The Pakistan Credit Rating Agency Limited

Rating Report

Hi-Tech Feeds (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Dec-2023	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan has the capacity to produce ~10mln MT of feed annually. During FY23,The industry generates an estimated annual turnover of ~PKR 800bln to ~PKR 850bln from local sales to poultry farms. Currently, an uptick in poultry prices has improved the dynamics of poultry and poultry feed segments. The cost of soybean oilseed and maize has seen a surge. During FY23, PKR depreciation made the import of seeds expensive for the local crusher; hence, meal costs also exhibited an inflationary trend. Despite increase in the feed and poultry product prices, industry's margins remain stretched. However, the industry is able to manage its working capital cycle in a stable manner. Going forward, cashflows and liquidity are expected to remain stable.
The ratings reflect Hi-Tech Feeds (Pvt) Limited's ('the Company') affiliation with the well-established poultry group, Hi-Tech Group. The Company is an integral part of the Group's comprehensive poultry value chain, encompassing oil/meal, feed, and poultry segments, and commands a commendable market share, supported by a favorable FCR. However, the Company is susceptible to inherent risks within the feed industry, stemming from fluctuations in raw material prices. The Company boasts a healthy revenue stream (FY23:22.2bln, FY22:14.8bln),with approximately 80-90% attributed to poultry feed sales, and the remaining portion generated from Wanda and Aqua feeds. The topline is anticipated to exhibit stable growth driven by heightened demand for poultry products and upward price trends. Profit margins (FY23:7.7%, FY22:7.2%), indicative of current stability, are set for improvement as the Company demonstrates its capability to pass on escalated raw material costs to their customers. The Company maintains a moderately leveraged capital structure (FY23:35%, FY22:43%) with adequate coverage ratios. The ongoing support from its sponsors augurs well for the assigned ratings.

The ratings are dependent on the management's ability to sustain its operations and improve capacity utilization. Maintaining strict working capital discipline through prudent inventory management and rationalizing significantly high receivable days and ensuing borrowings remain critical. Any significant deterioration in margins and/or prolonged low sales cycle will have a negative impact on the ratings. Support from sponsors and other group entities is important.

Disclosure	
Name of Rated Entity	Hi-Tech Feeds (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),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Poultry Feed(Jan-23)
Rating Analysts	Muhammad Zain Ayaz | zain.ayaz@pacra.com | +92-42-35869504

Profile

Legal Structure Hi-Tech Feeds (Pvt.) Limited ('Hi-Tech Feeds' or 'the Company') was incorporated in 1985 as a Private Limited Company.

Background In 1980, the sponsors started from small scale poultry breeder business and later diversified vertically across the poultry supply chain. Today, Hi-Tech Group ('the Group') has poultry feed mills, poultry farms, rice processing unit, edible oil mill and a veterinary pharmaceutical unit. Hi-Tech Feeds became operational in 1985 when the Company set up its first feed mill in Lahore. Another feed mill was setup in Sahiwal in 2009.

Operations Hi-Tech Feeds is primarily engaged in the production and sale of poultry feed for breeder chicks, broilers, and layers. they are also involved in production of cattle feeds and fish feeds. The company previously operated two feed production units, but currently, only one is operational with merged capacity of both plants. Unit I, originally located in Lahore, is now closed due to environmental concerns, and the plant has been relocated to Sahiwal. The combined annual capacity of the manufacturing facility is 190 MT per hour. The overall annual capacity of the company is 408,000 MT per year.

Ownership

Ownership Structure Hi-Tech Feeds, like other Group Companies, is equally owned (25% each) by Dr. Muhammad Arshad, Dr. Abdul Qayyum, Dr. Muhammad Asim Khan and Dr. Anwar Mahmood Randhawa.

Stability Ownership of the business is seen as stable as equal ownership vests with the Sponsors. Moreover, the second generation has recently joined Group companies.

Business Acumen Hi-Tech Group entered into the business arena in 1980. The Group’s first venture was Hi-Tech Feeds (Pvt.) Limited. Later, the Group set up various business entities across poultry supply chain. The sponsors have diversified their business, but not into an entirely new industry, they have remained within the same industry where they hold expertise. The company draws strength from experienced management.

Financial Strength The sponsors have substantial financial strength and the Group has several business entities across the poultry supply chain.

Governance

Board Structure Hi-Tech Feeds BoD comprises four Executive Directors, who are also the Sponsors of the Company. Absence of non-executive Director and lack of independent oversight indicates room for improvement in the Company’s governance framework

Members’ Profile All four Directors hold a veterinary degree and extensive industry knowledge. The Board's Chairman, Dr. Anwar Mahmood Randhawa, is a Doctor of Veterinary Medicine. He has overall experience of 44 years in poultry and integrated businesses.

