



The Pakistan Credit Rating Agency Limited

Rating Report

Meskey & Femtee Trading Company (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Jun-2022	A-	A2	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. 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. The major players in rice exports include Pakistan, India, Thailand, and Vietnam. During 9MFY22, rice crop area reflected an increase of 6% (9MFY22: ~3.5mln hec, 9MFY21: ~3.3mln hec). This led to an increase rice production by ~11% (9MFY22: ~9.3mln MT, 9MFY21: ~8.4mln MT). Out of this, around 4.1mln MT of rice is consumed locally, while, ~5mln MT is exported. The maximum contribution is from non-basmati rice (72%) exports, as basmati rice is locally consumed and minimal quantity (28%) is exported.

The ratings reflect Meskey & Femtee Trading Company (Pvt.) Ltd.'s ('Meskey & Femtee' or 'the Company') prominent position in the rice exporter's market of the country with substantial business volumes. The Company enjoys a strong relative position with a diversified product base. The Company has an end-to-end production capability, where paddy is procured and processed till finished goods. The Company's financial performance has improved over the years supported by higher volumetric sales. This along with the rupee depreciation supported the topline. The Company strategizes on a diverse customer base across regions and therefore, has the comparative edge. Margins, and in turn profitability witnessed a substantial increase during FY21 as the Company benefited from economies of scale amidst shipping challenges to exporters. The ratings derive comfort from the progress in financial performance as indicated in good margins over the periods. Sponsors' acumen is reflected in the development of corporate culture through enhanced business practices. Most of the goods are exported against LC & contract cover or through mega groups. The Company's financial risk profile is characterized by a strong capital structure and coverage ratios while working capital management remains adequate. Envisioned improvements to ensure substantial growth in the Company are expected to positively impact the performance of the Company.

The ratings are dependent upon the sustenance of business volumes under the current challenging environment. As global economy undergoes distress, business sustainability emerges as the key challenge for the exporters. Meanwhile, keeping up with a stable financial risk profile, with an increased emphasis on working capital management, remains imperative for ratings.

Disclosure

Name of Rated Entity	Meskey & Femtee Trading Company (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(Oct-21)
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Profile

Legal Structure Meskey & Femtee Trading Company (Pvt.) Ltd. ('Meskey & Femtee' or 'the Company') was incorporated in Feb-06 as a Private Limited Company as per the Companies Ordinance, 1984 (now Companies Act 2017).

Background The sponsors entered in the grain trading business in 1990s as sole proprietors. Later, in 1998, Mr. Shahid Tawawala joined the business and formed a partnership concern, named Meskey & Femtee (Pvt.) Ltd. In 2006, Mr. Shahid separated his business and renamed it as Meskey & Femtee Trading Company (Pvt.) Ltd. Initially, the processing plants and warehouses were rented. However, over time, the Company acquired them. Moreover, capacity enhancement and installation of new machinery over the years led to the prominence of the Company in the rice exporter's segment of the country. Meskey & Femtee, currently, is one of the leading rice exporters of the country, and has processing capacity of 65MT/hour. The Company, apart from rice, also trades other grains (wheat, corn and guar) in local and export market.

Operations The Company is primarily engaged in processing/manufacturing and export of grains (rice (Basmati and Irri), corn, guar, and wheat) and all types of agricultural products, trading in agriculture machinery, and accessories, and providing agriculture farming services. Currently, the Company has rice processing capacity of 65MT/hour. The Company mainly exports rice to Africa, America (North and South), Asia, and Europe. During FY21, the Company exported 174,161MT of rice witnessing a decline of ~20% from the preceding year (FY20: 218,132MT).

Ownership

Ownership Structure Major ownership of the Company resides with Mr. Shahid Tawawalla (~ 72%); followed by an equal holding between his father, Mr. Wahid F Tawawalla (~ 14%), and his wife, Mrs. Huma Darugar (~ 14%)

Stability The Company is completely owned by the sponsoring family and the structure is seen as stable.

Business Acumen Mr. Shahid and his family have been involved in the rice export business for over 2 decades and have witnessed multiple business cycles.

Financial Strength The sponsors hold sufficient net worth to support the Business in times of distress.

Governance

Board Structure The Company is currently governed by three Directors, including the CEO. However, BoD structure needs to be streamlined.

