



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
19-Feb-2020	BBB	A2	Stable	Upgrade	-
20-Aug-2019	BB+	A3	Stable	Maintain	-
01-Mar-2019	BB+	A3	Stable	Upgrade	-
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 K.K Rice Mills' strong presence in the Rice Export Market with a sizable business volume. Though FY19 remained a slow-pace year for the rice industry, rupee devaluation against dollar favored the rice exporters to enhance their revenue base. K.K Rice Mills strategizes on adopting a top-line centric approach mainly targeting the Middle East and African region to explore growth avenues. Competitiveness in the International market in terms of pricing and branding remain a key challenge for the rice exporters, wherein Thailand also emerged as a key player in FY19. The Company's growth centric strategy encompasses maximizing returns through expansion; which comprises addition of a new plant expected to be operational by the end of 1QCY20. The ratings derive comfort from the progress in financial performance as is indicated in better margins trajectory over the periods. Sponsor's invested efforts are reflected in (i) development of a corporate culture through enhanced business practices & (ii) clarity on the succession to the next generations.

The ratings are dependent upon sustained business volumes and growing profitability margins. Meanwhile, upgraded financial practices and enhanced equity base are considered imperative.

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 Ratings(Jun-19),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria Rating Modifier(Jun-19)
Related Research	Sector Study Rice(Nov-19)
Rating Analysts	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. The company 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, Karachi and Hyderabad. The plant in Karachi is located at Port Qasim whereas the other plant is in Hyderabad located at Nooriabad. The plants at Port Qasim and Port Nooriabad have their own respective production capacities. The plant located at Port Qasim has two specialized types of equipment, i) Muyang Plant and ii) Buhler Plant, each having the production capacity of 131,000 tons. The company also has machinery for Boiling, Husking, and Silking which are installed at Nooriabad.

Ownership

Ownership Structure The majority of shareholding (55%) of the company is held by Mr. Chela Ram, whereas the remaining (45%) stake is divided amongst the three family members.

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

Business Acumen The company is a family-owned business. Mr. Chela Ram, along with his family, is the man at the last mile. Mr. Dileep Kumar is the nephew of Mr. Chela Ram. He comes from an entrepreneurial background. Mr. Chela's family has been in commodity trading since the last three generations. They are well-known veterans in trading of rice, wheat, and sugar

Financial Strength Strong presence in the market and sponsors backing has paved ways for the company to sustain financially sound. The company's Director Mr. Chela Ram has recently injected PKR 175mln subordinated loan which is intended to be converted into equity.

Governance

Board Structure The board consists of four members, all of them being director shareholders.

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

Board Effectiveness The board meetings take place twice a year, once before and once after the audit is performed. The meeting minutes are recorded by the HR and Admin Manager, Ms. Sadaf Ahmer. Independent oversight, as part of the good governance practice, is still missing.

Financial Transparency A.M Laliwala & Co Chartered Accountants are the auditors of the KK Rice Mills (Pvt.) Ltd. Neither the audit firm satisfies the QCR ratings nor does it classify 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, 2019.

Management

Organizational Structure KK Rice has defined a business structure and a thorough line of management. All head of the departments reports to the 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 and now looking after the international affairs and marketing side of the business.

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

MIS The company has an ERP system in place. 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 paving its way towards a better managerial structure, has established an internal audit department to oversee and monitor the corporate governance rules and regulations.

Business Risk

Industry Dynamics Pakistan's rice industry is an instrumental segment in the overall economy as it is one of the five major crops of the country and a contributor to the national exports revenue. After wheat, it is Pakistan's second main staple food crop. Major factors affecting rice production include water availability, area of cultivation, crop yield and the governing policies. During FY19, rice crop area decreased by ~3.1% to 2.8 million hectares as compared to last year. The production stood at 7.2 million tonnes as against 7.5 million tonnes last year, short by ~3.3%, mainly due to a decrease in area cultivated. The maximum contribution from the Rice sector in country's foreign exchequer is from non-basmati rice exports, as basmati rice is locally consumed and minimal quantity is exported.

Relative Position The Company's business mainly involves exporting non-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 Africa, Kenya, U.A.E, China and Indonesia.

Revenues The company's export volume base increased from 140,000 metric tons to 170,000 metric tons. The company's revenue base witnessed a hike, due to international tenders, by ~19.4% YoY clocking in at ~PKR 8.6bln during FY19 (FY18: ~PKR 7.2bln), while for the 1HFY20, revenue stood at PKR ~3.8bln. Indonesia was the major contributor. The company's local sales were ~3% during FY19 of the total revenue. KK rice earned a revenue of

Margins Company's overall margins observed improving trend; Gross margin for FY19 was ~14% (FY18: ~13%) and for 1HFY20: PKR 722mln. The net profit after tax for the year ended FY19 was ~PKR 415mln as compared to ~PKR 34mln in FY18. This was mainly on account of higher revenue base in FY19 as compared to the prior years. As a result of intact operational efficacy throughout the years, cost of sales to sales ratio decreased during FY19: ~86% (FY18: ~92%). During FY19, the company managed to earn its highest profits surging to ~PKR 415mln on account of backward integration and cost rationalization. For the period ended 1HFY20 net profit stood at PKR 181mln.

Sustainability Going forward, the management eyes 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

Working Capital The company finances its working capital through the export refinance facility-ERF. The total approved facility is of PKR ~3.4bln, pledged against inventory and fixed assets at a policy of at least 25% of sales in stock, out of which only PKR 300mln is unutilized at end Jun-19. In anticipation of the future demand and sale prospects, the company's stock level has raised to 108 days in FY19, leading to the net working capital cycle to ~107days (FY18: 144days). The entire working capital management is heavily supported by short term borrowings FY19: ~PKR 3.3bln (FY18: ~PKR 2.1bln), which comprises export refinance facility.

