



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
27-May-2024	A-	A2	Stable	Maintain	Yes
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 the United Arab Emirates. The ratings reflect Reem Rice's strong sponsorship background underpinned by their commitment of continuing support to the Company. The company processes raw rice into finished goods. Pakistan, a major rice producer, primarily grows rice in Punjab (52%) and Sindh (38%). For FY24, rice production is estimated at ~9.0 million MT, with exports projected at ~5.5 million MT, driven by favorable conditions and high demand. In 8MFY24, exports reached ~4.0 million MT, exceeding FY23's ~3.6 million MT. Similarly, Reem Rice has been exporting premium quality rice to Middle East countries along with new clients added to the portfolio from other European countries and recently America. During FY23, Reem Rice witnessed a significant growth in topline by 7.6 times to PKR 3.1bln (FY22: PKR 1.3bln), driven by volume and price increase. Improved production efficiencies translated into significantly higher margins to 13% (FY22: 6%). Operating performance turnaround to post a profit of PKR 337.9mln (FY22: Loss PKR 51.2 mln) backed by stringent expenses rationalization and improved systems & controls. However, mark up rates exorbitantly increased by 47% YoY. Nevertheless, efficient financial management resulted in net loss reduction by 43% to PKR 127mln (FY22: PKR 223mln). Continuing the improving trend, during 6MFY24, the company's topline grew by ~23.4%, while gross profit margin kept stride up to ~17.8% (FY23: ~13.3%) and the operating profit margin improved to 10.2% (FY23: ~5.1%). However, finance cost increased YoY due to inflated buying requirements coupled with rising markup rates. However, company managed to sustain loss at PKR 120mln. Going forward, Reem Rice plans to implement several strategic initiatives. While diversification on the cards, the company has launched in FY24 value added products, including Nutri-grain flour and premium health range of rice. The company targets geographical expansion into export regions of Europe, America & Middle East and tapping profitable segments in local markets. The business revival plan is progressing, and the company's actual performance is closely aligned with the objectives outlined in the plan, although some targets are yet to be achieved. Additionally, the company aims to improve its liquidity profile as evidenced by its current assets exceeding current liabilities. The financial risk of the Company is high with a stretched cash cycle, low coverages, and high-leveraged capital structure. However, the same is covered by way of direct comfort drawn from foreign sponsors.

The ratings are dependent on the rationalization of the management's strategies to gain a position in global market under challenging business environment. With revenue growth; profit margins and a 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(Jul-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Assessment Framework Stability Rating(Jul-23)
Related Research	Sector Study Rice(Oct-23)
Rating Analysts	Sohail Ahmed Qureshi sohail.ahmed@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 in 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 export markets, while recently entered in local markets of Pakistan. Ever since, the Company has been evolving and exporting premium quality rice to different countries from the Middle East and Europe.

Operations The Company is principally engaged in the manufacturing of the 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 & popular range 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 the 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 (AMG) 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 KSA.

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, 2023.

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, (vi) International. 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. Rice sector exports also fell by ~26.0% YoY to ~3.7mln MT in FY23 (FY22: ~5.0mln MT). Exports of Basmati rice stood at ~0.6mln MT (FY22: ~0.8mln MT), forming ~16% of total Rice exports, while exports of non-Basmati Rice stood at ~3.1mln MT in FY23 (FY22: ~4.2mln MT), forming ~84% of total Rice exports.

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

Revenues During FY23, the topline of the Company clocked at PKR 3,100mln (FY22: PKR 1,361mln) registering a positive growth of 127%, reflecting impressive volumetric growth (export: 44%, local branded: 169%), supported by 62% price rise and 39% rupee revaluation. Export sales made up 72.3% (FY22:73.8%) of total revenue. As at the end of Feb-24, the Company recorded revenue of PKR 1,912mln out of which sales of PKR 1,702mln contributed through the export channel.

Margins The Company's gross margin improved to 13.3% in FY23 (FY22:6.3%, FY21: 6.8%). First-time operating profit margin showed positive growth of 5.1% in FY23 (FY22: -6.8%). Net profit margin also witnessed a significant improvement in FY23 and stood at -4.1% (FY22: -16.4%). As at the end of Feb-24, the Company's gross margin stood at PKR 340mln whereas it reported a net loss of PKR 120mln during the first six months of the financial period FY24.

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 parent group companies for adding rice from Pakistan to groups' international brands, and expand its distribution network all across Pakistan.

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 FY23, gross working capital days were reduced to ~80 days (FY22: 109 days). Average inventory days decreased to ~30 days (FY22: 60 days). Resultantly, the net working capital cycle was also reduced to ~77 days (FY22: 102 days). However net working capital days clocked in at 150 days as at the end of Feb-24, inline with peak season buying pattern.