Members' Profile Mr. Wahid F. Tawawala is the Chairman; while the other sponsoring individuals, Mr. Shahid holds an overall experience of over 2 decade, and Mrs. Huma holds an overall experience of almost a decade, serves as Executive Directors.

Board Effectiveness The BoD is assisted by Board Audit Committee and HR & Remuneration Committee, comprising 5 and 4 members, respectively. The Committees are headed by Mrs. Huma and Mr. Wahid, respectively, and meets on quarterly basis. The BoD convenes quarterly meetings. Minutes of the BoD and Committee meetings are adequately maintained.

Financial Transparency The Company's external auditors, BDO Ebrahim & Co., has expressed an unqualified opinion on the financial statements of the Company for year ended Jun-21. The firm has been QCR rated by ICAP and is placed in category A of SBP's panel of auditors.

Management

Organizational Structure The Company has a linear organizational structure and operates mainly through Accounts, Export and Logistics, Internal Audit, Admin and HR and Procurement functions. All functional heads reports to the CEO, who then makes pertinent decisions.

Management Team Mr. Shahid, the CEO, has been associated with the Company since inception and has over two decades of experience in rice and other commodity trading.

Effectiveness There are no management committees in place. However, management meets on need basis to ensure efficiency of the Company's operations.

MIS Customized software is used by the Company. Moreover, standardized reports are generated as per requirement.

Control Environment The Company has a formal internal audit function that helps to ensure compliance with the policies and procedures.

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 3.5% in agriculture value addition and 0.7% in GDP. Pakistan cultivates both basmati & non-basmati rice, most of which is exported. Rice is grown in most of the Sindh & Punjab. Sindh specializes in producing the long grains white rice IRRI-6 & IRRI-9, while Punjab produces world-class Basmati rice. Pakistan locally consumes Basmati Rice, considered premium category across the globe. Local consumption includes ~95% of basmati rice & ~5% non-basmati. Major players in rice exports include Pakistan, India, Thailand, & Vietnam. Pakistan is in direct competition with India, while Thailand and Vietnamese rice are considered premium and high priced. During 9MFY22, rice crop area reflected an increase of 6% (9MFY22: ~3.5mln hec, 9MFY21: ~3.3mln hec). This led to an increase rice production by ~11% (9MFY22: ~9.3mln MT, 9MFY21: ~8.4mln MT). Out of this, around 4.1mln MT of rice is consumed locally, while, ~5mln MT is exported. The maximum contribution is from non-basmati rice (72%) exports, as basmati rice is locally consumed and minimal quantity (28%) is exported.

Relative Position The Company is the second biggest rice exporter in the country. The Company holds a market share of ~14% in terms of revenue and ~5% in terms of production.

Revenues The Company mainly generates revenue by selling non-basmati (~72%) and basmati rice (~28%) in the local and export market. From the local market, the Company generates ~ 22% of revenue, while reaps major revenue from the export market ~ 78%. The Company mainly exports rice and other grains to Africa, America (North and South), Asia, and Europe. Over years, the Company's revenue stream remains strong and stable. During FY21, the Company generated revenue of ~ PKR 15bln, witnessing an increase of ~15% (FY20: PKR ~13bln) owing mainly to volumetric increases and competitive advantage over other players. The revenues of the Company are expected to grow as the management is optimistic to increase market share, going forward.

Margins The Company is exposed to price change risk because of its export-oriented nature. During FY21, the Company's gross margin posted a slight dip and stood at ~10% (FY20: ~11%) mainly due to increased paddy and transportation costs. On the operational level, the Company's margins witnessed a similar trend (FY21: ~4%, FY20: ~3.1%). At net level, the Company's net income stood at PKR 356mln during FY21 (FY20: PKR 206mln) witnessing ~73% increase. Net margin stood at ~2.3% during FY21 (FY20: 1.5%) mainly due to low costs. The margins are expected to remain stable, going forward.

Sustainability The Company has recently increased the capacity of its existing operations. The sustenance of projected revenue growth is essential considering the competitiveness of rice market.

