



The Pakistan Credit Rating Agency Limited

Rating Report

Meskey & Femtee (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Mar-2019	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect long presence of the sponsors in rice industry and prominent name in the rice export market. The family has a rich experience of the rice export market and also has stake in the rice market in addition to Meskey. Meskey has expanded its capacity; the two new lines have been recently commissioned, eventually strengthening the business profile of the company. The growth in topline and persistent profitability is the company's forte. There is an element of devaluation impact, as well. The equity has also improved due to internal generation of funds. The second generation is playing a vital role in the growth of Meskey. The challenge remains in the cyclical nature of the rice business. The governance is concentrated in family's hand, whereas corporate structure may evolve. The working capital cycle is business-oriented, creating need for short term borrowing over a relatively longer horizon.

The ratings are dependent on Meskey's prominence in the industry and financial profile of the rated entity. Any dilution in business volume and profits would be considered negative.

Disclosure

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

The Pakistan Credit Rating Agency Limited

Profile

Legal Structure : Meskay & Femtee (Pvt.) limited is a Private Limited company established in 1993.

Background The company was acquired by the current sponsor, Mr. Teka Mal in 2001. Prior to this, the company was owned by multiple shareholders who separated their businesses gradually.

Operations Meskay & Femtee's core operation involves processing of rice and exports to international market. The company has 4 production units with 1 husking plant and 5 processing plants with a total installed capacity of 100 ton/hour. Company's main office is based in Karachi- Pakistan and have representative offices in Dubai/ Kenya / Benin/ Niger / Ivory Coast/ Guinea and Madagascar. The company's core business rice exports for the past sixteen years and is continuously growing.

Ownership

Ownership Structure Meskay & Femtee Pvt Limited is owned by four individuals. Mr. Teka Mal(46.80%), two sons, Mr. Mukesh Kumar and Mr. Manoj Kumar holds ~22.4% each, while Mrs. Sundari, wife of Mr. Teka Mal, holds the remaining.

Stability Presence for over a decade with a stake of veteran family; in the rice sector, denotes solid footing in the industry.

Business Acumen The major shareholder, Mr. Teka Mal and his family has been in commodity trading since long and are well known veterans in trading of rice, wheat, and pulses.

Financial Strength Sound business model of the company keeps the financial strength intact.

Governance

Board Structure Meskay's board comprises four members who are also the shareholders of the company as well.

Members' Profile The Chairman and Chief Executive, Mr. Teka Mal, is a business graduate and has more than three decades of experience. He belongs to an entrepreneurial background,

Board Effectiveness As Meskay & Femtee is a family owned business, absence of independent oversight instigate need for improvement. Formally, 6 meetings were convened during the period under review, with good level of member's participation.

Financial Transparency S.M Rehan & Co. Chartered Accountants are the auditors for Meskay & Femtee. The audit firm satisfies the QCR ratings and also on the list of State Bank of Pakistan approved audit firms in Pakistan. The auditors issued an unqualified opinion on the company's financial statements for the year ended June 30, 2018.

Management

Organizational Structure Meskay has a defined organizational structure. Although there are well-demarcated reporting lines but all converge into the Chief Executive; Mr. Teka Mal. The company is under full control of chief executive whereas all the departments are efficiently led by Directors.

Management Team Majorly managed by family members; Mr. Teka Mal directly overseas management operations along with his two sons, Mr. Mukesh and Mr. Manoj. Both holds the position of Director. Mr. Mukesh, with more than 10 years of experience, oversees the day to day operations of the business while Mr. Manoj manages the marketing and export sale.

Effectiveness The Company does not follow a regime of formal management committee meetings. Management's long association with the rice sector enables them to carry the business well.

MIS The Company has no formal regime of MIS systems at present. However Meskay is in pursuance of implementing proper software to ensure effectiveness in its operations.

Control Environment Unlike the industry norm, the company has well-defined organizational structure with segregation of duties. A separate audit department is also in place.

Business Risk

Industry Dynamics Pakistan's Rice industry continues to be instrumental for the Agriculture sector of the country. However, the total contribution to the GDP is meagre clocking in at 0.6%. There are around 150 silky plants and more than 1500 husking plants in the Sindh region. Only one company named MATCO is listed in the Pakistan Stock Exchange. The Rice cultivation area is 2.9 million hectares. Production of rice is ~7 million Tons and the consumption is ~3 million Tons. The maximum contribution from the Rice sector in country's foreign exchequer is from non-basmati rice exports: marked USD 2bln in FY18.

Relative Position Meskay & Femtee Pvt Limited is one of the leading names in the sector of Pakistan and holds approx.6% of the market share. The sponsors profile is enrich with experience in rice export business. The company has recently expanded its capacity by installing two plants that enabled the company to enhance its capacity to 100 tons/hour, eventually strengthening the positioning.

