The Pakistan Credit Rating Agency Limited

Rating Report

Reliance International Commodities Exports (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-Oct-2020	BB+	A3	Stable	Upgrade	-
08-May-2020	BB	B	Stable	Maintain	-
13-Nov-2019	BB	B	Stable	Maintain	-
20-Aug-2019	BB	B	Stable	Maintain	-
18-Feb-2019	BB	B	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Rice is among the five major crops of Pakistan and is the second main staple food, after wheat. Both basmati (long, thin and aromatic rice) and non-basmati (long grain white rice - IRRI 6 and IRRI 9) rice are cultivated in Punjab and Sindh, respectively. In Pakistan, ~85% of basmati rice is consumed locally and only 15% is exported. While, ~90% of non-basmati or IRRI rice is exported and only 10% is consumed locally. During FY20, rice production grew by ~3%, standing at ~7.4MT (FY19: ~7.2MT). Out of this, ~3 to 4MT of rice is exported to generate ~PKR 300bln export revenue. During 2MFY21, rice exports deteriorated to ~ PKR 41bln or USD 248ml (2MFY20: ~ PKR 53bln or USD 333mln) owing to higher prices at the mill-gate and shortage of exportable non-basmati rice in Jul-20 to Aug-20.

The ratings reflect emergence of Reliance International Commodities (Pvt.) Ltd. ('Reliance' or 'the Company') as a growing rice exporter. In line with the overall industry and its changing trend, the Company has shifted its export sales mix from China to African countries in the recent past. 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 improved on the backdrop of lower finance costs in FY20. The trend is expected to improve, going forward. The Company's debt book solely comprises Export Refinancing Facility availed to fund its working capital needs. The susceptibility of influence on crop-linked businesses, due to Covid-19, is impliedly low, owing to their inescapable demand at all times. Comfort is also drawn from the fact that the country’s non-basmati/Irri export revenues are largely concentrated in the African Regions, where the pandemic spread is relatively moderate, thus not creating an export hindrance. Additionally, a forecast of decelerated competition on the African side, particularly from Thailand and Vietnam, backs up a stable outlook for Irri/non-basmati export. On the flip side, as crisis in the European countries have heightened, the export demand for basmati rice brinks on a blurred outlook and is expected to absorb an impact in the days to come. Reliance has recently changed its legal structure from sole proprietorship to a Private Limited Company. The CEO, Mr. Arif Hussain is the key man behind the entity. The country's rice sector remained stable reflecting on the performance of the rice sector players.

The ratings are dependent upon sustenance of business volumes while improving margins, in turn profitability. As global economy undergoes distress, business sustainability emerges as the key challenge for the exporters. Meanwhile, keeping up with a stable financial risk profile remains imperative for ratings.

Disclosure

Name of Rated Entity	Reliance International Commodities Exports (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Rice(Nov-19)
Rating Analysts	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure The Reliance International Commodity Exports ('Reliance' or 'the Company') has recently changed its legal status from sole proprietorship to a Private Limited Company .

Background Mr. Gada Hussain Mahesar started the business in 1958. As the business grew, Mr. Gada established second rice husking plant in 1977 and a third one in 1993. In Feb-19, the business was incorporated as a private limited concern and was named as Reliance International Commodities Export (Pvt.) Ltd. Later, in Oct-19, the Company was renamed as Reliance International Commodities Exports (Pvt.) Ltd.

Operations Reliance is primarily involved in the processing of both, raw and paddy rice. Milled rice is mainly sold locally (61%), however, 39% is exported. The Company's rice mill is located in Karachi and has an installed capacity of 10 MT/per annum.

Ownership

Ownership Structure The Company is equally (50%) owned by Mr. Gada Hussain's sons, Mr. Arif Hussain and Mr. Irshad Hussain. Ownership structured changed in Feb-19.

Stability The ownership structure of Reliance is expected to remain the same for the foreseeable period.

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

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

Governance

Board Structure Board comprises of two members i.e. Mr. Arif Hussain and Mr. Irshad Hussain. The Board is dominated by the sponsoring family with no independent members.

Members’ Profile Mr. Arif is the only person responsible for the governance of Reliance.

