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
14-Oct-2021	BB+	A3	Stable	Maintain	-
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. The segment contributes about 3.5% in agriculture value addition and 0.7% in GDP. Pakistan cultivates both basmati and non-basmati rice, most of which is exported. In Pakistan, rice is grown in most of the Sindh and Punjab Province. Sindh specializes in producing the long grains white rice IRRI-6 and IRRI-9, while Punjab produces world-class Basmati rice. Pakistan locally consumes Basmati Rice, which is a long, thin aromatic type of rice, considered premium and luxury category across the globe. Local consumption includes ~95% of basmati rice and ~5% non-basmati. The major players in rice exports include Pakistan, India, Thailand, and Vietnam. Pakistan is in direct competition with India, while Thailand and Vietnamese rice are considered premium. Thailand's 'Jasmine' rice has emerged lately as high-price premium rice. During FY21, the rice cropped area increased to ~3.33MH (FY20: ~3.03MH), reflecting an increase of ~10%. Consequently, the production of rice witnessed an increase of ~13% and stood at ~8.4MT (FY20: ~7.4MT). Out of this, around 3.5mln MT of rice is consumed locally. While ~3.7mln MT is exported (Closing stock: 1.2mln MT) to generate ~ PKR 325bln of export revenue. The maximum contribution is from non-basmati rice (72%) exports, as basmati rice is locally consumed and minimal quantity (28%) is exported. During FY21, rice exports deteriorated to ~USD 2,041mln (FY20: ~USD 2,175mln) owing to the Indian strategy of dumping the commodity in the international market at cheaper rates.
The ratings reflect the 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 the local market remains indifferent. Profitability has improved during FY21, however, still indicates room for improvement. Coverages ratios dipped on the backdrop of higher finance costs in FY21 but still remain strong. The Company's debt book solely comprises Export Refinancing Facility availed to fund its working capital needs. The Company benefits from the demand for non-basmati rice from the African region. 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.

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 Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Rice(Nov-20)
Rating Analysts	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure Reliance International Commodities Exports ('Reliance' or 'the Company') is a Private Limited Company.

Background Mr. Gada Hussain Mahesar started the business in 1958. As the business grew over the period, Mr. Gada Hussain established second rice husking plant in 1977 and the third in 1993. The Company is run by his elder son, Mr. Arif Hussain. In Feb-19, the business was incorporated as a private limited concern and was named as Reliance International Commodities Exports (Pvt.) Ltd.

Operations The Company is primarily involved in the processing of both, raw and paddy rice. Milled rice is mainly sold locally (62%), however, 38% 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 owned by Mr. Gada Hussain's sons, Mr. Arif Hussain (50%) and Mr. Irshad Hussain (50%).

Stability The ownership structure of the Company 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. 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 Executive Directors 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 main person responsible for the governance of the Company.

Board Effectiveness The Company does not have any Board committees.

Financial Transparency Reliance's external auditors, Sajid & Co, have expressed an unqualified opinion on the financial reports for FY21. The firm is neither QCR rated nor listed in SBP panel.

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 the Managing Director, 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.

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

MIS The Company uses Tele ERP as its main software for preparation of financial accounts.

Control Environment The Company lacks internal audit function. The overall structure of the Company 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. The segment contributes about 3.5% in agriculture value addition and 0.7% in GDP. Pakistan cultivates both basmati and non-basmati rice, most of which is exported. In Pakistan, rice is grown in most of the Sindh and Punjab Province. Sindh specializes in producing the long grains white rice IRRI-6 and IRRI-9, while Punjab produces world-class Basmati rice. Pakistan locally consumes Basmati Rice, which is a long, thin aromatic type of rice, considered premium and luxury category across the globe. Local consumption includes ~95% of basmati rice and ~5% non-basmati. The major players in rice exports include Pakistan, India, Thailand, and Vietnam. Pakistan is in direct competition with India, while Thailand and Vietnamese rice are considered premium. Thailand’s ‘Jasmine’ rice has emerged lately as high-price premium rice. During FY21, the rice cropped area increased to ~3.33MH (FY20: ~3.03MH), reflecting an increase of ~10%. Consequently, the production of rice witnessed an increase of ~13% and stood at ~8.4MT (FY20: ~7.4MT). Out of this, around 3.5mln MT of rice is consumed locally. While ~3.7mln MT is exported (Closing stock: 1.2mln MT) to generate ~ PKR 325bln of export revenue. The maximum contribution is from non-basmati rice (72%) exports, as basmati rice is locally consumed and minimal quantity (28%) is exported. During FY21, rice exports deteriorated to ~USD 2,041mln (FY20: ~USD 2,175mln) owing to the Indian strategy of dumping the commodity in the international market at cheaper rates.

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 (~62%), followed by 38% 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 ~8% YoY increase in revenue during twelve months period ended Apr-21. Total revenues clocked in at ~PKR 2,705mln (Apr-20: PKR ~2,502mln). The increase represents the recovery and reopening of demand avenues both internationally and locally and increase in the prices of rice products, subsequently.

