The Pakistan Credit Rating Agency Limited

Rating Report

Reliance International Commodities Exports (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-Oct-2022	BBB-	A2	Stable	Upgrade	-
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. 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. During FY22, rice cropped area increased to ~3.4mln Hec (FY21: ~3.3mln Hec), reflecting an increase of ~3%. Rice production increased by ~6%, standing at ~8.9mln MT in FY22 (FY21: ~8.4mln MT). New higher-yielding hybrid rice varieties, improved agronomic practices and increased planting area, as farmers shift out of cotton, are factors driving the increased production. Around ~4mln MT of rice is consumed locally, while, the remaining is exported. During FY22, Pakistan exports increased to ~USD 2.5bln (FY21: ~USD 2bln). Going forward, 2022 floods are anticipated to cause ~12% loss to the forecasted rice production for FY23. However, rupee depreciation is expected to compensate the players for reduction in export volumes.
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. The Company has managed to remain profitable during FY22 exhibiting its resilience, despite facing competition from local players, hike in freight costs, and lack of economies of scale. Coverage ratios dipped on the backdrop of higher finance costs in FY22 but still remain adequate. 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.

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, along with the floods causing agricultural losses. 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-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Rice(Oct-21)
Rating Analysts	Ahmad Faraz Arif | ahmad.faraz@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 raw rice and exporting variants of Non-Basmati rice. Processed rice is mainly exported (55%), however, 45% is sold locally as well. 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 The Company's Board comprises of two Executive Directors i.e. Mr. Arif Hussain and Mr. Irshad Hussain. The Board is dominated by the sponsoring family.

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, Clarkson Hyde Saud Ansari Chartered Accountants have expressed an unqualified opinion on the financial statement for FY22. The firm is QCR rated but not listed in SBP's panel of auditors.

Management

Organizational Structure Both head office and the rice mill are located in Karachi. Managers at both locations are responsible for management of relevant affairs. Both 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. 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. During FY22, rice cropped area increased to ~3.4mln Hec (FY21: ~3.3mln Hec), reflecting an increase of ~3%. Rice production increased by ~6%, standing at ~8.9mln MT in FY22 (FY21: ~8.4mln MT). New higher-yielding hybrid rice varieties, improved agronomic practices and increased planting area, as farmers shift out of cotton, are factors driving the increased production. Around ~4mln MT of rice is consumed locally, while, ~5.2mln MT is exported. During FY22, Pakistan exports increased to ~USD 2.5bln (FY21: ~USD 2bln). Going forward, 2022 floods are expected to have destroyed approximately 12% of the nation's rice crop. However, the rupee depreciation is expected to compensate for reduction in export volumes.

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 and export of non-basmati rice. Processed rice is mainly exported locally (55%), however, 45% is sold locally as well. 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 ~25% YoY decrease in revenue during FY22 (FY22: PKR 2,025mln, FY21: PKR 2,705mln) amidst competition from local players and relatively low market share. The decrease is also attributable to the hike in freight costs which limited the Company's sales in terms of volumes. Going forward, the revenues are expected to remain high aided by the rupee devaluation, however, volumes could remain lower owing to the damage to the non-basmati rice crops.

Margins The Company's gross margin witnessed improvement and stood at 5.1% during FY22 (FY21: 4.3%). However, Operating margin witnessed slight decrease (FY22: 3.6%, Apr-20: 3.8%). At net level, the Company posted PAT of PKR 22mln (FY21: 62mln) resulting in decreased net margin of 1.1% (FY21: 2.3%). Going forward, the margins are expected to remain similar.

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 44 days in FY22 (FY21: 61 days) owing to inventory days standing at 28days (FY21: 15 days). Receivable days stood at 66 days (FY21: 61 days) and payable days stood at 22 days (FY21: nil). The Company's short-term trade leverage and total leverage remain stretched as at FY22 indicating limited room to borrow against trade assets and total current assets.

Coverages Free cash flow from operations (FCFO) during FY22, and clocked in at PKR ~27mln (FY21: PKR ~79mln) as a result of decrease in profitability YoY. Subsequently, interest coverage ratio declined to 0.5x in FY22 (FY21: 3.1x). The decrease in coverage ratios was also attributable to higher finance cost of PKR 50mln (FY21: PKR 25mln). Similarly, Debt coverage ratio also dipped to 0.5x (FY21: 3.1x). Going forward, the coverages are expected to remain adequate despite increase in interest rates as the rupee devaluation will help the Company generate higher FCFO.

