

RATING REPORT

Bismillah Sehla Processing Plant (Private) Limited

REPORT DATE:

September 13, 2023

RATING ANALYSTS:

Abdul Kadir

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Rating Category	Initial Ratings	
	Long-term	Short-term
Entity	BBB+	A-2
Rating Date	September 13, 2023	
Rating Action	Initial	
Rating Outlook	Stable	

COMPANY INFORMATION**Incorporated in 2011****External auditors:** Rifaqat Mansha Mohsin Dossani
Masoom & Co., Chartered Accountants**Private Limited Company****Chairman/CEO:** Mr. Zulfiqar Ali**Key Shareholders (with stake 5% or more):**

Mr. Zulfiqar Ali – 55%

Mr. Imran Noor – 20%

Mr. Muhammad Rizwan – 20%

Ms. Shaher Bano – 5%

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>

Bismillah Sehla Processing Plant (Private) Limited (BSPL)

OVERVIEW
OF THE
INSTITUTION

Bismillah Sehla Processing Plant (Private) Limited was incorporated on February 25, 2011. The project consists of imported and locally manufactured machineries. The company has four processing and milling plants. The main plant has been setup at 3-Km Syed wala Road, Butcheki.

RATING RATIONALE

Bismillah Sehla Processing Plant (Private) Limited ('BSPL' or 'the Company') is a family-owned business with major shareholding vested with Mr. Zulfiqar Ali who also spearheads the management team. The company is primarily involved in the business of rice processing with local sales and export sales to Europe, Middle East, Africa and other parts of the world. Apart from selling its products in the wholesale market, the company has also established a brand by the name of 'Wadah' for the local retail market. BSPL operates four rice processing and milling plants each including paddy drying, storage and husking facilities with the main unit situated in Syed wala Road, Butcheki. Corporate Governance infrastructure depicts a family-owned private entity.

Key Rating Drivers:

Favorable demand dynamics witnessed as world rice consumption increased from 503m MT in FY21 to 520m MT in FY22. However, consumption is projected at 517Mn 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 27% 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 33%.
- 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.

Gradual increase in sales and margin on a timeline basis. Proportion of domestic sales has been increasing.

The company has exhibited growth in sales over the years. Net sales increased to Rs. 12b (FY21: Rs. 11.3b; FY20: Rs. 9.6b) on the back of both higher volumetric growth and selling price. BSPL customer base is spread across 15 countries worldwide. The top 5 customer-wise concentration in export sales is high at 71% at end-June'23. However, BSPL exhibited long-term association with these customers. The proportion of local sales in total sales has been increasing in recent years. During FY22, domestic sales contributed 63.63% (FY21 61.53%, FY20: 50.09%) to the total sales.

Sales (Rs. Million)	FY20	%	FY21	%	FY22	%	HY23	%
Exports	4,852	49.9%	4,359	38.5%	4,394	36.4%	1,445	24.2%
Domestic	4,869	50.1%	6,973	61.5%	7,690	63.6%	4,533	75.8%
Total	9,721		11,332		12,084		5,977	

Net sales stood at Rs. 6b in HY23 with proportion of local sales increasing further to 75.8%. The floods in Sindh have disrupted 35% to 40% of cultivating area of rice that had an adverse impact on overall sales for FY23. While anticipating shortage of crop, the company indulged in bulk buying of paddy to ensure availability of sufficient stock. The stock in trade increased to Rs. 3.7b (FY22: Rs. 1.3b) by end-HY23.

The above-mentioned strategy brought forth favorable results as prices of IRRI rice increased considerably in international market over the last 6 to 8 months. Price of Basmati paddy has also shown an increasing trend. The gross margin increased to 11.16% (FY22: 9.48%) during HY23 due to better average selling prices. During FY22, net profit stood higher at Rs. 369.6m (FY21: Rs. 303.4m) with net margin of 3.1% (FY21: 2.7%). Going forward, the management plans to focus on exports with efforts to enhance quantum of branded product sales (Wadah) to realize value added margins.

Coverages have remained sound and overall liquidity has been adequate.

Trade debts to total sales remained around 11%. According to the management, credit terms are subject to market conditions, and a grace period of up to 20-25 days is provided during uncertain circumstances.