Margins The Company's gross margin witnessed improvement and stood at 4.3% in Apr-21 (Apr-20: 3.7%). Operating margin witnessed slight improvement as well (Apr-21: 3.8%, Apr-20: 3.2%). At net level, the Company posted PAT of 62mln (Apr-20: 56mln) resulting in stable net margin of 2.3%.

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's working capital cycle is efficiently managed. The net working capital days witnessed improvement YoY and stood at 76 days in Apr-21 (Apr-20: 97 days) owing to lower inventory days at 15 days (Apr-20: 45 days). Receivable days stood at 61 days (Apr-20: 52 days) and payable days remained stable at 0 indicating early payments of liabilities.

Coverages Free cash flow from operations (FCFO) during twelve months period ended Apr-21, and clocked in at PKR ~79 million (Apr-20: PKR ~73mln). However, interest coverage ratio declined to 3.1x at end Apr-21 (Apr-20: 8.9x). The decrease in coverage ratios was the result of higher finance cost of PKR 25mln (Apr-20: PKR 8mln). Similarly, core and total interest cover stood at 3.1x each (Apr-20: 8.9x each).

Capitalization Reliance has a moderately leveraged capital structure (Apr-21: 47%; Apr-20: 44%). Total debt of Reliance at the end of Apr-21 clocked in at PKR~345mln as compared to PKR~291mln at the end of Apr-20. All liabilities are short term, particularly export refinance facility, to fund working capital needs.

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Financial Summary
PKR mln

Reliance International Commodoties Export Rice	Apr-21 12M	Apr-20 12M	Apr-19 12M	Apr-18 12M
A BALANCE SHEET				
1 Non-Current Assets	26	28	30	29
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	720	634	854	943
a Inventories	*116*	*105*	*513*	*91*
b Trade Receivables	*490*	*420*	*299*	*752*
5 Total Assets	746	662	884	972
6 Current Liabilities	3	3	3	2
a Trade Payables	*3*	*3*	*3*	*2*
7 Borrowings	345	291	657	698
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	398	368	224	271
11 Shareholders' Equity	397	368	224	271
B INCOME STATEMENT				
1 Sales	2,705	2,502	2,701	2,346
a Cost of Good Sold	*(2,588)*	*(2,410)*	*(2,598)*	*(2,252)*
2 Gross Profit	116	92	103	94
a Operating Expenses	(13)	(13)	(9)	(9)
3 Operating Profit	103	79	94	85
a Non Operating Income or (Expense)	-	-	-	-
4 Profit or (Loss) before Interest and Tax	103	79	94	85
a Total Finance Cost	*(25)*	*(8)*	*(18)*	*(17)*
b Taxation	*(16)*	*(14)*	*(14)*	*(15)*
6 Net Income Or (Loss)	62	56	61	53
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*79*	*73*	*78*	*70*
b Net Cash from Operating Activities before Working Capital Changes	*79*	*73*	*78*	*70*
c Changes in Working Capital	*(85)*	*327*	*(23)*	*(524)*
1 Net Cash provided by Operating Activities	(5)	400	55	(455)
2 Net Cash (Used in) or Available From Investing Activities	-	-	12	100
3 Net Cash (Used in) or Available From Financing Activities	7	(399)	(66)	358
4 Net Cash generated or (Used) during the period	1	1	1	4
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	8.1%	-7.4%	15.1%	10.0%
b Gross Profit Margin	4.3%	3.7%	3.8%	4.0%
c Net Profit Margin	2.3%	2.3%	2.3%	2.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-0.2%	16.0%	2.0%	-19.4%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	16.5%	13.1%	26.2%	26.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	76	98	112	122
b Net Working Capital (Average Days)	76	97	112	122
c Current Ratio (Current Assets / Current Liabilities)	248.3	229.8	325.4	377.6
3 Coverages				
a EBITDA / Finance Cost	3.1	8.9	4.3	4.0
b FCFO / Finance Cost+CMLTB+Excess STB	3.1	8.9	4.3	4.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	46.5%	44.2%	74.6%	72.1%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	10.5%	1.7%	2.8%	3.4%

Credit Rating

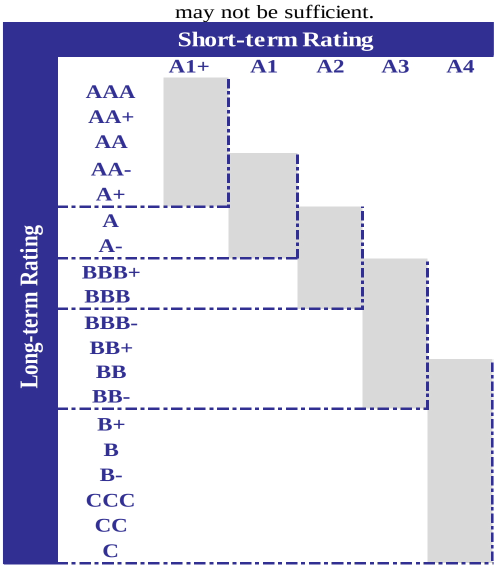
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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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.
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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)
(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)
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(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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