The Pakistan Credit Rating Agency Limited

Rating Report

K.K. Rice Mills (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-Feb-2024	BBB	A2	Stable	Maintain	-
18-Feb-2023	BBB	A2	Stable	Maintain	-
19-Feb-2022	BBB	A2	Stable	Maintain	-
19-Feb-2021	BBB	A2	Stable	Maintain	-
19-Feb-2020	BBB	A2	Stable	Upgrade	-
20-Aug-2019	BB+	A3	Stable	Maintain	-
01-Mar-2019	BB+	A3	Stable	Upgrade	-
27-Dec-2018	BB	B	Stable	Maintain	-
28-Jun-2018	BB	B	Stable	Maintain	-

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 ~2.9% in agriculture value addition and ~0.3% (FY 2023: ~0.4%) to GDP. During FY23, due to floods, annual rice production decreased by ~21.5% (FY23: ~7.3mln MT, FY22: ~9.3mln MT). Around ~3.7mln MT of rice is consumed locally, while, the remaining is exported. Pakistan exported ~USD 2.1bln of rice in FY23 (FY22: ~USD 2.5bln). As during FY23, rice crop witnessed a decline. Thus, impacting the industry's overall topline. However, rupee depreciation is providing some cushion. With an increase in the policy rate and resultantly, ERF, bottom line may marginalize. Thus, posing a developing outlook for the ongoing year.

K.K Rice Pvt. Ltd. faced a challenging year in FY23, as its top-line declined by ~146% due to lower production of rice. However, the Company managed to improve its gross and operating margins by optimizing its cost structure and enhancing its operational efficiency. The Company also diversified its product portfolio by adding sesame seed and increased its production capacity to capture future growth opportunities. The Company operates in the rice sector, which is one of the largest and most important agricultural commodities in Pakistan. The sector has shown resilience and potential in the past, and is expected to recover from the adverse effects of the pandemic and climate change in the medium to long term. The Company has a strong market position and a loyal customer base, which gives it a competitive edge over its peers. The Company has also maintained a good quality of its products and services, and has received positive feedback from its customers and stakeholders. Despite these positive developments, the Company's bottom-line and net margins suffered from higher finance cost and exchange loss. The Company also faced liquidity constraints, as its working capital cycle lengthened and its borrowing capacity diminished. The Company's coverages and capitalization ratios also deteriorated, indicating a high financial risk profile. However, the rating relies on the assumption that it will overcome temporary challenges and gain from its strategic plans and the favorable prospects of the sector.

The ratings are contingent upon the management's efficacy in actualizing the envisaged strategies, optimizing the cost structure, and preserving the business margins. A material enhancement in the business and financial profile would be favorable for the ratings. The management's pledge to augment the audit quality and financial transparency in the ensuing period is also a vital factor for the rating. Any substantial and/or protracted deterioration in the revenues and/or coverages will impinge negatively on the ratings.

Disclosure

Name of Rated Entity	K.K. Rice Mills (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Rice(Oct-23)
Rating Analysts	Muhammad Zain Ayaz | zain.ayaz@pacra.com | +92-42-35869504

Profile

Legal Structure KK Rice Mills (Pvt.) Ltd. ('KK Rice' or 'the Company') was incorporated as a private limited company in 2009.

Background The Sponsors were in commodity trading business for three decades, formally named as Meskay & Femtee (Pvt.) Ltd. In 2005, the Sponsors decided to separate their businesses. In 2006, KK Rice Commodities was setup by Mr Chela Ram as a sole proprietorship concern. In 2009, the Company was registered as a private limited company and was renamed as KK Rice (Pvt.) Ltd. The Company received the license to export from Rice Export Association (REAP) in Sept-09.

Operations The Company is primarily involved in the business of exporting non-basmati rice. KK Rice has Four rice processing plants located at Port Qasim and Nooriabad. The Company utilized up to ~35% of its production capacity. The Company's registered office is situated at Beamount Road, Karachi.

Ownership

Ownership Structure The Company's major ownership resides with Mr. Chela Ram (~55%). The remaining stake resides with his wife, Mrs. Khami Bai (~20%), nephew Mr. Dileep Kumar (~20%), and son Mr. Jatindar Kumar (~5%).

Stability The Company is completely owned by the sponsoring family. Although, no formal succession plan exists, second generation has been gradually inducted in the family business.

Business Acumen Mr. Chela Ram, CEO and founder, is an experienced professional. He is the Chairman of National Commission for Minorities and Rice Exporters Association of Pakistan (REAP). Mr. Chela Ram comes from an entrepreneurial background and has been in commodity trading since last three generations. His family is well known veterans in trading of rice, wheat and sugar

Financial Strength The Sponsors of the Company have adequate net-worth to support the business. Furthermore, as of FY22 and FY23, the Company has an asset base of ~PKR 6.4bln and 6.2bln, supported by an equity base of ~PKR 1.4bln and 1.5bln.