Coverages In FY23, the Company's free cash flows from operations (FCFO) were marked at PKR 352mln (FY22: PKR negative 40mln). The interest coverage ratio of the Company stood at 0.9x during FY23 (FY22: negative 0.1x) whereas the core-debt coverage ratio stands at 0.3x (FY21: 0.0x only).

Capitalization Reem Rice has reported a highly leveraged capital structure with a ratio of ~127.4% as of FY23 (FY22:134.4%). The borrowing increased and stood at ~PKR 2.2bln (FY22: PKR 1.3bln). A majority portion of the debt is comprised of short-term borrowings from various commercial banks. During FY23, the Company reported a negative equity base of PKR 556mln (FY22: -431mln). However, the leveraging stood at ~122.3% as at the end of Feb-24.



The Pakistan Credit Rating Agency Limited

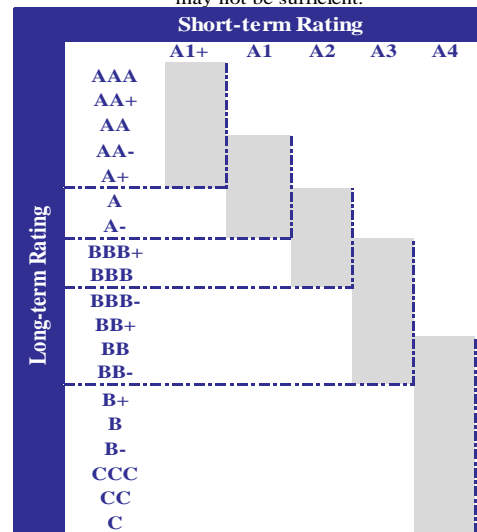
Reem Rice Mills (Private) Limited Rice	Feb-24 6M	Aug-23 12M	Aug-22 12M	Aug-21 12M
A BALANCE SHEET				
1 Non-Current Assets	973	983	948	599
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	2,415	1,244	504	713
a Inventories	795	470	103	348
b Trade Receivables	1,366	577	208	156
5 Total Assets	3,388	2,227	1,452	1,312
6 Current Liabilities	329	167	143	84
a Trade Payables	39	19	39	18
7 Borrowings	3,299	2,220	1,354	1,438
8 Related Party Exposure	411	368	366	329
9 Non-Current Liabilities	26	28	20	21
10 Net Assets	(676)	(556)	(431)	(561)
11 Shareholders' Equity	(676)	(556)	(431)	(561)
B INCOME STATEMENT				
1 Sales	1,912	3,100	1,361	1,280
a Cost of Good Sold	(1,572)	(2,687)	(1,275)	(1,193)
2 Gross Profit	340	413	86	87
a Operating Expenses	(145)	(256)	(180)	(230)
3 Operating Profit	195	157	(93)	(143)
a Non Operating Income or (Expense)	(1)	181	31	(32)
4 Profit or (Loss) before Interest and Tax	194	338	(62)	(175)
a Total Finance Cost	(314)	(465)	(172)	(139)
b Taxation	-	(0)	1	10
6 Net Income Or (Loss)	(120)	(127)	(234)	(304)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	235	352	(40)	(127)
b Net Cash from Operating Activities before Working Capital	(10)	(64)	(191)	(298)
c Changes in Working Capital	(1,018)	(750)	228	505
1 Net Cash provided by Operating Activities	(1,028)	(814)	37	207
2 Net Cash (Used in) or Available From Investing Activities	(33)	(39)	(12)	(12)
3 Net Cash (Used in) or Available From Financing Activities	1,079	866	(84)	(127)
4 Net Cash generated or (Used) during the period	18	13	(59)	68
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	23.4%	127.8%	6.3%	-35.1%
b Gross Profit Margin	17.8%	13.3%	6.3%	6.8%
c Net Profit Margin	-6.3%	-4.1%	-17.2%	-23.8%
d Cash Conversion Efficiency (FCFO adjusted for Working C	-41.0%	-12.8%	13.8%	29.5%
e Return on Equity [Net Profit Margin * Asset Turnover * (T	-39.0%	-25.8%	-47.2%	-74.1%
2 Working Capital Management				
a Gross Working Capital (Average Days)	153	80	110	218
b Net Working Capital (Average Days)	150	77	102	212
c Current Ratio (Current Assets / Current Liabilities)	7.4	7.4	3.5	8.5
3 Coverages				
a EBITDA / Finance Cost	0.8	0.9	-0.1	-0.7
b FCFO / Finance Cost+CMLTB+Excess STB	0.3	0.3	-0.1	-0.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	-13.1	-17.3	-6.6	-4.4
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equit	122.3%	127.4%	133.4%	146.4%
b Interest or Markup Payable (Days)	94.7	70.4	81.9	44.3
c Entity Average Borrowing Rate	18.9%	20.4%	9.2%	7.4%

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+	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	
BBB-	
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility.
CC	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

- 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

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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)

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)

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