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

Financial Transparency Reliance does not have an internal audit department in place. Reliance's external auditors, Sajid & Co, have expressed an unqualified opinion on the financial reports for FY20. The firm is neither QCR rated nor listed in SBP panel. Financial transparency is considered weak due to the nonexistence of the internal audit department and non-QCR rating of 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 mangers report to Mr. Arif Hussain.

Management Team The Company is run by Mr. Arif Hussain, the elder son of Mr. Gada Hussain. Ms. Afshan Munir is a qualified and experienced professional with the experience of ~15 years. She is associated with the Company for ~5 years. Mr. Fida Hussain has resigned from his position. He was working as manager rice mills. Currently, the Company is looking for his replacement.

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

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

Business Risk

Industry Dynamics Rice is among the five major crops of Pakistan and is the second main staple food, after wheat. Both basmati (long, thin and aromatic rice) and non-basmati (long grain white rice - IRRI 6 and IRRI 9) rice are cultivated in Punjab and Sindh, respectively. In Pakistan, ~85% of basmati rice is consumed locally and only 15% is exported. While, ~90% of non-basmati or IRRI rice is exported and only 10% is consumed locally. During FY20, rice production grew by ~3%, standing at ~7.4MT (FY19: ~7.2MT). Out of this, ~3 to 4MT of rice is exported to generate ~PKR 300bln of export revenue. During 2MFY21, rice exports deteriorated to ~ PKR 41bln or USD 248mln (2MFY20: ~ PKR 53bln or USD 333mln) owing to higher prices at the mill-gate and shortage of exportable non-basmati rice in Jul-20 to Aug-20.

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 the rice industry.

Revenues The Company is primarily involved in the processing of both, raw and paddy rice. Milled rice is mainly sold locally (~60%), followed by 40% exports. Majority of the Reliance’s export revenue comes from African countries. The Company's sales mix comprises majorly IRRI-6/non-basmati rice. Reliance witnessed ~7% YoY decline in revenue during twelve months period ended Apr-20. Total revenues clocked in at ~PKR 2,502 mln (Apr-19: ~PKR 2,701mln). The decline in revenue was a function of both lower sales in both local and export markets. Decline in revenues came on the backdrop of lower exports to China due to COVID-19 pandemic.

Margins The Company’s gross margin slightly dropped in percentage terms - Apr-20: 3.7%, as compared to the corresponding period Apr-19: 3.8% - standing at ~PKR 92mln (Apr-19: ~PKR 103mln). Operating profit also experience a slight decline and reached to 3.2% in Apr-20 (Apr-19: 3.5%). The net profit of the Company reached ~PKR 56mln at the end Apr-20 as compared to ~PKR 61mln at end Apr-19. The decline in margins and profitability was the result of lower exports due to COVID-19 pandemic.

Sustainability The Company is committed to strengthening its distribution network in African markets. To achieve that, Reliance is planning to establish more distribution companies in Africa.

Financial Risk

Working Capital The Company maintains a strong position in working capital management. However, owing to lower trade receivables, net working capital days improved and stood at 97 days at end Apr-19 (Apr-18: 112 days). Moreover the Company has adequate borrowing cushion against trade and total assets.

Coverages Free cash flow from operations (FCFO) decreased by ~PKR 5mln during twelve months period, clocking in at ~PKR 73mln (Apr-18: ~PKR 78mln). However, interest coverage ratio increased to 8.9x at end Apr-20 (Apr-18: 4.3x). The increase in coverage ratios was the result of lower finance cost which was recorded at ~PKR 8mln during Apr-20 (Apr-19: ~PKR 18mln).

Capitalization Reliance has a moderately leveraged capital structure (Apr-20: 44%; Apr-19: 75%). Total debt of the Company at the end of Apr-20 clocked in at ~PKR 291mln as compared to ~PKR 657mln at the end of Apr-19. All liabilities are short term, particularly export refinances facility, to fund working capital needs.