Capitalization The Company has leveraged capital structure (FY22: 91%; FY21: 47%) dominated by ERF facility - Part II. Total debt of Reliance as at FY22 clocked in at PKR~206mln as compared to PKR~345mln as at FY21 against relatively lower equity-base. The leveraging ratio of the Company and capital structure are expected to follow similar trend owing to mainly utilization of short-term borrowings.

PKR mln

Reliance Internation Commodities Exports Rice	Jun-22 12M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	58	26	28	30
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	485	720	634	854
a Inventories	*190*	*116*	*105*	*513*
b Trade Receivables	*245*	*490*	*420*	*299*
5 Total Assets	543	746	662	884
6 Current Liabilities	246	3	3	3
a Trade Payables	*246*	*3*	*3*	*3*
7 Borrowings	206	345	291	657
8 Related Party Exposure	65	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	26	398	368	224
11 Shareholders' Equity	26	397	368	224
B INCOME STATEMENT				
1 Sales	2,025	2,705	2,502	2,701
a Cost of Good Sold	*(1,921)*	*(2,588)*	*(2,410)*	*(2,598)*
2 Gross Profit	104	116	92	103
a Operating Expenses	(32)	(13)	(13)	(9)
3 Operating Profit	72	103	79	94
a Non Operating Income or (Expense)	-	-	-	-
4 Profit or (Loss) before Interest and Tax	72	103	79	94
a Total Finance Cost	*(50)*	*(25)*	*(8)*	*(18)*
b Taxation	-	*(16)*	*(14)*	*(14)*
6 Net Income Or (Loss)	22	62	56	61
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*27*	*79*	*73*	*78*
b Net Cash from Operating Activities before Working Capital Changes	*27*	*79*	*73*	*78*
c Changes in Working Capital	*(3)*	*(85)*	*327*	*(23)*
1 Net Cash provided by Operating Activities	24	(5)	400	55
2 Net Cash (Used in) or Available From Investing Activities	(21)	-	-	12
3 Net Cash (Used in) or Available From Financing Activities	-	7	(399)	(66)
4 Net Cash generated or (Used) during the period	3	1	1	1
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-25.1%	8.1%	-7.4%	15.1%
b Gross Profit Margin	5.1%	4.3%	3.7%	3.8%
c Net Profit Margin	1.1%	2.3%	2.3%	2.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	1.2%	-0.2%	16.0%	2.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	10.2%	16.2%	19.1%	24.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	66	61	52	71
b Net Working Capital (Average Days)	44	61	52	71
c Current Ratio (Current Assets / Current Liabilities)	2.0	248.3	229.8	325.4
3 Coverages				
a EBITDA / Finance Cost	0.5	3.1	8.9	4.3
b FCFO / Finance Cost+CMLTB+Excess STB	0.5	3.1	8.9	4.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-2.8	0.0	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	91.1%	46.5%	44.2%	74.6%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	16.4%	11.6%	1.7%	2.8%

Credit Rating

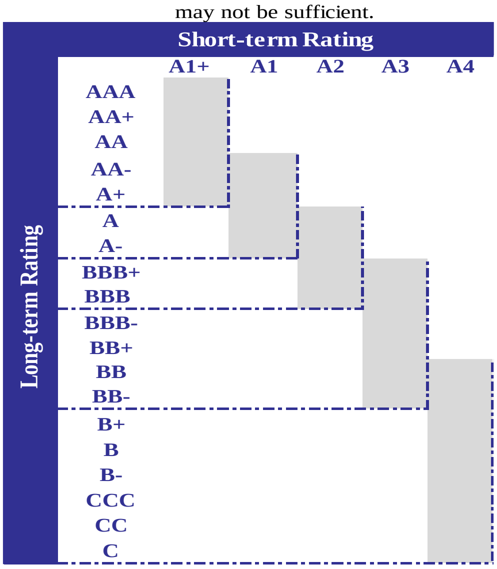
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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 | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

Proprietary Information