



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
27-Dec-2018	BB	B	Stable	Maintain	-
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. In line with the industry, KK Rice Mills also benefited from the astounding performance of country's rice segment attributed by ban of Indian Rice that eventually helped rice players improve their margin. KK Rice achieved good profitability though operational efficiency, however, there still remain potential for improvement. KK Rice Mills 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 dependent 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

<b>Name of Rated Entity</b>	K.K. Rice Mills (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-18),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
<b>Related Research</b>	Sector Study   Rice(Dec-18)
<b>Rating Analysts</b>	Raniya Tanawar   raniya.tanawar@pacra.com   +92-42-35869504

## Profile

**Legal Structure** KK Rice Mills (Pvt.) Ltd, incorporated in 2009, is a privately owned unlisted company.

**Background** Formerly, before the incorporation of KK Rice (pvt) ltd, the operations were carried as a sole proprietor under the name of KK Commodities. KK Rice Mills Pvt Ltd received a license to export from Rice Export Association (REAP) in September 2009.

**Operations** KK Rice Mills 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. The two manufacturing plants at Port Qasim and Port Nooriabad have their own respective production capacities. The plant located at Port Qasim has two specialized equipment's, i) Muyang Plant and ii) Buhler Plant each having the production capacity of 131,000 tons. Company also has machinery for Boiling, Husking and Silking are installed at Nooriabad.

## Ownership

**Ownership Structure** The majority shareholding of the company is held by Mr. Chela Ram, 60% holding whereas the remaining is equally shared among the executive directors. One of them being an active and the other passive.

**Stability** Dealing in a commodity that has growing demand, 'non-basmati rice', ensures company's long existence in the market as one of the top players.

**Business Acumen** 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. He comes from an entrepreneurial background, his family has been in commodity trading since last three generations and are well known veterans in trading of rice, wheat and sugar.

**Financial Strength** Strong presence in the market, paved ways for the company to be financially sound. Governance:

## Governance

**Board Structure** The board consists of three members, all three of them being director shareholders. Ms Khami Bai is a passive director.

**Members' Profile** Mr. Chela Ram Kewlani, CEO KK Rice, is a B.A. qualified experienced professional, who has been with the company since its inception. He was the Chairman of Pakistan Hindu Council from 2014-2016 and has also served as the Senior Vice Chairman of Rice Export Association of Pakistan.

**Board Effectiveness** The board meeting takes place twice a year, once before and once after the audit is performed. The meeting is minute by the HR and Admin Manager, Ms. Sadaf Ahmer. Absence of independent director posts lack of governance.

**Financial Transparency** S.M Rehan & Co. Chartered 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. The auditors issued an unqualified opinion on the company's financial statements for the year ended June 30, 2018.

## Management

**Organizational Structure** KK Rice has defined business structure and thorough line of management. All head of the department's report to CEO.

**Management Team** The management team comprises of six members, including the CFO - Dileep Kumar. Mr. Dileep Kumar is a rice specialist and has been associated with the company for more than two decades. The Company also has a Director Finance, Mr. Tulsi Das Kewlani, who was responsible for overseeing the local business matters but now he has been transferred to Benin to cope with financial issues.

**Effectiveness** Other senior management personnel with exception to a couple of directors (Director International Business and Director Finance) have significant professional experience. Management meetings take place on half yearly basis.

**MIS** The Company has an ERP system 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.

**Control Environment** KK Rice has no committee to oversee and monitor the corporate governance rules and regulations, posing concerns over the internal controls of the company.

## Business Risk

**Industry Dynamics** Pakistan's Rice industry continue to be instrumentalist in 2018. The total contribution to the GDP is meagre clocking in at 0.6%. There are a total of 107 firms, out of which only 22 firms have employees above hundred. Only one company named MATCO is listed in the Pakistan Stock Exchange. The Rice cultivation area is 2.9 million hectares. Production of rice is 7 million Tons and the consumption is 3 million Tons. The maximum contribution from the Rice sector in country's foreign exchequer is from non-basmati rice exports.

**Relative Position** The Company's business involves exporting rice, non-basmati and basmati rice. KK Rice is named among the leading exporters of non-basmati rice in the country. The company has a major customer base in Afro-Asian countries, with the top consumers being from Kenya, U.A.E, China and Indonesia.

**Revenues** As the company's export volume base increased from 140,000 metric tons to 170,000 metric tons. Company witnessed a revenue hike by 39.6% YoY clocking in at PKR ~7.3bln during FY18, which was only PKR ~5bln last year FY17. Indonesia was the major contributor. During the first quarter of FY19 company earned a revenue of PKR 840mln. The company's local sales were almost 0 % to 1% of the total revenue in the previous three years.

