



The Pakistan Credit Rating Agency Limited

Rating Report

MesKay & Femtee Trading Company (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Jun-2024	A-	A2	Stable	Maintain	-
22-Jun-2023	A-	A2	Stable	Maintain	-
22-Jun-2022	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect MesKay & Femtee Trading Company (Pvt.) Ltd.'s ('MesKay' or 'the Company') prominent position in the rice exporters market of the country. Rice is among the five major crops of Pakistan and is the second main staple food, after wheat. This segment contributes ~3.5% in agriculture value addition and 0.7% to GDP. During FY23, the rice crop area decreased to ~3mln Hec (FY22: ~3.5mln Hec) as a result of massive flooding. However, in 9MFY24 the area increased to ~3.6mln Hec reflecting an increase of ~20%. During 9MFY24, total rice production in Pakistan stood at 9mln MT (FY23: 7.3mln MT, FY22: 9.3mln MT). Following the same trajectory exports also rose to 4mln MT during 9MFY24 (FY23: 3.7mln MT, FY22: USD 4.8mln MT) backed by the cushion provided by enhanced production. Accordingly, MesKay's exports rose by ~98% standing at PKR 37bln during 9MFY24 when compared with PKR 18bln during 9MFY23. On the financial front, the Company's revenue is derived from four main product segments: Rice, Guar, Wheat, and Corn, with rice contributing over ~84% of the total revenue. During 9MFY24, the Company's topline clocked in at PKR 47bln as compared to PKR 19bln in 9MFY23 (FY23: PKR 23bln, FY22: PKR 20bln) reflecting ~150% growth due to the volumetric and price increase. Gross Margins witnessed a significant dip of ~45% during 9MFY24 due to the higher cost of paddy. Operating margins followed a similar trend and declined due to high operating expenses including increased cost of production and overheads. Despite the increase in the topline, the net effect at the bottom line was reduced due to increased finance cost. Resultantly, Net margin stood at ~2% during 9MFY24, compared to ~4.1% during 9MFY23. Net income slightly increased to PKR 919mln during 9MFY24 (9MFY23: PKR 807mln, FY23: PKR 1bln). The Company's financial risk profile is characterized by moderate capital structure of ~66% due to increased short-term borrowing for working capital, while coverages and working capital management remains adequate. The ratings derive confidence from the sponsors' expertise. This expertise is evident in MesKay's successful navigation of market challenges and its ability to maintain a leading role in the industry.

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	MesKay & Femtee Trading Company (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-24)
Related Research	Sector Study Rice(Oct-23)
Rating Analysts	Hina Harram hina.harram@pacra.com +92-42-35869504

Profile

Legal Structure Meskay & Femtee Trading Company (Pvt.) Ltd. ('Meskay 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 Meskay & Femtee (Pvt.) Ltd. In 2006, Mr. Shahid separated his business and renamed it as Meskay & 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. Meskay is currently one of the country's leading rice exporters. 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 561,000 MT per annum. The paddy processing plants are installed in Larkana, Shikarpur, Narowal & Pakpattan with a total processing capacity of 48MT/hour. The Company mainly exports rice to Africa, America, Asia, and Europe. During 9MFY24, the Company made an export of 236,259 MT of rice as compared to 168,476 MT in 9MFY23 witnessing an increase of ~9%.

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 The sponsor's hold been involved in the rice export business for over 2 decades and have witnessed multiple business cycles.

Financial Strength The sponsor's hold sufficient net worth to support the Company in times of distress. As of FY23 total assets and equity base stood at ~PKR 17bln and ~PKR 7bln respectively, while total revenue stood at ~PKR 23bln and net income at ~PKR 1,039mln.

Governance

Board Structure The Company is governed by three Directors, Mr. Wahid F Tawawalla, Chairman of the Board, Mr. Shahid Tawawalla, CEO, and Ms. Huma Darugar. However, BoD structure needs to be streamlined.

Members' Profile Mr. Wahid F. Tawawalla, the Chairman of the Board is having an overall experience of over 3 decades and associated with Board since inception. While the other sponsoring individuals, Mr. Shahid, the CEO, holds an overall experience of over 2 decade, and Mrs. Huma holds an overall experience of almost a decade, serves as Executive Director.

Board Effectiveness The BoD is assisted by Board Audit Committee, Advisory 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 for year ended Jun-23. The firm has been QCR rated 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 Finance, Accounts, Export and Logistics, Internal Audit, Admin and HR, Supply chain & production. 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. Mr. Israr ul Haque, the CFO, has an overall experience of 18 years and is associated with the Company since 2020.

Effectiveness There is Finance committee 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. This segment contributes ~3.5% in agriculture value addition and 0.7% to GDP. During FY23, the rice crop area decreased to ~3mln Hec (FY22: ~3.5mln Hec) as a result of massive flooding. However, in 9MFY24 the area increased to ~3.6mln Hec reflecting an increase of ~20%. During 9MFY24, total rice production in Pakistan stood at 9mln MT (FY23: 7.3mln MT, FY22: 9.3mln MT). Following the same trajectory exports also rose to 4mln MT during 9MFY24 (FY23: 3.7mln MT, FY22: USD 4.8mln MT) backed by the cushion provided by enhanced production. However, rupee depreciation provided some cushion to the export players. Industry's overall margins and cashflows may become stretched. Industry poses a stable outlook for the ongoing year

Relative Position The Company is the second biggest rice exporter in the country and holds a market share of ~8% in terms of revenue.

