



The Pakistan Credit Rating Agency Limited

Rating Report

VMS Trading Company

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Rating History table with columns: Dissemination Date, Long Term Rating, Short Term Rating, Outlook, Action, Rating Watch. Rows for 14-Jun-2024 and 22-Jun-2023.

Rating Rationale and Key Rating Drivers

VMS Trading Company ("VMS" or 'the Company') is primarily engaged in the processing and trading of rice. The Company has a prominent position in the rice exporter's market of the country with substantial business. The Company has an end-to-end production capability, where raw rice is procured and processed till finished goods. The Company mainly generates revenue from IRRI-6, it also undertakes the processing and trading of IRRI-9, basmati, and non-basmati rice varieties. The Company caters to diverse customer preferences, which may include specific demands for the percentage of rice whitening, rice mixing, level of polish, or simply regular rice without any specific polishing requirement. Rice is one of the major staple foods (second after wheat) as well as cash crops in Pakistan. Punjab accounts for ~52% of Pakistan's rice production, while Sindh contributes about 38%, and the remaining 8% from Baluchistan. Pakistan ranks 11th in the global rice production (~50% basmati; remaining ~50% coarse types). After absorbing the consequences of floods during FY23, the rice production is estimated at ~9.0mln MT for FY24 due to better climatic conditions and more availability of water for irrigation. Meanwhile, Exports are forecast to reach ~5.5mln MT in FY24. The abundant harvest, along with India's export bans, competitive pricing, and heightened demand from Indonesia and Africa is driving the current robust export performance. Also, it is noteworthy that out of the forecast exports of ~5.5mln MT in FY24, the actual rice export of ~4.0mln MT for the period 8MFY24 is higher than the export level in FY23 (~3.6mln MT). Similarly, VMS has been exporting premium quality rice to the East and West African countries along with new clients added to the portfolio from North and South African countries. During 9MFY24, the company recorded sales of ~PKR 8,919mln, reflecting a growth of ~93.8% due to price inflation and increased volumes (FY23: ~PKR 6,137mln). Out of the total sales, ~71% is from the export side and ~29% is from the local side. To meet the rising export demand, the company is currently enhancing its production capacity, which currently stands at ~35 MT per hour. VMS is a sole proprietorship and requires improvement in legal and governance structure, furthermore, external auditors are only QCR-rated. Going forward, VMS is envisaged to materialize the strategies through (a) tapping new export markets (b) better pricing models (c) effective working capital management. The Company's financial risk profile is characterized by comfortable coverages, cashflows, and working capital cycle. The company's capital structure is leveraged, with borrowings primarily composed of short-term at concessionary rates to manage working capital.
The ratings are dependent on the rationalization of the management's strategies to gain a position in the global market under a challenging business environment. With the upcoming growth in the firm's business & volumes; prudent financial discipline and implementation of a stringent control environment shall remain imperative.

Disclosure table with rows: Name of Rated Entity (VMS Trading Company), Type of Relationship (Solicited), Purpose of the Rating (Entity Rating), Applicable Criteria (Methodology | Corporate Rating(Jul-23), Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23), Methodology | Rating Modifiers(Apr-24)), Related Research (Sector Study | Rice(Oct-23)), Rating Analysts (Sohail Ahmed Qureshi | sohail.ahmed@pacra.com | +92-42-35869504)

Profile

Legal Structure VMS Trading Company (VMS or 'the Company') was established in 2010 as a sole proprietorship. The company registered office is in F-165, S.I.T.E, Area, Near Labour Square, Karachi West.

Background In the 1970s, Mr. Kundan Mal, the father of Mr. Kheem Chand, began his entrepreneurial venture by establishing a rice mill. However, during that time, the mill was subjected to nationalization under the administration of Bhutto. Mr. Kheem Chand can trace his roots back to his father's entrepreneurial profile. Presently, Mr. Kheem Chand takes great pride in leading the company, which he named 'VMS' in a fitting tribute to his three sons Vanoth, Mahish, and Sahil by utilizing the initial alphabets of their names.

Operations The primary business of VMS is the processing and trading of rice. The company currently has two processing units in Port Qasim and S.I.T.E Karachi. The combined per-hour processing capacity stands at 35MT and the annual capacity stands at 306,600MT as of FY22.