Financial Risk

Working Capital The Company's working capital management is supported through short-term Export Refinancing Facility - Part I. The Company's inventory days have remained stable as the Company holds minimal finished goods inventory. Payable days hovered around ~5 days in FY21 due to cash buying. Overall, the Company's net cash cycle has improved over the years and stood at ~110 days in FY21. Furthermore, the Company's room to borrow against short-term trade assets and total current assets is limited. Going forward, working capital cycle is expected to remain streamlined.

Coverages The coverage ratios of the Company have remained strong through the years based on higher free cash flows and lower finance costs. Free cash flows stood at PKR 1,040mln in FY21 (FY20: PKR 949mln). The finance cost stood at PKR 269mln in FY21 (FY20: PKR 350mln). As a result, interest cover stood at 2.7x in FY21 (FY20: 2.5x). The coverage ratios are expected to remain strong, going forward.

Capitalization The debt of the Company comprises ~93% short-term ERF facility. Total debt of the Company stood at PKR 6bln in FY21 (FY20: 5bln) against an equity base of PKR 5.3bln (FY20: PKR 4.9bln). Debt to debt plus equity ratio remains on the lower side and stood at ~53% as of FY21 (FY20: ~51%). Going forward, the debt load on the Company balance sheet is expected to increase to fund capacity expansion and may impact the leverage ratio.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Meskaa & Femtee Trading Company Rice	Mar-22	Jun-21	Jun-20	Jun-19
	9M	12M	12M	12M

A BALANCE SHEET

1 Non-Current Assets	5,821	5,619	5,114	4,965
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	159	-
4 Current Assets	10,545	6,314	5,419	5,190
<i>a Inventories</i>	5,799	4,357	3,038	2,834
<i>b Trade Receivables</i>	3,248	770	1,245	1,000
5 Total Assets	16,366	11,933	10,692	10,155
6 Current Liabilities	681	421	472	319
<i>a Trade Payables</i>	317	177	225	74
7 Borrowings	9,429	6,154	5,224	5,048
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	49	37	32	30
10 Net Assets	6,207	5,320	4,965	4,759
11 Shareholders' Equity	6,207	5,320	4,965	4,759

B INCOME STATEMENT

1 Sales	17,051	15,723	13,547	10,653
<i>a Cost of Good Sold</i>	(14,126)	(14,168)	(12,071)	(9,596)
2 Gross Profit	2,925	1,555	1,477	1,056
<i>a Operating Expenses</i>	(1,641)	(913)	(955)	(728)
3 Operating Profit	1,283	641	522	329
<i>a Non Operating Income or (Expense)</i>	18	174	246	172
4 Profit or (Loss) before Interest and Tax	1,302	816	768	501
<i>a Total Finance Cost</i>	(269)	(321)	(414)	(269)
<i>b Taxation</i>	(146)	(139)	(147)	(121)
6 Net Income Or (Loss)	887	356	206	110

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	1,544	1,040	949	622
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	1,544	1,040	949	622
<i>c Changes in Working Capital</i>	(4,436)	(1,466)	(766)	(786)
1 Net Cash provided by Operating Activities	(2,892)	(426)	183	(164)
2 Net Cash (Used in) or Available From Investing Activities	(432)	(558)	(483)	(799)
3 Net Cash (Used in) or Available From Financing Activities	3,274	931	173	1,137
4 Net Cash generated or (Used) during the period	(49)	(52)	(128)	175

D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	44.6%	16.1%	27.2%	-13.4%
<i>b Gross Profit Margin</i>	17.2%	9.9%	10.9%	9.9%
<i>c Net Profit Margin</i>	5.2%	2.3%	1.5%	1.0%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	-17.0%	-2.7%	1.3%	-1.5%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	20.5%	6.9%	4.2%	3.1%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	114	109	109	178
<i>b Net Working Capital (Average Days)</i>	110	105	105	175
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	15.5	15.0	11.5	16.3
3 Coverages				
<i>a EBITDA / Finance Cost</i>	6.8	3.9	2.7	2.9
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	5.0	2.7	2.5	2.5
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.4	0.6	0.5	0.5
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	60.3%	53.6%	51.3%	51.5%
<i>b Interest or Markup Payable (Days)</i>	35.7	78.1	70.4	78.4
<i>c Entity Average Borrowing Rate</i>	3.9%	4.7%	6.8%	4.8%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):

<p>Entities</p> <ul style="list-style-type: none"> 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 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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- (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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- (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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