



The Pakistan Credit Rating Agency Limited

Rating Report

Reem Rice Mills (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Jun-2023	A-	A2	Stable	Maintain	-
03-Jun-2022	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Reem Rice Mills (Private) Limited ('Reem Rice' or 'the Company') is primarily engaged in the milling, reprocessing, & sale of rice catering to national and international clientele base. It is a joint venture between two prominent groups from the Middle East - Al Muhaidib Group of Saudi Arabia and Al Ghurair of United Arab Emirates. The ratings reflect Reem Rice's strong sponsorship background underpinned by their commitment of continuing support to the Company. Pakistan has two major rice-producing regions; Punjab and Sindh due to water availability, agro-climatic and soil conditions. The rice sector contributes ~3.5% in agriculture value addition and ~0.7% to GDP. During FY22, the country's milled rice production ramped up by ~3% led by growing area under cultivation, from ~8.4mln MT to ~8.9mln MT. New higher-yielding hybrid rice varieties is another factor driving the increased production. Pakistan's basmati rice is considered high grade premium quality rice in the market overseas, particularly in the EU and Middle East. The sector is significant in terms of export proceeds; average rice exports are expected to rise by ~11% on back of larger crop, ample supplies and continued competitive prices. In Pakistan, local consumption of rice increases by ~8%. Around 4.0mln MT of rice is consumed locally, while, the remaining is exported. During FY22, Pakistan's rice exports increased to ~USD 2.5bln (FY21: ~USD 2bln). Similarly, Reem Rice has been exporting premium quality rice to the Middle East countries along with new clients added in the portfolio from other European countries. As per management accounts for the first eight months of FY23, ~78.7% of the Company's revenue was drawn from exports. Over the years, Reem Rice has suffered losses on account of plant inefficiencies, toll manufacturing, unreasonable distribution agreements, high concentration (supplier & customer), inefficient financial management, and weak systems. Nevertheless, with new management induction, the Company is moving towards factory overhauling, value-added benefits, and channeling local sales. Going forward, Reem Rice is envisaged to materialize the strategies through tapping new export markets, thoughtful expansion in local market, better pricing model, efficient utilization of funds, optimal plant operations, peak season procurement, inhouse processing, and improve liquidity profile. Financial risk of the Company is high with stretched cash cycle, disturbed coverages, and inadequate capital structure. Though, the same is covered by way of direct comfort drawn from foreign sponsors.

The ratings are dependent on rationalization of the management's strategies to gain position in global market under challenging business environment. With growth in revenue; profit margins and stable financial risk profile shall remain imperative.

Disclosure

Name of Rated Entity	Reem Rice Mills (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-22)
Rating Analysts	Iqra Toqeer iqra.toqeer@pacra.com +92-42-35869504

Profile

Legal Structure Reem Rice Mills (Private) Limited ('Reem Rice' or 'the Company') is a private limited entity, incorporated in Lahore back during 1994.

Background The Company is a joint venture between two renowned groups from the Middle East; Al Ghurair Group of UAE and Al Muhaidib Group of Saudi Arabia. Reem Rice started its operations in local markets of Pakistan. Ever since, the Company has been evolving and exporting premium quality rice to different countries from Middle East and Europe.

Operations The Company is principally engaged in the manufacturing of finest basmati varieties from the natural paddy of west Punjab. It offers a wide range of rice value additions - first purchased paddy from local farmers and later processed into high quality refined head rice. Reem Rice sells its products under premium & nonpremium brands. It established a 10 MT/Hour milling plant and later on added a 5 MT/Hour rice-to-rice processing plant.

Ownership

Ownership Structure Al-Muhaidib and Al-Ghurair Groups, each owns ~50% stake in the Company through their investment arms, while a minimal stake is owned through individuals.

Stability Reem Rice is completely owned by the two well-known groups from Middle East. Possession stake with no expectancy of change in the short horizon adhere to stability in the structure.

Business Acumen The Al Ghurair Group is a prominent business group of UAE having diversified business interests in foods, resources (trading), properties, construction, energy, mobility, and other ventures. The Al Muhaidib Group holds major business interests in food & consumer, industrial & infrastructure, real estate and financial investment sectors. Furthermore, Mayar Foods, one of the flagship entities of AMG, is engaged in the distribution and marketing of rice and has established itself as a premium rice supplier in Saudi Arabia.