Board Effectiveness The Board met informally to discuss pertinent matters and make strategic decisions, with majority attendance. However, minutes of these meeting are not formally kept. Sub-committees are not in place in the Company.

Financial Transparency Hi-Tech Feeds' external auditors, M/s Hameed Zahid & Co. Chartered Accountants, have expressed an unqualified opinion on the financial statements of the Company for the year ended June 30, 2023. The firm has been QCR rated by ICAP but is not in the SBP's panel of auditors.

Management

Organizational Structure Hi-Tech Feeds operates through six departments; Procurement, Production, Marketing and Sales, Finance, Information Technology and Tax. The Company’s feed mills are monitored by their GM Productions. All Departmental Heads report to the Company’s CEO, who then makes pertinent decisions. As the Company’s CEO makes key decisions, reliance on him remains high.

Management Team Hi-Tech Feeds CEO, Dr. Muhammad Arshad, laid the foundation of the Group and set up Hi-Tech Feeds. He actively participates in many international and local seminars on poultry, feed milling and veterinary pharmaceutical industry. Dr. Muhammad Athar, GM Production, has an overall experience of over 3 decades. He has been associated with Hi-Tech Feeds from past 30 years.

Effectiveness There are no formal Management committees. However, pertinent matters are discussed among the four Directors/Sponsors or departmental heads as per requirement. No formal documentation of these discussions is maintained.

MIS Hi-Tech Group has built a customized software in-house to monitor and generate reports relating to the Company’s inventory management, sales, receivables and payables. To integrate other functions, many other modules are in the development stage. Moreover, the Company's feed manufacturing facilities are fully automated.

Control Environment To ensure operational efficiency, an internal audit function is placed at Group level, which implements and monitors policies and procedures of the Company. On an operational level, samples of maize, meals, medicines and manufactured feed variants are tested for quality in a well-equipped laboratory.

Business Risk

Industry Dynamics The global feed industry is valued at ~$345bln, while poultry contributes (~$235bln) to the total industry. Pakistan has the capacity to produce ~10mln MT of feed annually. The industry generates an estimated annual turnover of ~PKR 350bln to PKR 450bln from local sales to poultry farms. Currently, an uptick in poultry prices has improved the dynamics of poultry and poultry feed segments. The cost of soybean oilseed and maize has seen a surge causing The cost of raw materials being higher relative to the price of poultry feed and products squeezed industry's margins. However, the industry is able to manage its working capital cycle in an efficient manner. Going forward, cashflows and liquidity are expected to improve contingent upon stable growth in margins.

Relative Position Hi-Tech Feeds’ has secured prominent position in the market due to its strong FCR, culminating in an increased demand for their product. The Company is ranked among the second-tier players of poultry feed industry.

Revenues The Company mainly generates revenue by manufacturing and selling variants of poultry feed. The Company mainly sells in the Central region (~50%), and Northern region (~30%), followed by Southern region (~20%). In FY23 the Company posted revenue of ~PKR 22.2bln (FY22: ~PKR 14.8bln), reflecting an increase of ~50% due to uptick in prices of poultry feed and products. Going forward, the revenues are projected to be trending upwards assuming the upward trend in poultry product prices.

Margins In FY23, the Company’s gross margin remained stable and stood at 7.7% (FY22: 7.2%). while, operational margin showed upward trend and increased to 5.5% (FY22: 4.7%). The Company observed bit decline in net profit of PKR 567mln (FY22: PKR 586mln) due to increased in policy rate which caused finance cost to go up. (FY23; 895mln , FY22: 466).

Sustainability High poultry feed prices and increased in demand bode well for the Company. However, the Company is exposed to volatility and ensuing challenges in the feed and poultry sector.

Financial Risk

Working Capital The Company’s working capital need originates from financing and storing maize and soybean meal in bulk. The inventory days stood at 132 days in FY23 (FY22: 164 days). furthermore, receivable days improved and stood at 25 days (FY22: 37 days). However, payable days stood at 43 days (FY22: 72 days) indicating timely payments, resulting in stretching of net working capital to 114 days (FY22: 129 days). Additionally, the Company’s room to borrow against trade leverage stood at (FY23:33%, FY22: 24%)

Coverages During FY23, the Company’s free cash flows from operations regressed towards ~PKR 390mln (FY22: ~PKR 541mln). Meanwhile, the finance cost increased to ~PKR 895mln (FY22: ~PKR 466mln). Consequently, the interest and core operating coverage ratio stood stable at 1.5x (FY22: 1.4x) and 1.4x (FY22: 1.3x), respectively. Debt payback deteriorated slightly to 2.7x (FY22: 1.7x)

