



The Pakistan Credit Rating Agency Limited

Rating Report

Reliance International Commodities Export

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
18-Feb-2019	BB	B	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect emergence of the Reliance International Commodity Exports ("Reliance") as a growing IRRRI rice exporter. In line with the overall industry changing trend, Reliance has shifted its export sales mix from China to African countries in the recent past. This has reaped better top-line growth but has also enlarged its cash conversion cycle. Reliance has marked its presence in African regions through two distribution entities and is committed to increase its foreign footing. Presence in local market remains indifferent. Profitability margins, that have a perceptible impact on the ratings, are low as compared to peers. Coverages diluted on the backdrop of higher interest costs, though still remained comfortable. Reliance's debt book solely comprises Export Refinancing Facility availed to fund its working capital needs. Bearing a sole proprietor status, the overall structure of Reliance is desirous of requisite governance and management framework. The CEO, Mr. Arif Hussain is the man behind the enterprise.

The ratings are dependent on Reliance's ability to sustain business profile and yield better profit margins. Meanwhile, prudent working capital management is imperative.

Disclosure

Name of Rated Entity	Reliance International Commodities Export
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Rice(Dec-18)
Rating Analysts	Nadeem Sheikh nadeem.sheikh@pacra.com +92-42-35869504

The Pakistan Credit Rating Agency Limited

Profile

Legal Structure The Reliance International Commodity Exports (hereinafter referred to as "Reliance") is a sole proprietorship.

Background Mr. Gada Hussain Mahesar started the business in 1958. The business grew over the period and Mr. Gada Hussain established second rice husking plant in 1977 and the third in 1993. Reliance International Commodity Exports is run by his elder son, Mr. Arif Hussain.

Operations The primary business of Reliance is processing and sale of rice. Reliance purchases both raw rice and paddy, and converts them into finished products at the rice mill in Karachi. Reliance's revenue comes from export of rice to African countries and from local sales.

Ownership

Ownership Structure Reliance is a sole proprietorship wholly owned by Mr. Arif Hussain.

Stability Ownership structure of Reliance is expected to remain the same going forward.

Business Acumen Mr. Arif Hussain has a strong understanding of the rice sector. He is running his business from the past two decades. Mr. Arif served as the former president of Sindh & Baluchistan Rice Millers Association from 2007-2010 and 2010-2013.

Financial Strength Reliance International Commodity is the main business of Mr. Arif. He owns all the assets of the proprietorship. Dependence of sponsor on one business reduces owner's ability to support Reliance in time of need

Governance

Board Structure As Reliance is a sole proprietorship managed by a single person, it does not have a formal board structure.

Members' Profile Mr. Arif is the only person responsible for governance of Reliance. He is an experienced professional and has an experience of more than two decades.

Board Effectiveness Reliance does not have any board committees. Establishment of the board committees is essential for improvement of overall governance structure of Reliance.

Financial Transparency Reliance does not have an internal audit department in place. Sajid & Co is the external auditor of Reliance, which is a Non-QCR rated firm. Financial transparency is considered weak due to non-existence of internal audit department and non-qcr rated external auditors.

Management

Organizational Structure Both head office and the rice mill are located in Karachi. Managers at both locations are responsible for management of relevant affairs. Both managers report to Mr. Arif Hussain.

Management Team Ms. Afshan Munir is a qualified and experienced professional and has ~15 years of working experience. She is associated with Reliance for ~5 years. Mr. Fida Hussain is also a well experienced person. He is associated with Reliance for ~15 years.

Effectiveness Currently, Reliance does not have any formal management committees. All pertinent issues are resolved at department levels with the consent of the CEO.

MIS Reliance uses Tele ERP as its main software for preparation of financial accounts. Reliance needs to focus on deploying a software solution with proper technology framework.

Control Environment Overall structure of Reliance is divided into two main departments i.e. finance and rice mill. One individual at each site is responsible for management of the operations. Strong counter check and supervision is needed to improve overall control environment of Reliance.

Business Risk

Industry Dynamics Pakistan's Rice industry was instrumentalist in 2018. The total contribution to the GDP is clocking in at 0.6%. Only one Reliance named MATCO Foods Limited is listed on the Pakistan Stock Exchange. The Rice cultivation area was 2.9 million Hectors in 2018. Sindh specializes in production of non-basmati rice whereas Punjab produces world class Basmati rice. Production of rice was ~7 million Tons and the local consumption was ~3 million Tons. The share of basmati and non-basmati rice in total production is 45% and 55% respectively. Most of the basmati rice is consumed locally as the non-basmati rice is composed of more than 80% of total rice export.

Relative Position Demand for rice in both local and international markets is expected to remain steady owing to the nature of the basic commodity. Reliance is a relatively small player in rice industry. But, considering the long term presence of Mr. Arif's family in rice business, Reliance's ability to manage its supply chain is good. Further, Reliance is committed to increase its international presence and the establishment of trading Reliance for the said purpose is a step towards the right direction.