Financial Strength Both the groups maintain strong financial profile with substantial equity base and investments. This indicates Sponsors' ability to provide support, if needed.

Governance

Board Structure The Company's board comprises five members, two individuals are from Al-Muhaidib Group and three represents Al-Ghurair Group. As of now, there are no independent directors on the board, thus hampering effective governance.

Members' Profile All the directors have been associated with the board possess vast knowledge and diversified business experience of more than two decades. They have been key position holders in various international corporate bodies.

Board Effectiveness Board of Directors meet on quarterly basis as per regulatory framework. Meetings have good attendance and minutes are recorded properly, boding well for the board effectiveness. Meanwhile, the board has formulated an audit committee to ensure better governance.

Financial Transparency M/s. PKF F.R.A.N.T.S. - Chartered Accountants, listed in the Category 'B' of SBP's Panel of Auditors, is the external auditor of the Company. The auditors expressed an unqualified audit opinion on the financial statements for the year ended August 31st, 2022.

Management

Organizational Structure A well-designed organizational structure exists in the Company. In the first tier, operations are segregated into five broad departments: (i) Plant Operations, (ii) Accounts & Finance, (iii) HR & Admin, (iv) IT, and (v) Sales. Clear lines of responsibility are defined for each department. All the department heads report directly to CEO.

Management Team Overall management control is in the hands of Mr. Khalid Farooqui - Chief Executive Officer. He holds related industry experience of ~26 years. The CEO makes all pertinent decisions of the Company and is being assisted by highly qualified professionals.

Effectiveness With the support of experienced team, Reem Rice is successfully building up its strengths and increasing foot print outside Pakistan. Functions of the management are clear and well-defined to achieve its underlying goals. Management committees - Sales & Operations, Procurement & Human Resource are in place to formally discuss routine matters.

MIS The Company has implemented SAP business model to ensure effective methods of reporting.

Control Environment Reem Rice follows a balanced & environment-friendly growth strategy in all their operations and adopted sustainable growth principles that emphasize diminishing the environmental harm to a minimum and upholding social stakeholder.

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. In FY22, rice crop 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). Further, during FY22, Pakistan exports increased to ~USD 2.5bln (FY21: ~USD 2bln). Moreover, 2022 floods have caused 10-15% crop loss in Punjab region, meanwhile Sindh region encountered 35- 40% crop loss.

Relative Position Reem Rice is one of the leading names in the country's rice exporters market

Revenues During FY22, topline of the Company clocked at PKR 1,361mln (FY21: PKR 1,280mln, FY20: PKR 1,971mln; FY19: PKR 1,565) registering positive growth of 6.3% when compared with negative growth of 35.1% preceding year. Export sales made up 67.08% (FY21: 65.8%, FY20: 54.1%) of total revenue. As at end Apr-23, the Company recorded revenue of PKR 2,245mln out of which sales of PKR 1,767mln contributed through export channel.

Margins The Company's gross margin slightly reduced to 6.3% in FY22 (FY21: 6.8%, FY20: 3.0%; FY19: 9.8%) on back of proportionate rise in the prices of materials consumed. Operating profit margin showed negative growth of 6.8% in FY22 (FY21: -11.1%, FY20: -12.0%; FY19: 0.9%). Net profit margin also witnessed a decline in FY22 and stood at -16.4% (FY21: -23.8%, FY20: -19.5%, FY19: -2.2%). As at end Apr-23, the Company's gross margin stood at PKR 256mln whereas it reported net loss of PKR 42mln during first eight months of financial period FY23.

Sustainability Reem Rice's management envisage sustainable footing in the international markets by investing in new technology and machines to add value to the rice supply chain. Going forward, the Company intends to tap new export markets, expand brown rice SKUs, ensure synergies with Al-Ghurair group and expand its distribution network.

