



The Pakistan Credit Rating Agency Limited

Rating Report

K.K. Rice Mills (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Jun-2018	BB	B	Stable	Maintain	-
08-Jan-2018	BB	B	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings incorporate the adequate market positioning of the company. KK Rice makes adequate profit though operational efficiency reflects rooms for improvement. KK Rice Mills (Pvt) Limited has adopted a top-line centric approach targeting Middle East and the African region. The company is going through business expansion and the management expects to generate the maximum fruit of the expansion. Timely promotion of the product at the right price is essential. Compared to established corporate, the board oversight and control environment are desirous of further improvement.

The ratings are dependant upon the maintained business volume and profitability. Adherence to sound financial discipline while strengthening debt servicing capacity through improving cash position is vital for the ratings

Disclosure

Name of Rated Entity	K.K. Rice Mills (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating Methodology(Jul-17)
Related Research	Sector Study Rice(Dec-17)
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K.K. RICE MILLS (PVT) PROFILE	
Incorporated	2009
Major Business	Rice business
Head Office	Karachi

INDUSTRY SNAPSHOT
<p>Pakistan's Rice industry is instrumentalist 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.</p>

Ownership

- KK Rice Mills Limited was incorporated on 15 July 2009 and obtained the export license from Rice Export Association of Pakistan (REAP) in Sep 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. one of them being an active and the other passive. 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
- It currently has two operational factories with one factory being under construction

Governance

- The board comprises of three members. CEO of the company holds 60% of shares in the company. The remaining 40% is held equally by the remaining members
- Mr. Chela Ram is the CEO of the company holding 60% of shares. He has a vast experience in the rice sector. He is also the sponsoring shareholder of the company. The remaining 40% is shared equally among Ms Kami Bai and Mr. Dileep Kumar. Ms. Kami is the wife of Mr. Chela Ram and is a sleeping partner in the company whereas Mr. Kumar is the nephew of Mr. Ram
- KK Rice has no committee to oversee and monitor the corporate governance rules and regulations

MANAGEMENT

- K.K. Rice Mills (Pvt.) Ltd has reporting line ensuring segregation of duties. The departmental heads report directly to the CEO
- 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

- 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

PERFORMANCE

- During 9MFY18, the company registered the revenue at PK 5.3bln being 102% of the whole year revenue last year (FY17: 5.19bln).
- The Net Profit for the year ended 9MFY18 was PKR 35mln as against PKR ~ 22 mln in FY17. The increase is mainly on account of increased export sales
- 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

- KK Rice enjoys a healthy FCFO ~ PKR 53 at 9MFY18 as against PKR 91mln in FY17. The increase is on account of increased cash inflows
- Short-term borrowings have risen to PKR 2.2 bln in 9MFY18 as against PKR 1.2bln of the whole FY17. The main reason for the borrowing is to finance the working capital needs
- K.K. Rice Mills (Pvt.) Ltd capital structure comprises of long-term debt and equity.



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KK RICE Mills(Pvt.) Limited

BALANCE SHEET	31-Mar-18 9MFY18	30-Jun-17 Annual	30-Jun-16 Annual	30-Jun-15 Annual
Non-Current Assets	381	356	259	285
Investments (Incl. associates)	-	-	-	-
Equity	-	-	-	-
Debt	-	-	-	-
Investment property	-	-	-	-
Current Assets	3,160	1,552	1,228	1,143
Inventory	1,925	917	621	489
Trade Receivables	634	271	415	507
Others	600	364	192	148
Total Assets	3,542	1,909	1,487	1,428
Debt	2,294	1,290	973	894
Short-term	2,232	1,211	871	773
Long-term (Incl. Current Maturity of long-term debt)	61	79	102	121
Other shortterm liabilities	883	291	210	269
Other Longterm Liabilities	-	-	-	-
Shareholder's Equity	365	327	305	265
Total Liabilities & Equity	3,542	1,909	1,487	1,428

INCOME STATEMENT

Turnover	5,295	5,190	6,278	5,253
Gross Profit	323	415	517	527
Net Other Income	-	(8)	(11)	(9)
Financial Charges	(51)	(42)	(69)	(81)
Net Income	35	22	40	38

Cashflow Statement

Free Cashflow from Operations (FCFO)	53	91	154	153
Net Cash changes in Working Capital	72	(88)	(114)	(130)
Net Cash from Operating Activities	125	(43)	(32)	(58)
Net Cash from Investing Activities	(7)	(123)	(18)	(21)
Net Cash from Financing Activities	1,022	318	79	22

Ratio Analysis

Performance				
Turnover Growth	2.0%	-17.3%	19.5%	73.7%
Gross Margin	6.1%	8.0%	8.2%	10.0%
Net Margin	0.7%	0.4%	0.6%	0.7%
ROE	19.3%	13.7%	13.2%	4.8%
Coverages				
Interest Coverage (FCFO/Gross Interest)	2.7	2.1	2.2	1.9
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	0.1	0.1	0.2	0.2
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	0.1	0.1	0.2	0.2
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	26.6	26.6	11.4	12.4
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	45.6	35.5	57	50
Capital Structure (Total Debt/Total Debt+Equity)	98.7%	97.7%	97.0%	96.8%

KK Rice (pvt.) Ltd

Jun-18



ENTITY CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity; 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	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	A1+: The highest capacity for timely repayment. A1: A strong capacity for timely repayment. A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions. A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions. B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. C: An inadequate capacity to ensure timely repayment.	
AA+	Very high credit quality. 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.		
AA	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.		
AA-			
A+	High credit quality. 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.		
A			
A-			
BBB+	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.		
BBB			
BBB-			
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.		
BB			
BB-			
B+	High 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.		
B			
B-			
CCC	Very high 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.		
CC			
C			
D	Obligations are currently in default.		
Rating Watch 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 within foreseeable future, but may continue if underlying circumstances are not settled.	Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business or 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'.	Suspension 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, a suspended rating should be considered withdrawn.	Withdrawn 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.
Disclaimer: PACRA's rating is an assessment of the credit standing of an entity/issue 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.			

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

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