Receivable Positions	FY20	FY21	FY22
0 to 90 days	914	1106	1263
91 to 180 days	17	58	24
181 to 360 days	2	3	4
Above 360 days	85	103	58
Total	1,018	1,269	1,348

Funds from Operations (FFO) decreased slightly to Rs. 438.0m (FY21: Rs. 462.9m) during FY22. However, FFO to total debt improved to 0.22x (FY21: 0.20x) in FY22 while FFO to long-term debt remained strong at 3.3x (FY21: 2.4x) and further to 4.4x in HY23. Cash flow coverages in relation to financial obligations are considered sound as indicated by debt servicing coverage ratio of 4.0x (FY22: 3.6x; FY21: 4.7x) in HY23.

During FY22, cash conversion cycle (CCC) improved to 69 days (FY21: 96 days). The inventory and trade debt adequately cover short-term borrowings while the current ratio stood at 1.2x (FY21: 1.3x) at end-HY23. Given higher cash flows and lower gearing, coverages are projected to improve further.

Gearing has remained manageable. Gradual decrease in leverage indicators is projected, going forward.

Given profit retention, equity base has enhanced on a timeline basis (HY23: Rs. 2.38b; FY22: Rs. 2.19b; FY21: Rs. 1.82b). Apart from equity, the balance sheet is funded mainly through short-term borrowings. The company mobilized seasonal short-term borrowings in HY23 primarily to finance raw material inventory. Gearing and leverage ratios stood at 1.3x (FY22: 0.9x; FY21: 1.2x) and 1.9x (FY22: 1.2x FY21: 1.4x) respectively at end-HY23. As the company has no plans to mobilize long-term financing in the medium term, the management is projecting gradual decrease in leverage indicators, going forward.

FINANCIAL SUMMARY				
(Rs. in millions)				
<u>BALANCE SHEET</u>	FY20	FY21	FY22	HY23
Property, plant and equipment	924.4	1,042.2	1,680.1	1,700.0
Stock-in-Trade	1,512.9	1,711.3	1,312.6	3,684.5
Trade Debts	1,018.3	1,270.3	1,348.5	1,251.9
Cash & Bank Balances	20.9	148.5	82.8	27.6
Total Assets	3,795.2	4,398.8	4,802.3	6,946.9
Trade and Other Payables	497.4	165.6	487.5	1,372.9
Long Term Debt	248.4	193.0	133.5	105.6
Short Term Debt	1,455.4	2,056.1	1,840.0	2,917.0
Total Debt	1,703.8	2,249.1	1,973.6	3,022.6
Total Liabilities	2,277.6	2,577.8	2,611.7	4,569.0
Paid Up Capital	200.0	200.0	200.0	200.0
Total Equity	1,517.5	1,821.0	2,190.6	2,377.9
<u>INCOME STATEMENT</u>				
Net Sales	9,648.3	11,280.4	12,037.0	5,968.4
Gross Profit	805.7	1,061.5	1,141.7	665.8
Operating Profit	564.1	674.2	788.5	481.7
Profit Before Tax	318.0	451.6	507.0	269.7
Profit After Tax	259.7	303.4	369.6	187.3
<u>RATIO ANALYSIS</u>				
Gross Margin (%)	8.4%	9.4%	9.5%	11.2%
Net Margin (%)	2.7%	2.7%	3.1%	3.1%
Net Working Capital	769.9	831.4	592.5	783.9
Trade debts/Sales	10.6%	11.3%	11.2%	10.5%
FFO	327.0	462.9	438.0	230.4
FFO to Total Debt (x)	0.19	0.20	0.22	0.15
FFO to Long Term Debt (x)	1.3	2.3	3.3	4.4
Current Ratio (x)	1.4	1.3	1.2	1.2
Debt Servicing Coverage Ratio (x)	1.4	4.7	3.6	4.0
Gearing (x)	1.1	1.3	0.9	1.3
Leverage (x)	1.5	1.4	1.2	1.9
(Stock in Trade + Trade Debts)/STD (x)	1.7	1.5	1.4	1.69
ROAA (%) *	-	7.4%	8.0%	6.4%
ROAE (%) *	-	18.2%	18.4%	16.4%
CCC	80.4	96.3	68.5	-

*Annualized

REGULATORY DISCLOSURES

Annexure III

Name of Rated Entity	Bismillah Sehla Processing Plant (Pvt) LTD			
Sector	Food			
Type of Relationship	Solicited			
Purpose of Rating	Entity Ratings			
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook
	RATING TYPE: ENTITY			
	Sep-13-2023	BBB+	A-2	Stable
Rating Action	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 Meeting Conducted	Name	Designation	Date	
	Mr. Zulfiqar Ali	Chief Executive	July 7, 2023	
	Mr. Wasim Mushtaq	Chief Financial Officer		