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Financial Summary
PKR mln

Reliance International Commodoties Exports (Pvt.) Lim		Apr-20	Apr-19	Apr-18	Apr-17
Rice		12M	12M	12M	12M
A BALANCE SHEET					
1	Non-Current Assets	28	30	29	31
2	Investments	-	-	-	-
3	Related Party Exposure	-	-	-	-
4	Current Assets	634	854	943	414
	a Inventories	*105*	*513*	*91*	*259*
	b Trade Receivables	*420*	*299*	*752*	*122*
5	**Total Assets**	662	884	972	445
6	Current Liabilities	3	3	2	2
	a Trade Payables	*3*	*3*	*2*	*2*
7	Borrowings	291	657	698	312
8	Related Party Exposure	-	-	-	-
9	Non-Current Liabilities	-	-	-	-
10	**Net Assets**	368	224	271	131
11	**Shareholders' Equity**	368	224	271	131
B INCOME STATEMENT					
1	**Sales**	2,502	2,701	2,346	2,133
	a Cost of Good Sold	*(2,410)*	*(2,598)*	*(2,252)*	*(2,058)*
2	**Gross Profit**	92	103	94	75
	a Operating Expenses	(13)	(9)	(9)	(9)
3	**Operating Profit**	79	94	85	66
	a Non Operating Income or (Expense	-	-	-	-
4	**Profit or (Loss) before Interest and**	79	94	85	66
	a Total Finance Cost	*(8)*	*(18)*	*(17)*	*(7)*
	b Taxation	*(14)*	*(14)*	*(15)*	*(12)*
6	**Net Income Or (Loss)**	56	61	53	47
C CASH FLOW STATEMENT					
	a Free Cash Flows from Operations	*73*	*78*	*70*	*49*
	b Net Cash from Operating Activities	*73*	*78*	*70*	*49*
	c Changes in Working Capital	*327*	*(23)*	*(524)*	*(154)*
1	**Net Cash provided by Operating A**	400	55	(455)	(105)
2	**Net Cash (Used in) or Available Fr**	-	12	100	-
3	**Net Cash (Used in) or Available Fr**	(399)	(66)	358	115
4	**Net Cash generated or (Used) durir**	1	1	4	10
D RATIO ANALYSIS					
1	**Performance**				
	a Sales Growth (for the period)	-7.4%	15.1%	10.0%	--
	b Gross Profit Margin	3.7%	3.8%	4.0%	3.5%
	c Net Profit Margin	2.3%	2.3%	2.2%	2.2%
	d Cash Conversion Efficiency (FCFC	16.0%	2.0%	-19.4%	-4.9%
	e Return on Equity [Net Profit Marg	13.1%	26.2%	26.6%	35.7%
2	**Working Capital Management**				
	a Gross Working Capital (Average D	98	112	122	21
	b Net Working Capital (Average Day	97	112	122	21
	c Current Ratio (Current Assets / Cu	229.8	325.4	377.6	224.6
3	**Coverages**				
	a EBITDA / Finance Cost	8.9	4.3	4.0	6.5
	b FCFO / Finance Cost+CMLTB+E	8.9	4.3	4.0	6.5
	c Debt Payback (Total Borrowings+	0.0	0.0	0.0	0.0
4	**Capital Structure**				
	a Total Borrowings / (Total Borrowi	44.2%	74.6%	72.1%	70.4%
	b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
	c Entity Average Borrowing Rate	1.7%	2.8%	3.4%	2.4%

Credit Rating

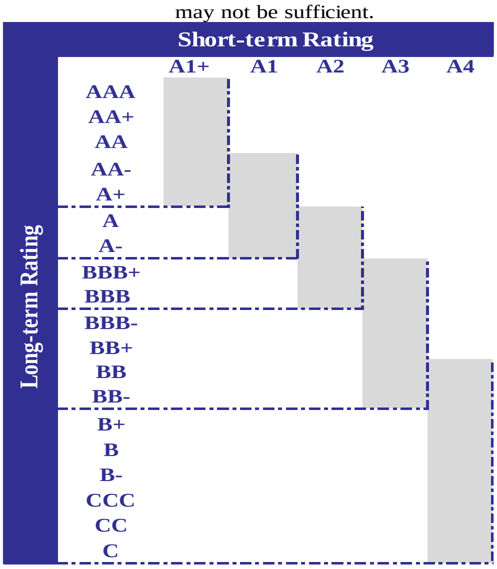
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
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.
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.
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+ 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.
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.

Short-term Rating

Scale	Definition
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
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

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

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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