Governance

Board Structure The Company's Board comprises three Executive Directors and One non-Executive Director. All four Directors are from the sponsoring family.

Members' Profile Mr. Chela Ram, the CEO, is an experienced professional. He is supported by experienced professionals from diverse backgrounds.

Board Effectiveness There are no Board Committees in place. The governance framework needs improvement as the director and shareholders are engaged in the management of the Company.

Financial Transparency A.M Laliawala & Co. Chartered Accountants are the auditors for the Company. The firm is QCR rated but not on the SBP's panel of auditors.The auditors have issued an unqualified opinion on the Company's financial statements for the year ended June-23.

Management

Organizational Structure The organizational structure has been optimized as per the operational needs. The Company operates through three functions: Export, Finance, Admin and HR. All functional managers' report to the Company's CEO. The CEO makes all pertinent decisions of the Group. As the Company's CEO is responsible for the whole unit, thus highlighting the key man risk of management.

Management Team Mr. Chela Ram, CEO of the Company, is assisted by a team of experienced professionals. Mr. Dileep Kumar has been overseeing the affairs of theCompany for the past 14 years. Mr. Anil Kumar, Director Finance, manages the Company's finances.

Effectiveness There are no management committees in place and the management meets informally to discuss pertinent matters.

MIS The Company uses a customized ERP software as per its needs, installed by Sidat Hyder. Reports are generated as per requirement.

Control Environment The Company has established an internal audit function to implement 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 ~2.9% in agriculture value addition and ~0.3% (FY 2023: ~0.4%) to GDP. During FY23, due to floods, annual rice production decreased by ~21.5% (FY23: ~7.3mln MT, FY22: ~9.3mln MT). Around ~3.7mln MT of rice is consumed locally, while, the remaining is exported. Pakistan exported ~USD 2.1bln of rice in FY23 (FY22: ~USD 2.5bln). As during FY23, rice crop witnessed a decline. Thus, impacting the industry's overall topline. However, rupee depreciation is providing some cushion. With an increase in the policy rate and resultantly, ERF, bottom line may marginalize. Thus, posing a developing outlook for the ongoing year.

Relative Position The Company has a limited market share ~2% in terms of revenue and ~2.3% in terms of production in the rice industry of the country.

Revenues The Company generates revenue by exporting non-basmati Rice. The Company's top 10 export regions generate around ~80% revenue for the Company. The remaining ~20% is exported to the Middle-East and Europe. During FY23 the top-line of the Company declined by ~146% and stood at 7,167mln while in FY22, the topline of the Company witnessed a healthy growth of ~63% and stood at ~PKR 17.6bln (FY21: ~PKR 10.8bln) on the back of higher rice prices.

Margins Gross margin of the Company observed a slight surge (FY23: ~19%, FY22: ~12%, FY21: ~11%). Similarly, the operating margin in FY23 surged to 10.2% while deteriorated to ~3% in FY22 (FY21: 5%) due to trickle-down effect. Finance cost of the Company increased by~53% and ~26% (FY23: ~PKR 428mln, FY22: ~PKR 201mln, FY21: ~PKR 160mln). However, the Company's bottom-line declined to PKR 47mln and 120mln respectively (FY21: PKR 183) owing to exchange loss.As a result, the net margins deteriorated to 0.7% in both FY's (FY21: ~2%).

Sustainability The Company is planning to diversify its revenue stream by adding sesame seed to its list. Moreover, the Company also plans to increase its production capacity by around 20-30%.

Financial Risk

Working Capital The Company's inventory days stood at 184 and 87 days in FY23 and FY22 (FY21: 133 days). The Company's receivables and payables increased in FY23 to 36 and 17 respectively while decline to 19 and 12 days respectively, during FY22 (FY21: 23 and 26 days). The decline in receivable days is attributed to revised credit policy of collecting receivables within 30 days. Consequently, the net working capital days stood at 203 days in FY23 while in FY22 days stood at 93 days (FY21:130 days). As of FY23 and FY22, the Company's room to borrow remains limited against trade and total assets.

Coverages During FY23 Free cash flows increased to PKR 735mln in correspondence to the previous year while decreased to PKR 301mln in FY22 (FY21: PKR 427mln) on the back of lower margins. In FY23 and FY22, finance cost also increased. As a result, interest cover deteriorated to 2.3x in FY23 and 2.0x in FY22 (FY21:3.7x). Core and Total interest cover stood at 2.2x in FY23 and 1.8x each in FY22 (FY21: 3.1x). Moreover, debt payback stood at 0.2 days in FY23 and 0.7 days in FY22 (FY21: 0.4 days). Going forward, the coverages are expected to remain stretched.