Financial Risk

Working Capital The Company's capital needs emanate from financing inventories and trade receivables for which it mainly relies on STBs and capacity to generate internal cash flows. During FY22, gross working capital days reduced to ~109 days (FY21: ~218 days, FY20: ~162 days; FY19: ~172 days). Resultantly, net working capital cycle also reduced to ~102 days (FY21: ~212 days, FY20: ~159 days, FY19: ~169 days).

Coverages In FY22, the Company's free cash flows from operations (FCFO) marked at negative figure of ~PKR 40mln when compared to negative FCFO of ~PKR 127mln during preceding year. Interest coverage ratio of the Company stood at -0.2x during FY22 (FY21: -0.9x, FY20: -1.1x; FY19: 0.8) whereas core-debt coverage ratio stands at 0.0x (FY21: 0.1x only).

Capitalization Reem Rice has reported a highly leveraged capital structure with a ratio of ~134.4% as at end Aug-22 (FY21: 146.4%, FY20: ~116.0%; FY19: ~90.5%). Leveraging ratio decreased year-on-year basis as borrowings reduced to PKR 1,345mln in FY22 (FY21: 1,438mln, FY20: PKR 1,565mln). Majority portion of the debt is comprised of short-term borrowings from various commercial banks.



Reem Rice Mills (Private) Limited Rice	Aug-22 12M	Aug-21 12M	Aug-20 12M	Aug-19 12M
A BALANCE SHEET				
1 Non-Current Assets	948	599	596	531
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	504	713	1,202	890
<i>a Inventories</i>	103	348	649	396
<i>b Trade Receivables</i>	208	156	366	340
5 Total Assets	1,452	1,312	1,798	1,421
6 Current Liabilities	180	84	129	63
<i>a Trade Payables</i>	39	18	23	12
7 Borrowings	1,354	1,438	1,565	872
8 Related Party Exposure	329	329	329	329
9 Non-Current Liabilities	20	21	36	31
10 Net Assets	(431)	(561)	(261)	126
11 Shareholders' Equity	(431)	(561)	(261)	126
B INCOME STATEMENT				
1 Sales	1,361	1,280	1,971	1,565
<i>a Cost of Good Sold</i>	(1,275)	(1,193)	(1,912)	(1,411)
2 Gross Profit	86	87	59	153
<i>a Operating Expenses</i>	(180)	(230)	(296)	(140)
3 Operating Profit	(93)	(143)	(237)	14
<i>a Non Operating Income or (Expense)</i>	42	(32)	9	67
4 Profit or (Loss) before Interest and Tax	(51)	(175)	(228)	81
<i>a Total Finance Cost</i>	(172)	(139)	(204)	(128)
<i>b Taxation</i>	1	10	47	12
6 Net Income Or (Loss)	(223)	(304)	(385)	(35)
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	(40)	(127)	(199)	101
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	(191)	(298)	(386)	(31)
<i>c Changes in Working Capital</i>	-	505	(294)	(44)
1 Net Cash provided by Operating Activities	(191)	207	(680)	(76)
2 Net Cash (Used in) or Available From Investing Activities	(12)	(12)	(32)	(9)
3 Net Cash (Used in) or Available From Financing Activities	143	(127)	693	107
4 Net Cash generated or (Used) during the period	(59)	68	(19)	22
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	6.3%	-35.1%	26.0%	--
<i>b Gross Profit Margin</i>	6.3%	6.8%	3.0%	9.8%
<i>c Net Profit Margin</i>	-16.4%	-23.8%	-19.5%	-2.2%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	-2.9%	29.5%	-25.0%	3.6%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	22.5%	37.0%	567.4%	-27.9%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	109	218	162	172
<i>b Net Working Capital (Average Days)</i>	102	212	159	169
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.8	8.5	9.3	14.2
3 Coverages				
<i>a EBITDA / Finance Cost</i>	-0.1	-0.7	-0.9	1.0
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	0.0	-0.1	-0.3	0.6
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	-6.6	-4.4	-2.1	-15.9
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	134.4%	146.4%	116.0%	90.5%
<i>b Interest or Markup Payable (Days)</i>	81.9	44.3	97.2	94.9
<i>c Entity Average Borrowing Rate</i>	9.3%	7.4%	11.8%	10.4%

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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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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(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)

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(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).

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(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)

(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

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(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)

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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)

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