Capitalization Hi-Tech Feeds has a moderately leveraged capital structure with a leveraging ratio of ~35% in FY23 (FY22: ~46%). Short-term borrowing constituted nearly 75% of total borrowings. primarily due to the rise in long-term borrowing, while short-term borrowing remained stable. Going forward, the leverage is expected to remain at the current levels.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Hi-Tech Feeds (Pvt.) Limited	Jun-23	Jun-22	Jun-21	Jun-20
Poultry Feeds	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	8,197	5,191	5,574	5,702
2 Investments	-	-	-	-
3 Related Party Exposure	510	797	500	299
4 Current Assets	10,694	9,589	8,052	7,089
a Inventories	*8,515*	*7,610*	*5,686*	*4,570*
b Trade Receivables	*1,484*	*1,538*	*1,500*	*1,449*
5 Total Assets	19,401	15,577	14,127	13,090
6 Current Liabilities	3,754	3,885	3,687	2,550
a Trade Payables	*2,395*	*2,843*	*3,025*	*2,088*
7 Borrowings	4,668	4,796	4,062	4,700
8 Related Party Exposure	529	-	143	72
9 Non-Current Liabilities	1,086	527	492	134
10 Net Assets	9,364	6,369	5,743	5,635
11 Shareholders' Equity	9,364	6,369	5,743	5,635
B INCOME STATEMENT				
1 Sales	22,224	14,823	10,892	9,955
a Cost of Good Sold	*(20,523)*	*(13,761)*	*(9,838)*	*(8,797)*
2 Gross Profit	1,702	1,063	1,054	1,158
a Operating Expenses	(486)	(371)	(297)	(243)
3 Operating Profit	1,215	692	757	915
a Non Operating Income or (Expense)	*422*	*454*	*249*	*(2)*
4 Profit or (Loss) before Interest and Tax	1,637	1,146	1,006	912
a Total Finance Cost	*(895)*	*(466)*	*(440)*	*(786)*
b Taxation	*(175)*	*(94)*	*(85)*	*(93)*
6 Net Income Or (Loss)	567	586	481	33
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,285*	*1,007*	*640*	*1,082*
b Net Cash from Operating Activities before Working Capital Changes	*667*	*633*	*158*	*358*
c Changes in Working Capital	*(644)*	*(2,134)*	*(132)*	*(1,211)*
1 Net Cash provided by Operating Activities	24	(1,501)	26	(853)
2 Net Cash (Used in) or Available From Investing Activities	286	372	358	390
3 Net Cash (Used in) or Available From Financing Activities	435	1,210	(1,006)	416
4 Net Cash generated or (Used) during the period	745	81	(622)	(47)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	49.9%	36.1%	9.4%	2.2%
b Gross Profit Margin	7.7%	7.2%	9.7%	11.6%
c Net Profit Margin	2.6%	4.0%	4.4%	0.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	2.9%	-7.6%	4.7%	-1.3%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/S*	6.7%	9.7%	8.7%	0.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	157	201	221	221
b Net Working Capital (Average Days)	114	129	136	126
c Current Ratio (Current Assets / Current Liabilities)	2.8	2.5	2.2	2.8
3 Coverages				
a EBITDA / Finance Cost	1.6	2.0	1.3	1.5
b FCFO / Finance Cost+CMLTB+Excess STB	1.0	1.3	1.4	1.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3.4	1.6	2.7	1.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	35.7%	43.0%	42.3%	45.9%
b Interest or Markup Payable (Days)	151.1	93.6	44.3	67.2
c Entity Average Borrowing Rate	17.8%	10.2%	8.8%	16.3%

Credit Rating

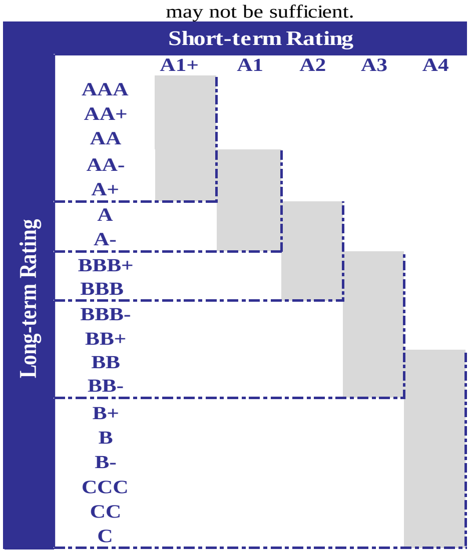
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

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

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)
Proprietary Information