Ownership

Ownership Structure VMS Trading Company is solely owned by Mr. Kheem Chand, exemplifying his entrepreneurial leadership.

Stability The Company's ownership structure seems stable as no major change in the shareholding structure is expected soon. Although no formal succession plan exists, the second generation has been gradually inducted into the family business.

Business Acumen The owner of the company has extensive relevant experience and insight concerning the rice sector owing to their family background. This rich familial legacy enhances their understanding of the intricacies and dynamics of the rice market, enabling them to make informed decisions and drive the company's success in this specialized field.

Financial Strength The sponsors hold sufficient net worth to support the Business in times of distress.

Governance

Board Structure The Business, being a sole proprietorship lacks a formal governance framework. The oversight function normally the function of the Board is exercised by the Sponsors. They are responsible for the oversight of their respective departments.

Members' Profile Mr. Kheem Chand heads the Business with an overall experience of more than two decades.

Board Effectiveness Currently, the company lacks a formal board structure and does not have any formal committees.

Financial Transparency Alam & Aulak & Co. Chartered Accountants are the Company's external auditors. The firm is QCR rated but not on the SBP's panel of auditors. The auditors issued an unqualified opinion on the Company's financial statements for the year ended June 2023.

Management

Organizational Structure VMS Trading Company has a lean organizational structure divided into various functional departments. Currently, the organizational structure is divided into five main functions namely; 1) Export Sales 2) Manager Commercial 3) Production 4) Finance, and 5) Administration.

Management Team Mr. Kheem Chand, the CEO, and Board's Chairman, has been in the Business for more than 22 years. Before the formal establishment of VMS Trading Company, Mr. Kheem Chand was associated with the family business of rice processing and trading.

Effectiveness Keeping in view the size and operations of the Company, management lacks effectiveness as there are no management committees in place. Thus, indicating room for improvement. Management meets on a need basis to ensure the efficiency of the Business's operations. The senior management holds major control of operations.

MIS The Company has ERP software implemented for safety management, financial management, and inventory management. Moreover, standardized reports are generated as per requirement.

Control Environment The Company has established an internal audit function to implement policies and procedures. For internal MIS Reporting to senior management and reports are generated on a weekly, monthly, quarterly, and annually as per the management perusal.

Business Risk

Industry Dynamics Rice is one of the major staple foods (second after wheat) as well as cash crops in Pakistan. ~52% of the total rice production in Pakistan is done in Punjab, ~38% in Sindh and remaining ~8% in Balochistan. Pakistan ranks 11th in the global rice production (~50% basmati; remaining ~50% coarse types). Rice production is estimated at ~9.0mln MT for FY24 due to better climatic conditions and more availability of water for irrigation. The area under cultivation is forecast to increase to ~3.6mln Ha, whereas crop yields are expected to improve to ~3.9MT/Ha in FY24. Meanwhile, Exports are forecast to reach ~5.5mln MT in FY24. The abundant harvest, along with India's export bans, competitive pricing, and heightened demand from Indonesia and Africa is driving the current robust export performance. Also, it is noteworthy that out of the forecast exports of ~5.5mln MT in FY24, Additionally, the total rice export of ~4.0mln MT for the period 8MFY24 is higher than the export level in FY23 (~3.6mln MT).

Relative Position VMS Trading Company exports rice from the time of its commencement. Major revenue comes from African countries where non-basmati rice (IRRI 6) is preferred. The business is committed to improving its foothold in foreign countries.

Revenues During FY23, the topline of the Company clocked at PKR 6,137mln (FY22: PKR 4,121mln) registering a positive growth of 49%. Export sales made up 80% (FY22: 82%) of total revenue. As of the end of March-24, the Company recorded revenue of PKR 8,919mln, of which sales of PKR 6,371mln were contributed through the export channel.

Margins The Company's gross margin slightly increased to 15.3% in FY23 (FY22:14.6%). Operating profit margin remained consistent at 13.5% in FY23 (FY22:13%). Net profit margin witnessed a decline in FY23 and stood at 7.7% (FY22: 10.4%) As at the end of March-24, the Company's gross profit stood at PKR 803mln whereas it reported a net profit of PKR 491mln during the first nine months of financial period FY24.

Sustainability VMS Trading Company management envisages sustainable footing in the international markets by investing in new technology and machines to add value to the rice supply chain. Going forward demand and sales of the company's product are expected to grow.

Financial Risk

Working Capital In 9MFY24, Company's inventory days reached ~70 days (FY23:107days, FY22: ~124 days). Meanwhile, in 9MFY24, trade receivable days has reached to ~22 days (FY23: ~76days, FY22: ~96 days). Gross working capital days reached to ~91 days (FY23: 183 days, FY22: ~220 days.). The trade payable days during 9MFY24 were clocked at ~0 days (FY23: 1 day, FY22: ~2 days). Resultantly, the net working capital days declined and clocked in at ~91 days (FY23: 182 days, FY22: ~217 days).

Coverages The company's FCFO reached PKR 775mln during 9MFY24 (FY23: PKR 812mln, FY22: PKR 524mln). The interest coverage ratio clocked at 4.1x in 9MFY24(FY23: 2.7x, FY22: 5.6x). Furthermore, the debt coverage ratio reached 4.1x (FY23:FY22: 6.4x, FY21:13x).

Capitalization During 9MFY24, the Company's leveraging decreased to ~42.2% (FY23:51%, FY22: ~49.4%). All the borrowing consists of short-term borrowing. The company has procured short-term debt to fund its working capital requirement.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

VMS Trading Company RICE	Mar-23 9M	Jun-22 12M	Jun-21 12M	Jun-20 12M
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A BALANCE SHEET

1 Non-Current Assets	268	330	272	169
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	3,805	3,202	2,416	1,897
<i>a Inventories</i>	1,806	1,617	1,186	983
<i>b Trade Receivables</i>	980	1,244	917	719
5 Total Assets	4,073	3,532	2,688	2,066
6 Current Liabilities	3	42	47	41
<i>a Trade Payables</i>	1	16	39	35
7 Borrowings	2,193	1,722	1,087	835
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	1,877	1,767	1,554	1,190
11 Shareholders' Equity	1,877	1,767	1,554	1,190

B INCOME STATEMENT

1 Sales	5,863	4,121	3,503	2,214
<i>a Cost of Good Sold</i>	(5,390)	(3,518)	(3,005)	(1,826)
2 Gross Profit	473	603	498	389
<i>a Operating Expenses</i>	(43)	(69)	(59)	(42)
3 Operating Profit	429	534	439	347
<i>a Non Operating Income or (Expense)</i>	-	-	-	-
4 Profit or (Loss) before Interest and Tax	429	534	439	347
<i>a Total Finance Cost</i>	(50)	(83)	(34)	(119)
<i>b Taxation</i>	(47)	(23)	(13)	(13)
6 Net Income Or (Loss)	332	427	391	215

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	401	524	433	337
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	401	441	399	217
<i>c Changes in Working Capital</i>	(133)	(772)	(395)	(50)
1 Net Cash provided by Operating Activities	268	(331)	4	168
2 Net Cash (Used in) or Available From Investing Activities	-	(72)	(110)	-
3 Net Cash (Used in) or Available From Financing Activities	1,056	421	225	(118)
4 Net Cash generated or (Used) during the period	1,324	17	118	50

D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	89.7%	17.6%	58.2%	0.0%
<i>b Gross Profit Margin</i>	8.1%	14.6%	14.2%	17.6%
<i>c Net Profit Margin</i>	5.7%	10.4%	11.2%	9.7%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	4.6%	-6.0%	1.1%	12.9%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' E</i>	24.3%	25.7%	28.5%	18.0%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	147	220	223	280
<i>b Net Working Capital (Average Days)</i>	147	217	219	275
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1471.8	75.5	51.6	46.1
3 Coverages				
<i>a EBITDA / Finance Cost</i>	8.7	6.7	13.4	3.0
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	8.0	6.4	13.0	2.9
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.0	0.0	0.0	0.0
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	53.9%	49.4%	41.2%	41.2%
<i>b Interest or Markup Payable (Days)</i>	0.0	76.7	0.0	0.0
<i>c Entity Average Borrowing Rate</i>	3.4%	5.8%	3.5%	14.0%

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

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

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