Revenues Reliance witnessed a ~10% YOY growth in revenue during FY18. Topline clocked in at PKR~2,346 million (FY17: PKR~2,133 million). Growth in revenue came on the backdrop of strong demand from African countries. Reliance sales mix comprises majorly IRRI-6 non-basmati rice. Reliance's exports showed less growth as compared to industry which grew by ~17% in FY18.

Margins Reliance's gross margin remained 5.9% in 8MFY19, with a positive change in % terms as compared to the corresponding period, standing at PKR~56mln (FY18: ~94mln). Gross profit increased due to increase in sales to African countries as they have more bargaining power compared to China. Despite the increase in gross profit of Reliance, the net profit margin did not increase. Net profit for the period under consideration was PKR~21mln (FY18: PKR~53mln).

Sustainability Reliance is committed to strengthen its distribution network in African markets. To achieve the said purpose, Reliance is planning to establish more distribution companies in Africa. Further, Reliance is keen to improve its overall organizational structure and is in the process of changing its legal structure from sole proprietorship to a private limited company.

Financial Risk

Working Capital Average inventory days remained stable at ~27 days at the end of 8MFY19 (~27 days FY18). Net working capital days increased to ~205 days during 8MFY19 as compared to ~95 days in FY18. The sharp increase in trade receivable led the increase in net working capital days. Trade receivable days stood at ~204 days at the end of 8MFY19 (~68 days FY18). These increased due to inclination of Reliance's exports to African countries that have a larger cash conversion cycle as compared to Chinese market.

Coverages Free cash flow from operations (FCFO) increased by PKR~11 million in FY18 clocking in at PKR~70 million (FY17: PKR~49 million). FCFO of Reliance for the 8MFY19 was PKR~31mln. FCFO increased due to improved profitability. Despite an increase in FCFO, interest coverage ratio decreased to 1.7x during 8MFY19 (FY18: 4x) due to an increase in gross interest expense recording at PKR~18 million during 8MFY19 (PKR~17mln in FY18).

Capitalization Reliance has a leveraged capital structure. Total debt of Reliance at the end of 8MFY19 clocked in at PKR~590 million as compared to PKR~698 million in FY18. All liabilities are short term, particularly export refinance facility, to fund working capital needs.



The Pakistan Credit Rating Agency Limited

Reliance International Commodity Exports

PKR mln

BALANCE SHEET

	Dec-18 8M	Apr-18 12M	Apr-17 12M	Apr-16 12M
Non-Current Assets	27	29	31	33
Investments (Incl. Associates)	-	-	-	-
Equity	-	-	-	-
Fixed Income	-	-	-	-
Current Assets	918	943	414	250
Inventory	98	91	259	185
Trade Receivables	678	752	122	55
Others	141	99	33	9
Total Assets	945	972	445	283
Debt/Borrowings	590	698	312	175
Short-Term	590	698	312	175
Long-Term (Incl. Current Maturity of Long-Term Debt)	-	-	-	-
Other Short-Term Liabilities	3	2	2	2
Other Long-Term Liabilities	-	-	-	-
Shareholder's Equity	353	271	131	106
Total Liabilities & Equity	945	972	445	283

INCOME STATEMENT

Turnover	958	2,346	2,133	2,015
Gross Profit	57	94	75	67
Net Other Income	-	-	-	-
Financial Charges	(18)	(17)	(7)	(9)
Net Income	21	53	47	39

CASH FLOW STATEMENT

Free Cash Flow from Operations (FCFO)	31	70	49	41
Total Cashflows (TCF)	31	70	49	41
Net Cash changes in Working Capital	26	(524)	(154)	(57)
Net Cash from Operating Activities	57	(455)	(105)	(16)
Net Cash from Investing Activities	75	100	-	(10)
Net Cash from Financing Activities	(131)	358	115	28
Net Cash generated during the period	1	4	10	2

RATIO ANALYSIS

Performance

Turnover Growth (vs SPLY)	-27%	10%	6%	N/A
Gross Margin	6%	4%	4%	3%
Net Margin	2%	2%	2%	2%
ROE	8%	26%	39%	37%

Coverages

Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+Uncovered STB)	1.7	4.0	6.5	4.7
Interest Coverage (X) (FCFO/Gross Interest)	1.7	4.0	6.5	4.7
Debt Payback (Years) (Total Debt (excluding Covered Short Term Borrowings) / FCFO)	39.2	13.3	7.5	5.4

Capital Structure (Total Debt/Total Debt+Equity)

Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	205	95	53	43
Capital Structure (Total Debt/Total Debt+Equity)	63%	72%	70%	62%

The Pakistan Credit Rating Agency Limited

Feb-19

Note: Dec-18 Financial Accounts are un-audited.

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

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.
- (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)

Independence & Conflict of interest

- (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)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent