



The Pakistan Credit Rating Agency Limited

# K.K. RICE MILLS (PVT.) LIMITED (KKR)

## RATINGS REPORT

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DECEMBER 2017

**INDUSTRY SNAPSHOT**

Pakistan's Rice industry is instrumental at the moment. The total contribution to the GDP is meager, clocking in at 0.6%. There are a total of 107 firms, out of which only 22 firms have employees above hundred. There is no Rice company listed on the stock exchange. The Rice cultivation area is 2.72 mln Hectors. Production of the Rice is 6.9million Ton and the consumption is 3mln Tons.

**HASSAN ALI RICE EXPORT COMPANY (PVT) LTD.**
**PROFILE**

<b>Incorporated</b>	2009
<b>Major Business</b>	Rice Export
<b>Legal Status</b>	Private limited
<b>Head Office</b>	Karachi

**OWNERSHIP**
**ADEQUATE**

- KK Rice Mills (Pvt.) Ltd, incorporated in 2009, is a privately owned unlisted company. KK Rice Mills Pvt Ltd received a license to export from Rice Export Association (REAP) in September 2009
- The majority shareholding of the company is held by Mr. Chela Ram, holding 60% shares whereas the remaining is equally shared among the executive directors. Mr. Chela Ram, - is the man at the last mile and Ms Kami Bai is his wife. Mr. Dileep Kumar is the nephew of Mr. Chela Ram
- KK Rice Mills (Pvt) Ltd has two manufacturing plants located at two different locations, in Karachi and Hyderabad. The plant in Karachi is located at Port Qasim whereas the plant in Hyderabad is located at Nooriabad

**GOVERNANCE**
**AVERAGE**

- The board consists three members including the CEO of the company – Mr. Chela Ram, all three of them being director shareholders.
- The board meeting takes place twice a year, once before and once after the audit is performed. The attendance on the board is mostly short as Mr. Khami Bhai is not always present in the meeting. The meeting is minuted by the HR and Admin Manager, Ms. Sadaf Ahmer
- S.M Rehan & Co. Charetered Accountants are the auditors for the KK Rice Mills (Pvt.) Ltd. Neither the audit firm doesn't satisfy the QCR ratings nor does it is classified in any of the categories defined by the State Bank of Pakistan

**MANAGEMENT**
**GOOD**

- K.K. Rice Mills (Pvt.) Ltd has a well-defined reporting lines and segregation of duties. The departmental heads report directly to the CEO
- The CEO – Mr. Chela Ram Kewlani, is a B.A. qualified experienced professional, who has been with the company since its inception
- The management team comprises of six members, including the CFO - Dileep Kumar. Mr. Kumar is a rice specialist and has been associated with the company for the past 12 years

**SYSTEMS & CONTROLS**
**ADEQUATE**

- An ERP system is in place at the Head Office and in the factories.
- The existing in-house ERP solution is Oracle Financial having four modules i)Accounts Payable ii) Accounts Receivable iii) General Ledger iv) Supply Chain Management.
- In-house ERP System was implemented by Sidat Hyder Morshed Associates (Pvt) Ltd

**BUSINESS RISK**
**ADEQUATE**

- During FY17, the company experienced a decline in revenue by 17.93% YoY, amidst the decline in international market clocking in revenue of PKR 5bln
- The Net Profit for the year ended FY17 was PKR 22mln as compared to the Net Profit in FY16 ~ 40 mln, declining by 45
- Going forward, the management plans to acquire further market share by effective utilization of the resources and through business expansion strategies leading to a competitive edge over others

**FINANCIAL RISK**
**ADEQUATE**

- Company enjoyed a steady FCFO above PKR150 mln in the year end FY15 and FY16 but dropped to PKR 91mln at end FY17- on account of increased operating cost and reduced revenue
- The company finances its working capital through the export refinance facility
- K.K. Rice Mills (Pvt.) Ltd structure comprises of long-term debt and equity.
- Since the KK Rice Mills (Pvt.) Ltd is not a listed company, the practice of paying dividend doesn't exists.