**Margins** The Net Profit for the year ended FY18 was PKR 34mln as compared to PKR 22mln in FY17 which is 55% higher. This was mainly on account of higher exports in FY18 as compared to the prior years. Company also kept its operational efficacy intact as the cost of sales to sales ratio remained constant for the FY18.

**Sustainability** 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. Company doesn't plan to go for public listing in the near future.

## Financial Risk

**Working Capital** The company finances its working capital through the export refinance facility-ERF. There is a total facility of PKR 2,774mln, pledged against inventory and fixed assets at a SBP rate plus 1%, out of which only PKR 623mln is unutilized, as to date. Despite the fact that company sales heaped, net cash cycle remained stagnant at 71days in FY18 (FY17: 71days, CY16: 57days) reflecting efficient operational management. High levels of both inventory and payables net offed the total impact. The entire working capital management is supported by short term borrowings FY18: PKR ~ 2.1bln, FY17: 1.2bln).

**Coverages** KK Rice enjoys a healthy FCFO PKR ~125mln at FY18 as against PKR ~91mln in FY17. The increase is on account of increased profitability. After a constant pace of improved coverages in the past years ruling out interest repayment issue (FY17: 3.4x, FY16: 3.1x ), K.K. Rice Mills observed a drop in its coverage (FY18: 2.8x) due to increased short term borrowings.

**Capitalization** K.K. Rice Mills (Pvt.) Ltd structure comprises of long term debt and equity. At present there is no long term debt on the company's book. Previously, the company had a long term debt representing a finance lease of vehicles, which elapsed during FY18. The Company also paid off the loan of PKR 18mln during FY18, which was an unsecured loan from the director.



## KK RICE Mills(Pvt.) Limited

BALANCE SHEET	30-Jun-18	30-Jun-17	30-Jun-16
	Annual	Annual	Annual
<b>Non-Current Assets</b>	<b>647</b>	<b>356</b>	<b>259</b>
<b>Investments (Incl. associates)</b>	-	-	-
Equity	-	-	-
Debt	-	-	-
Investment property	-	-	-
<b>Current Assets</b>	<b>2,443</b>	<b>1,552</b>	<b>1,228</b>
Inventory	1,622	917	621
Trade Receivables	517	271	415
Others	304	1,257	192
<b>Total Assets</b>	<b>3,091</b>	<b>1,908</b>	<b>1,487</b>
<b>Debt</b>	<b>2,213</b>	<b>1,289</b>	<b>973</b>
Short-term	2,151	1,210	871
Long-term (Incl. Current Maturity of long-term debt)	61	79	102
Other shortterm liabilities	518	291	210
Other Longterm Liabilities	-	-	-
<b>Shareholder's Equity</b>	<b>362</b>	<b>327</b>	<b>305</b>
<b>Total Liabilities &amp; Equity</b>	<b>3,091</b>	<b>1,908</b>	<b>1,487</b>

### INCOME STATEMENT

<b>Turnover</b>	<b>7,244</b>	<b>5,190</b>	<b>6,278</b>
Gross Profit	566	415	517
Net Other Income	(11)	(8)	(11)
Financial Charges	(71)	(42)	(69)
<b>Net Income</b>	<b>34</b>	<b>22</b>	<b>40</b>

### Cashflow Statement

Free Cashflow from Operations (FCFO)	125	91	154
Net Cash changes in Working Capital	(728)	(88)	(114)
Net Cash from Operating Activities	(668)	(43)	(32)
Net Cash from Investing Activities	(315)	(123)	(18)
Net Cash from Financing Activities	922	318	79

### Ratio Analysis

<b>Performance</b>			
Turnover Growth	39.6%	-17.3%	19.5%
Gross Margin	7.8%	8.0%	8.2%
Net Margin	0.5%	0.4%	0.6%
ROE	16.6%	13.7%	14.7%
<b>Coverages</b>			
Interest Coverage (FCFO/Gross Interest)	1.8	2.1	2.2
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	0.7	2.1	0.1
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	0.7	2.1	0.1
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	2.7	1.7	21.7
<b>Liquidity</b>			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	70.9	71.0	57
<b>Capital Structure (Total Debt/Total Debt+Equity)</b>	<b>86.0%</b>	<b>79.8%</b>	<b>100.0%</b>

## Credit 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>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<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.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<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.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<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.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> 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.	<b>B</b>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> 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>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit 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.		
<b>D</b>	Obligations are currently in default.		



**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/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'.

**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. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

**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, the 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, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

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(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)

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- 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

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- (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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- (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)
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- (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)
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