Capitalization The Company has highly leveraged capital structure with debt-to-equity ratio at ~69% in FY23 and ~72% in FY22 (FY21: 73%). Short term debt comprised of ~97% in FY23 and ~96.9% in FY22 of the total borrowings to procure raw material. The total debt of the company decreases to 3.2bln in comparison to previous year while increased to PKR 3.55bln in FY22 (FY21: PKR ~3.4bln). Going forward, the leveraging is expected to remain at the current levels.

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Financial Summary
PKR mln

K.K Rice Mills (Private) Limited	Jun-23	Jun-22	Jun-21	Jun-20
Rice	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	901	815	860	817
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	4,266	5,570	5,162	4,606
a Inventories	*3,507*	*3,737*	*4,655*	*3,244*
b Trade Receivables	*51*	*1,349*	*385*	*990*
5 Total Assets	5,167	6,385	6,023	5,422
6 Current Liabilities	379	1,320	1,131	1,337
a Trade Payables	*146*	*507*	*603*	*938*
7 Borrowings	3,225	3,549	3,497	2,868
8 Related Party Exposure	81	81	81	81
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	1,482	1,435	1,315	1,136
11 Shareholders' Equity	1,482	1,435	1,315	1,136
B INCOME STATEMENT				
1 Sales	7,167	17,605	10,821	9,543
a Cost of Good Sold	*(5,802)*	*(15,445)*	*(9,600)*	*(8,267)*
2 Gross Profit	1,365	2,160	1,221	1,276
a Operating Expenses	(635)	(1,684)	(657)	-
3 Operating Profit	730	476	564	1,276
a Non Operating Income or (Expense)	*(184)*	*24*	*(105)*	*21*
4 Profit or (Loss) before Interest and Tax	547	500	458	1,297
a Total Finance Cost	*(428)*	*(201)*	*(160)*	*(165)*
b Taxation	*(72)*	*(179)*	*(116)*	*(99)*
6 Net Income Or (Loss)	47	120	183	1,034
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*735*	*301*	*427*	*1,295*
b Net Cash from Operating Activities before Working Capital (	*439*	*147*	*324*	*1,075*
c Changes in Working Capital	*46*	*160*	*(1,020)*	*350*
1 Net Cash provided by Operating Activities	485	307	(696)	1,425
2 Net Cash (Used in) or Available From Investing Activities	(152)	(23)	(91)	(130)
3 Net Cash (Used in) or Available From Financing Activities	(10)	(21)	(21)	(433)
4 Net Cash generated or (Used) during the period	322	264	(807)	861
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-59.3%	62.7%	13.4%	10.4%
b Gross Profit Margin	19.0%	12.3%	11.3%	13.4%
c Net Profit Margin	0.7%	0.7%	1.7%	10.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Ca	10.9%	2.6%	-5.5%	17.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (To*	2.8%	8.6%	14.7%	87.5%
2 Working Capital Management				
a Gross Working Capital (Average Days)	220	105	156	168
b Net Working Capital (Average Days)	203	93	130	126
c Current Ratio (Current Assets / Current Liabilities)	11.2	4.2	4.6	3.4
3 Coverages				
a EBITDA / Finance Cost	2.7	3.3	4.9	11.1
b FCFO / Finance Cost+CMLTB+Excess STB	2.2	1.8	3.1	9.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fin	0.2	0.7	0.4	0.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity	69.1%	71.7%	73.1%	72.2%
b Interest or Markup Payable (Days)	7.2	53.1	83.0	38.8
c Entity Average Borrowing Rate	9.1%	4.1%	3.4%	3.9%

Credit Rating

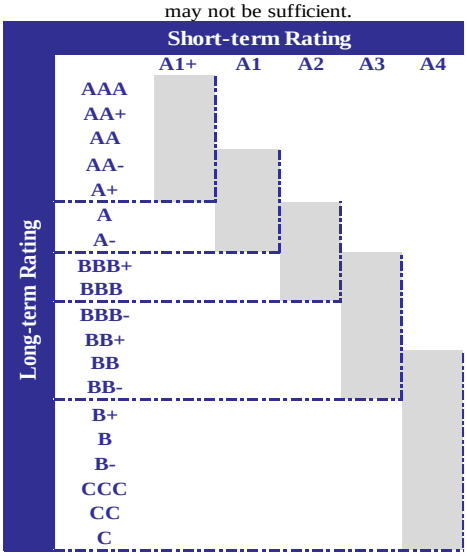
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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 | Clause 11-(A)(p).
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
Proprietary Information