Coverages KK Rice enjoys an improving FCFO over the years; PKR ~772mln in FY19 (FY18: ~PKR 125mln). The increase is on account of increased profitability. After a constant pace of improved coverages in the past years ruling out interest repayment issue (FY18: 2.8x), K.K. Rice Mills observed a massive increase in its coverage (FY19: 9.6x) due to increase in FCFO.

Capitalization K.K. Rice Mills (Pvt.) Ltd capital structure comprises short term debt and equity. The company received a loan of PKR ~15mln during FY19, which was an unsecured loan from the director. The company long term borrowings have decreased to ~PKR 73mln in FY19. These include the subsidized loan availed from JS Bank at the rate of 6% for a period of 5 years. Company's equity base has increased and crossed PKR 1bln mark during 1HFY20. Hence, improving the capital structure, whereas a new long term loan adds up to the leverage during 1HFY20 in order to cater its expansion developments.



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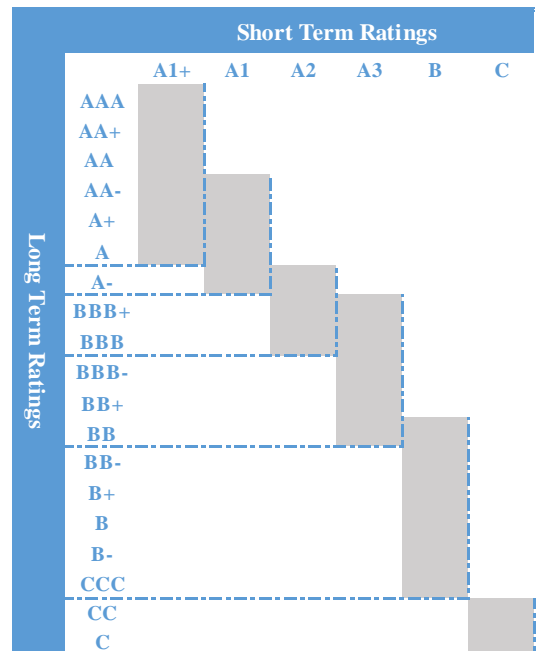
Financial Summary
PKR mln

KK Rice Mills Pvt Limited Rice	Dec-19 6M	Jun-19 12M	Jun-18 12M	Jun-17 12M
A BALANCE SHEET				
1 Non-Current Assets	812	690	647	356
2 Investments	-	-	3	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	4,162	5,160	2,443	1,552
a Inventories	3,208	3,501	1,622	917
b Trade Receivables	492	1,066	517	271
5 Total Assets	4,974	5,850	3,092	1,908
6 Current Liabilities	932	1,551	518	291
a Trade Payables	476	1,292	343	167
7 Borrowings	3,055	3,492	2,213	1,290
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	0	-	-
10 Net Assets	988	806	361	327
11 Shareholders' Equity	987	806	362	327
B INCOME STATEMENT				
1 Sales	3,872	8,646	7,244	5,190
a Cost of Good Sold	(3,150)	(7,449)	(6,677)	(4,775)
2 Gross Profit	723	1,197	566	415
a Operating Expenses	(378)	(696)	(379)	(291)
3 Operating Profit	345	501	187	124
a Non Operating Income or (Expense)	(24)	152	(11)	(8)
4 Profit or (Loss) before Interest and Tax	321	653	176	116
a Total Finance Cost	(97)	(157)	(71)	(42)
b Taxation	(43)	(82)	(70)	(51)
6 Net Income Or (Loss)	181	415	34	22
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	305	772	125	91
b Net Cash from Operating Activities before Working Capital Changes	195	622	60	44
c Changes in Working Capital	323	(1,910)	(728)	(88)
1 Net Cash provided by Operating Activities	518	(1,288)	(668)	(43)
2 Net Cash (Used in) or Available From Investing Activities	(130)	(68)	(315)	(123)
3 Net Cash (Used in) or Available From Financing Activities	(438)	1,244	922	318
4 Net Cash generated or (Used) during the period	(49)	(111)	(60)	151
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-10.4%	19.4%	39.6%	-17.3%
b Gross Profit Margin	18.7%	13.8%	7.8%	8.0%
c Net Profit Margin	4.7%	4.8%	0.5%	0.4%
d Cash Conversion Efficiency (EBITDA/Sales)	8.8%	9.8%	2.8%	2.7%
e Return on Equity (ROE)	40.4%	71.0%	10.0%	7.1%
2 Working Capital Management				
a Gross Working Capital (Average Days)	195	142	84	78
b Net Working Capital (Average Days)	153	107	71	71
c Current Ratio (Total Current Assets/Total Current Liabilities)	4.5	3.3	4.7	5.3
3 Coverages				
a EBITDA / Finance Cost	4.9	10.6	4.7	5.4
b FCFO / Finance Cost+CMLTB+Excess STB	3.6	7.7	0.5	3.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.3	0.2	3.5	1.2
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	75.6%	81.2%	86.0%	79.8%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Average Borrowing Rate	4.3%	2.8%	2.4%	1.3%

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	
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.
AA+ AA 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.	A1	A strong capacity for timely repayment.
A+ A 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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB 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 and in economic conditions are more likely to impair this capacity.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB 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.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B 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.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit risk. 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.		
D	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.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/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

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- (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.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (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)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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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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