

## REEM RICE MILLS (PVT.) LIMITED (RRM)

**RATINGS (OCTOBER 2007)**
**REEM RICE MILLS (PVT.) LIMITED**
**RATINGS**

	New
<b>Entity</b>	
Long Term	BBB+
Short Term	A2

**SUMMARY DATA**
*(Amounts in PKR mln)*

	31-Aug -07*	30-Aug -06
Total Assets	335.3	375.6
Equity	291.2	228.3
Operating Profit/ (Loss)	41.7	13.5
Net Income	29.7	(6.9)
Gross Margin (%)	14.05	12.91
ROE (%)	8.36	n.m
Net Debt / Equity (%)	n.a	28.23

*\* Based on Un-audited accounts*
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**ASSESSMENT**

- The ratings reflect RRM's sound financial profile emanating from its virtually debt free capital structure and association with financially strong business groups. RRM has shown subdued profitability in the past mainly due to limited scope of its operations. However, with its revised strategy of focusing on a larger universe of customers, the performance is expected to improve, going forward. Meanwhile, the company remains exposed to the cyclical nature of rice industry.
- Rice is the third largest cash crop after wheat and cotton in Pakistan. The rice industry in Pakistan comprises more than 1,100 millers, and a large number of dealers and exporters. However, a major portion of rice exports business, around 60%, is handled by less than 50 players. With recent increase in rice price, which is likely to be sustained at these levels due to improving demand in international markets, the rice industry has good prospects. High prices, while giving additional margins to rice processing segment, is likely to pursue farmers to adopt modern techniques to improve yield. Nevertheless, a more focused approach by the government, mainly in terms of supporting research and development, and efforts on the part of exporters to establish presence of Pakistani rice in end-user markets would be critical.
- RRM, till end FY06, mainly operated as an extension of its sponsors to procure and produce rice according to their respective requirements. Left over stock, if any, was usually sold in the local market. Notably, the output pricing with sponsors is usually not fixed on an arm's length basis. Consequently, RRM has either reported accounting loss or negligible profitability in the past. Beginning FY07, there has been a shift in the company's strategy. The management, as against fulfilling the sponsors' requirements only, intends to gradually increase the proportion of non-sponsor business. As a strategy, the company has bifurcated its business in three segments, which are a) sales to sponsors, b) direct exports to international markets, and c) sales in the local market. During FY07, RRM benefiting from its revised strategy, has shown significant improvement in its profitability.
- Going forward, the management intends to aggressively pursue its strategy of increasing the proportion of non-sponsor export sales, and establish its local brand. The company is also carrying out a gradual BMR&E exercise to support the expected increase in the turnover. However, the success of the stated strategy remains dependent on the degree of support from the sponsors to allow RRM to establish its independent operations. At the same time, the performance remains susceptible to cyclical nature of the rice industry.
- RRM has no long-term loans. The only financing that the company utilizes is in the form of export refinance for the purchase of paddy, which is repaid from the export proceeds. The company has started receiving advance from its sponsors against procurement, which would support its working capital management. The company's operational cash flows has high correlation with inventory levels, which have shown a volatile pattern, an outcome of cyclical nature of rice business. However, given improved business prospects, whereby increased turnover would provide additional cash flows, the coverages are expected to remain comfortable.

**KEY RATING DRIVERS**

- These ratings are dependent on effective execution of the company's strategy to improve profitability, while managing its business risk. In this regard, the support from sponsors for revised strategy would be critical. Meanwhile, any prolonged downturn in the industry would have negative implications for the ratings. At the same time, the ratings remain constrained by limited diversity in the company's operations.

**PROFILE**

- RRM, incorporated in 1992, is engaged in milling, processing and export of rice. RRM is a joint venture of Abdullah A. Al Ghurair group (AG) of UAE and Al Muhaidib group (MG) of Saudi Arabia.
- The AG is a prominent business group of UAE having diversified business interests including banking, retailing, and trading alongwith presence in food business. The MG has major business interests in the commercial, industrial, and contracting sectors. Al-Muhaidib Foods, one of the MG's companies, is engaged in distribution and marketing of rice and has established itself as a key player in the rice business in Saudi Arabia. For the last few years, MG has been the major buyer from RRM, whereas the quantity being purchased by AG has been relatively small.
- The company's BOD including the chief executive officer has seven members. The board has equal representation of both sponsoring groups. Most of the members are professionals working in key positions of different group companies. Mr. Javed Islam Agha, the chief executive officer, is an electrical engineer by profession, having a rich experience of 22 years in the rice industry. He was also the founder chairman of Rice Exporters Association of Pakistan.