The Pakistan Credit Rating Agency Limited

## KK RICE Mills(Pvt.) Limited

BALANCE SHEET	30-Jun-17	30-Jun-16	30-Jun-15
	Annual	Annual	Annual
<b>Non-Current Assets</b>	<b>356</b>	<b>259</b>	<b>285</b>
<b>Investments (Incl. associates)</b>	-	-	-
Equity	-	-	-
Debt	-	-	-
Investment property	-	-	-
<b>Current Assets</b>	<b>1,552</b>	<b>1,228</b>	<b>1,143</b>
Inventory	917	621	489
Trade Receivables	271	415	507
Others	364	192	148
<b>Total Assets</b>	<b>1,909</b>	<b>1,487</b>	<b>1,428</b>
<b>Debt</b>	<b>1,290</b>	<b>973</b>	<b>894</b>
Short-term	1,211	871	773
Long-term (Incl. Current Maturity of long-term debt)	79	102	121
Other shortterm liabilities	291	210	269
Other Longterm Liabilities	-	-	-
<b>Shareholder's Equity</b>	<b>327</b>	<b>305</b>	<b>265</b>
<b>Total Liabilities &amp; Equity</b>	<b>1,909</b>	<b>1,487</b>	<b>1,428</b>

### INCOME STATEMENT

<b>Turnover</b>	<b>5,190</b>	<b>6,278</b>	<b>5,253</b>
Gross Profit	415	517	527
Net Other Income	(8)	(11)	(9)
Financial Charges	(42)	(69)	(81)
<b>Net Income</b>	<b>22</b>	<b>40</b>	<b>38</b>

### Cashflow Statement

Free Cashflow from Operations (FCFO)	91	154	153
Net Cash changes in Working Capital	(88)	(114)	(130)
Net Cash from Operating Activities	(43)	(32)	(58)
Net Cash from Investing Activities	(123)	(18)	(21)
Net Cash from Financing Activities	318	79	22

### Ratio Analysis

<b>Performance</b>			
Turnover Growth	-17.3%	19.5%	73.7%
Gross Margin	8.0%	8.2%	10.0%
Net Margin	0.4%	0.6%	0.7%
ROE	13.7%	13.2%	4.8%
<b>Coverages</b>			
Interest Coverage (FCFO/Gross Interest)	2.1	2.2	1.9
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	0.1	0.2	0.2
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	0.1	0.2	0.2
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	26.6	11.4	12.4
<b>Liquidity</b>			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	35.5	57	50
<b>Capital Structure (Total Debt/Total Debt+Equity)</b>	<b>97.7%</b>	<b>97.0%</b>	<b>96.8%</b>

KK Rice (pvt.) Ltd

Dec-17



## STANDARD RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

LONG TERM RATINGS		SHORT TERM RATINGS
<b>AAA</b>  <b>AA+</b> <b>AA</b> <b>AA-</b>  <b>A+</b> <b>A</b> <b>A-</b>	<p><b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.</p> <p><b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p> <p><b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.</p>	<p><b>A1+:</b> The highest capacity for timely repayment.</p> <p><b>A1:</b> A strong capacity for timely repayment.</p> <p><b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>C:</b> An inadequate capacity to ensure timely repayment.</p>
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<p><b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.</p>	
<b>BB+</b> <b>BB</b> <b>BB-</b>	<p><b>Speculative.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.</p>	
<b>B+</b> <b>B</b> <b>B-</b>	<p><b>Highly speculative.</b> Significant credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.</p>	
<b>CCC</b> <b>CC</b> <b>C</b>	<p><b>High default risk.</b> Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.</p>	
<b>D</b>	<p>Obligations are currently in default.</p>	

<p><b>Rating Watch</b> Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled.</p>	<p><b>Outlook (Stable, Positive, Negative, Developing)</b> Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.</p>	<p><b>Suspension</b> It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.</p>	<p><b>Withdrawn</b> A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.</p>
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**Disclaimer:** PACRA's ratings are an assessment of the credit standing of entities/issues in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

