 14.5b (FY22: Rs. 11.2b) with a YoY growth of ~30%, primarily driven by higher product prices due to inflation & shortages, and devaluation of the rupee, though exports quantity in kgs decreased from 99.6m kgs in FY22 to 53.9m kgs in FY23. In 1HY24, the company recovered from the impact of floods, posted a total revenue of Rs. 10.4b, with 42.5m kgs of volumetric export sales.

In value terms, the proportion export sales decreased slightly to 91.4% (FY22: 93.2%) in FY23, out of which around 63.1% (FY22: 60.2%) constituted various varieties of basmati rice and 36.5% (FY22: 39.1%) included IRRI rice while the rest entailed lentils. The total exports revenue amounted to Rs. 9.6b (FY23: Rs. 13.3b; FY22: Rs. 10.4b) in 1HY24. The company sells its products under the brand 'Anmol' which has significant recognition in the exports market. Major rice varieties exported by the company, constituting around 90% of the export sales, are given below:

Breakdown of Major Rice Varieties Exported by SFPL	**FY21**	**FY22**	**FY23**	**HY24**
Super Basmati Brown	41.8%	39.6%	39.9%	15.3%
IRRI White	38.6%	38.8%	14.5%	42.3%
Super Basmati	9.3%	5.1%	31.2%	17.8%
Rice 1121 Parboiled	2.8%	5.5%	5.2%	8.9%
Rice 1121 White	0.1%	0.2%	1.6%	11.3%

The Company has distribution agreements with various vendors in USA, Italy, Portugal, Scandinavia, Benelux, Maldives, Thailand, Singapore, Bahrain, Mauritius, Oceania, and Reunion Island. Recently, the company has onboarded another distributor for Belgium. In addition, SFPL is also providing rice, beans, flour and lentils to UN peacekeeping camps all over the world. 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 in Southeast Asia; contribution of these two regions have remained high over the years, with 94.6% (FY23: 80.5%; FY22: 93.7%) of export volumes in 1HY24. Additionally, the top 10 importers from these regions are responsible for more than 50% of the company's total revenue (FY23: 54% & HY24: 64%). Region-wise breakdown of export volumes is tabulated below:

Region-Wise Export sales	FY21	FY22	FY23	HY24
Europe	38.2%	46.2%	56.2%	39.9%
China, Thailand, Indonesia &Philippines	43.9%	47.5%	24.3%	54.7%
Africa	15.7%	1.6%	6.2%	3.2%
Australia & New Zealand	1.3%	1.4%	1.2%	0.4%
USA/Canada	0.4%	0.4%	1.1%	1.2%
Middle East	0.6%	3.0%	11.0%	0.6%
Total Quantity in Metric Tons	**101,863.0**	**99,642.8**	**53,857.9**	**42,857.9**

While export sales remain majority of the total sales mix, local sales amounted to Rs. 796m (FY23: Rs. 1.2b; FY22: 763m) in 1HY24. The local sales majorly comprised Basmati rice and its by-products at 46.31% (FY23: 44.23%; FY22: 47.5%), IRRI rice and its by-products at 29.52% (FY23: 37.64%; FY22: 28.9%) and mixed by-products at 24.18% (FY23: 18.14%; FY22: 26.6%) in the 1HY24.

During FY23, gross margins improved to 8.8% (FY22: 6.5%) mainly due to significant increase in sales price and lower freight and cartage cost vis-à-vis FY22. Cost of raw material consumed increased by ~38.1% and its proportion in cost of sales also increased to 94% (FY22: 86%). Freight and cartage cost, which increased significantly in FY22 due to supply constraint regarding containers, decreased to Rs. 455m (FY22: Rs. 1.1b) in FY23. Administrative expenses remained largely rationalized with sales and inflationary pressure while selling expenses increased considerably due to higher discount/commission on export sales in FY23. These were the commissions paid to international brokers who bring new business to the company. Other income of Rs. 12.3m (FY22: Rs. 0.7m) majorly comprised scrap sales from the WPP bags. Finance cost increased to Rs. 72.5m (FY22: Rs. 39m) mainly due higher policy rate. Accounting for taxation, net profit was reported higher at Rs. 902m (FY22: 456m) with increase in net margin to 6.2% (FY22: 4.1%) in FY23.

During 1HFY24, net sales were reported at Rs. 10.4b with gross margins of 7.9%. The management projects growth of around 35% in full year primarily on the back of favorable market dynamics and pricing backed by overall competitiveness of rice exporters amid depreciated local currency. Gross margins are also projected 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. 599m (FY23: Rs. 941m; FY22: 496m) during 1HFY24. Annualized FFO to total debt increased to 1.92x in 1HFY24 (FY23: 1.38x; FY22: 1.35x) and has remained largely adequate. Furthermore, in the absence of long-term financing, debt service coverage ratio has also remained sizeable.