Revenues The Business mainly generates revenue by exporting Rice, Wheat, Guar, corn and other grains locally (~PKR 9.7bln) and in foreign countries like Africa, China, Indonesia, Sri Lanka, and European countries (~PKR 37bln). During 9MFY24, the Company generated revenue of PKR ~47bln, witnessing an increase of ~150% (9MFY23: PKR 19bln, FY23: PKR 23bln). Revenue earned has increased mainly because of an increase in price and quantity.

Margins The Company has stretched profitability margins; During 9MFY24, Gross profit margin stood at ~8.5% mainly due to challenges stemming from higher raw material cost driven by inflation (9MFY23: ~16%, FY23: ~15.6%). Operating margins also followed a similar trend and decreased to ~4.3% in 9MFY24 from ~8.9% in 9MFY23 (FY23: 11.2%) due to increase in operating expenses. Additionally, elevated finance cost resulted in the net margins of ~2% (9MFY23: ~4.1%, FY23: ~4.4%). The margins are expected to remain stretched, 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 Gross capital needs are derived from receivables and inventory days. Cash conversion cycle is linked to the rice seasonality element. During 9MFY24 gross working capital days decreased to 68 days (9MFY23: 167 days, FY23: 130 days) as the Company holds low quantum of finished goods. Receivable days stood at 15 days during 9MFY24 (9MFY23: 32 days, FY23: 24 days) due to early in receipts. Payable days hovered ~ 3 days (9MFY23: 7 days, FY23: 4 days) due to cash buying. Resultantly, net working capital improved to 65 days (9MFY23: 160 days, FY23: 126 days)

Coverages Interest cover is a function of free cash flows and finance cost. During 9MFY24, the Company's free cash flow increased and stood at PKR 2,463mln (9MFY23: PKR 1,845mln, FY23: PKR 2,591mln). Finance cost increased to ~PKR 1,310mln (9MFY23: 710mln, FY23: ~PKR 1,272mln) on the back of higher interest rates. As a result, interest cover stood at 2.1x in 9MFY24 (9MFY23: 3.2x, FY23: 2.2x). Core and total coverage remained same at 2.0x

Capitalization The debt of the Company comprises ~99.3% short-term facility. The total debt of the Company stood at PKR 16bln in 9MFY24 (9MFY23: PKR 13bln, FY23: 9.5bln) against an equity base of PKR 8.3bln (9MFY23: PKR 8.5bln, FY23: PKR 7.4bln). Debt to debt plus equity ratio remains on the higher side, however, and stood at ~66.6% as of 9MFY24 (9MFY23: 61.8%, FY23: ~56.3%)



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Meskey & Femtee Trading Company Rice	Mar-24 9M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	8,400	7,844	6,564	5,619
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	18,681	10,156	10,008	6,314
a Inventories	11,162	7,007	6,911	4,357
b Trade Receivables	4,226	1,008	2,145	770
5 Total Assets	27,081	18,000	16,571	11,933
6 Current Liabilities	2,030	968	770	421
a Trade Payables	762	200	365	177
7 Borrowings	16,690	9,591	9,356	6,154
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	47	37
10 Net Assets	8,360	7,442	6,399	5,320
11 Shareholders' Equity	8,360	7,442	6,399	5,320
B INCOME STATEMENT				
1 Sales	47,034	23,919	20,980	15,723
a Cost of Good Sold	(43,031)	(20,177)	(17,125)	(14,168)
2 Gross Profit	4,003	3,742	3,854	1,555
a Operating Expenses	(1,990)	(1,064)	(2,143)	(913)
3 Operating Profit	2,013	2,678	1,711	641
a Non Operating Income or (Expense)	951	(39)	55	174
4 Profit or (Loss) before Interest and Tax	2,964	2,639	1,766	816
a Total Finance Cost	(1,310)	(1,272)	(443)	(321)
b Taxation	(735)	(324)	(245)	(139)
6 Net Income Or (Loss)	919	1,043	1,078	356
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	2,463	2,591	1,804	902
b Net Cash from Operating Activities before Working Capital Changes	1,454	1,591	1,418	571
c Changes in Working Capital	(7,855)	105	(3,592)	(996)
1 Net Cash provided by Operating Activities	(6,401)	1,696	(2,174)	(426)
2 Net Cash (Used in) or Available From Investing Activities	(758)	(1,538)	(1,181)	(558)
3 Net Cash (Used in) or Available From Financing Activities	7,099	235	3,202	931
4 Net Cash generated or (Used) during the period	(59)	392	(154)	(52)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	162.2%	14.0%	33.4%	0.0%
b Gross Profit Margin	8.5%	15.6%	18.4%	9.9%
c Net Profit Margin	2.0%	4.4%	5.1%	2.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-11.5%	11.3%	-8.5%	-0.6%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	15.5%	15.1%	18.4%	6.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	68	130	123	119
b Net Working Capital (Average Days)	65	126	119	115
c Current Ratio (Current Assets / Current Liabilities)	9.2	10.5	13.0	15.0
3 Coverages				
a EBITDA / Finance Cost	2.7	2.5	5.6	3.9
b FCFO / Finance Cost+CMLTB+Excess STB	2.0	2.0	3.8	2.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.1	0.4	0.3	0.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	66.6%	56.3%	59.4%	53.6%
b Interest or Markup Payable (Days)	160.7	122.3	115.6	78.1
c Entity Average Borrowing Rate	11.7%	10.7%	4.4%	4.4%

Credit Rating

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

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+	
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-	
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):

- 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

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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

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- 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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- (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).
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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (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 | 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)

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