Revenues During FY18, Meskay witnessed a notable increase (31%) in sales to report at PKR ~9bln (FY17: PKR ~5bln, FY16: PKR ~6bln) mainly attributing to overall better performance of rice sector and exploring new markets. Company's topline stood at PKR ~6bln in 1HFY19. The company sales mix comprise 90% non-basmati rice and ~10% basmati.

Margins The Company adheres consistency in margins since 2016. Gross margin remained ~12% in FY18, with negligible change from corresponding period and continues to be the same in 1HFY19. Operational efficacy is demonstrated as cost to sales ratio remained constant despite the increase in sales, operating profits stood at PKR 450mln (FY18 PKR ~266mln). Net margin was recorded at 3% in 1HFY19 and 2% in FY18

Sustainability Sponsor support continue to be a major catalyst for the company's sustainability. Company's prime focus is to tap new markets such as Europe and Far East countries and increase its share in the market.

Financial Risk

Working Capital The company finances its working capital needs through the export refinance facility (ERF), a performance based facility by SBP. As the company is into 100% export sales, the gross cash cycle hovers around 90-100days. Therefore the company's working capital cycle remains at adequate level in 1HFY19; 132days (FY18; 134days). There has been a bit of deviation in FY17 where the anticipated sales could not be achieved due to international market volatility and working capital cycle soared to 176days.

Coverages The Company is consistent in generating positive cashflows from its operations (FCFO). In 1HFY19, FCFO stood at PKR ~230mln (FY18: PKR ~255mln, FY17: PKR ~142mln), keeping its financial position adequately intact. Interest coverages has significantly improved on the back of healthy cashinflows; 4.9x (FY18: 2.6x, FY17: 2.2x, FY16: 2.2x). Short term finance at end Dec'18 raised to PKR ~4bln (FY18 ~3bln). The Company's capital structure mainly comprises short term borrowings and equity, there being very low level of long term debt on the books at present, (1HFY19: PKR ~24mln, FY18: PKR ~40mln). A rising trend in short term borrowings continued to strain the company's debt to equity ratio (FY18: ~75%, FY17: ~77%, FY16: ~73%).

Capitalization The Company's capital structure mainly comprises short term borrowings and equity, there being very low level of long term debt on the books at present, (1HFY19: PKR ~24mln, FY18: PKR ~40mln). A rising trend in short term borrowings continued to strain the company's debt to equity ratio (FY18: ~75%, FY17: ~77%, FY16: ~73%).



Meskey & Femtee Pvt Limited

Private Limited

BALANCE SHEET

	Dec-18	Jun-18	Jun-17	Jun-16
	6M	12M	12M	12M
a Non-Current Assets	576	586	421	314
b Investments (Incl. Associates)	-	-	-	-
Equity Instruments	-	-	-	-
Debt Instruments	-	-	-	-
c Current Assets	5,171	3,931	3,296	2,451
Inventory	2,803	2,579	2,041	1,272
Trade Receivables	2,119	1,024	974	1,004
Others	249	327	281	176
d Total Assets	5,747	4,517	3,717	2,765
e Debt/Borrowings	3,985	3,041	2,664	1,825
Short-Term	3,961	3,000	2,609	1,825
Long-Term (Incl. Current Maturity of Long-Term Debt)	24	40	56	-
Other Short-Term Liabilities	573	463	234	232
Other Long-Term Liabilities	3	3	18	23
f Shareholder's Equity	1,186	1,011	801	685
g Total Liabilities & Equity	5,747	4,517	3,717	2,765

INCOME STATEMENT

a Turnover	5,865	8,977	5,393	5,877
b Gross Profit	709	1,072	609	650
c Net Other Income	(17)	(23)	(13)	(14)
d Financial Charges	(57)	(126)	(82)	(86)
e Net Income	175	209	115	119

CASH FLOW STATEMENT

a Free Cash Flow from Operations (FCFO)	230	255	142	141
b Total Cashflows (TCF)	230	255	142	141
c Net Cash changes in Working Capital	(1,179)	(330)	(837)	(697)
d Net Cash from Operating Activities	(948)	(75)	(695)	(557)
e Net Cash from Investing Activities	(16)	(213)	(136)	(80)
f Net Cash from Financing Activities	945	361	835	683
g Net Cash generated during the period	(20)	72	3	46

RATIO ANALYSIS

a Performance				
Turnover Growth	31%	66%	-8%	32%
Gross Margin	12%	12%	11%	11%
Net Margin	3%	2%	2%	2%
ROE	32%	23%	16%	18%
b Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+U	4.9	2.6	2.2	2.2
Interest Coverage (X) (FCFO/Gross Interest)	4.9	2.6	2.2	2.2
Debt Payback (Years) (Total Debt (excluding Covered Short T	0.1	0.3	0.9	0.3
c Capital Structure (Total Debt/Total Debt+Equity)				
Net Cash Cycle (Inventory Days + Receivable Days - Payable D	132	134	176	109
d Capital Structure (Total Debt/Total Debt+Equity)	77%	75%	77%	73%

Meskey & Femtee Pvt Limited

Feb-19

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.

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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)
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- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (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)

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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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