Stock in trade increased to Rs. 1.85b (FY23: Rs. 1.05b; FY21: 0.74b) by end-1HFY24, as the procurement of paddy took place in the first half. The Company meets around two-third of the unprocessed rice 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. 2.4b (FY23: Rs. 2.5b; FY22: Rs. 2.0b); trade debts as percentage of net sales *(annualized)* were 11.5% (FY23: 17%; FY22: 18%) in 1HFY24. Aging of receivables has also remained satisfactory, with around 98.5% of trade debts due for less than 90 days at end-Jun'23 while the rest were outstanding for less than 180 days. Credit terms with export clients largely entail cash against documents and 30 days bill discounting under Export Finance Scheme (EFS) by SBP. Advances and other receivables decreased to Rs. 152m (FY23: Rs. 230m; FY22: 53m) mainly due to lower advance payments to suppliers.

Receivables Position (Rs. million)	FY22	FY23	HY 24
0 to 90 days	2,046.35	2,469.62	2,380.02
91 to 180 days	-	37.17	21.00
Above 180 days	-	-	-
Total	2,046.35	2,506.79	2,401.02

Cash and bank balances stood at Rs. 49.5m (FY23: Rs. 43m; FY22: Rs. 39.7m) at end-1HFY24. Trade and other payables increased to Rs. 430.1m (FY23: Rs. 269.1m; FY22: Rs. 436.9m) by end-1HFY24. Purchases from rice markets are done on cash/advance basis while 15-30 days credit is availed from brokers. Aging of payables has remained sound as ~100% payments were within the first 3 months. Current ratio and coverage of short-term borrowings via stock in trade and trade debts have remained strong 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. 4.3b (FY23: Rs. 3.7b; FY22: Rs. 2.8b) by end-1HFY24 on the back of internal capital generation. Accounting for revaluation surplus, total equity was reported at Rs. 4.5b (FY23: Rs. 3.9b; FY22: 3.0b). Debt profile of the company includes only short-term export refinance facilities amounting Rs. 617m; (FY23: 679m; FY22: 368m) in line with working capital requirements. With growth in equity base, debt leverage and gearing have remained comfortable at 0.24x (FY23: 0.25x; FY22: 0.28x) and 0.14x (FY23: 0.18x; FY22: 0.13x), respectively, at end-1HFY24. As the Company does not intend to obtain any long-term financing in the medium term, capitalization indicators are projected to improve further, going forward.

Corporate governance and internal controls: Being a private limited company, corporate governance framework has remained weak. 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 FY24, the Company has appointed Mohiuddin & Co. Chartered Accountants for the external audit, who are on the Institute of Chartered Accountants of Pakistan (ICAP) approved list of auditors.

Financial Summary (Rs. in m)				
Balance Sheet	**FY21**	**FY22**	**FY23**	**HY24**
PPE	640	930	1,007	1,065
Stock-in-Trade	912	735	1,048	1,851
Trade Debts	1,238	2,046	2,507	2,401
Loans & Advances	271	53	230	152
Cash and Bank Balances	47	40	43	42
Other Assets	41	41	47	51
Total Assets	3,149	3,845	4,881	5,562
Trade and other Payables	432	437	269	430
Short Term Debt	281	368	679	617
Long Term Debt	2	-	-	7
Total Debt	283	368	679	624
Total Liabilities	716	805	949	1,054
Tier I Equity	2,386	2,842	3,744	4,324
Total Equity	2,433	3,040	3,932	4,508
Income Statement				
Revenue	9,899	11,215	14,529	10,386
Gross Profit	507	729	1,277	819
Operating Expenses	114	139	199	126
Finance Charges	39	39	72	47
Profit Before Tax	355	552	1,027	652
Net Profit After Tax	255	456	902	580
Ratio Analysis				
Gross Margin (%)	5.1	6.5	8.8	7.9
Net Margin (%)	2.6	4.1	6.2	5.6
FFO	290	496	941	599
FFO To Total Debt (x)	1.03	1.35	1.38	1.92
Debt Servicing Coverage Ratio (x)	8.37	13.72	13.98	13.86
Gearing (x)	0.12	0.13	0.18	0.14
Leverage (x)	0.30	0.28	0.25	0.24
Current Ratio (x)	3.46	3.57	4.03	4.24
STD Coverage (x)	7.64	7.55	5.23	6.89
ROAA (%)	8.2	13.0	20.7	22.2
ROAE (%)	11.3	17.4	27.4	28.8
Cash Conversion Cycle	66	67	72	64

**Annualized*

REGULATORY DISCLOSURES — Annexure II

Name of Rated Entity	Staple Foods (Pvt.) 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.
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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				
May-08-2024	A	A-1	Stable	Upgraded
Mar-13-2023	A-	A-2	Stable	Reaffirmed
Jan- 01-2022	A-	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Saad Imran	Chief Operating Officer	March 12, 2024
Mr. Azam Raza	Chief Accountant	