



The Pakistan Credit Rating Agency Limited

Rating Report

Sadiq Poultry (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Mar-2018	A-	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Poultry is one of the largest agro based segment in Pakistan, accounting both domestic & commercial poultry. With a turnover of almost PKR 500 billion in FY17, industry had an annual growth of 10%. Pakistan is very well sufficient in poultry meat and egg production. However, lacks in per capita protein consumption.

The ratings reflect Sadiq Poultry's association with an established vertically integrated poultry group, named SB Group. The company enjoys established profile in its business – broiler, chicken, eggs and day old chicks. It is a leading player in these segments with growing revenues. However, significant expansion in capacities in recent period has kept margins under check. The management is cognizant of this and its near-term strategy is focused on consolidation. This includes increased focus on eggs and broiler business post settlement of assets amongst family and introduction of efficiency in operations-like use of caged broiler breeding technology. Nevertheless, the company remains exposed to volatility in demand pattern and contingent health risk to its products. Procuring feed in bulk from group's own company would manage related risks. Company's financial risk profile is characterized by moderate leverage. Loan mix, -long and short term- though adequate is planned to be improved further.

The ratings are dependent on the management's ability to prudently manage the business risk typical to short cycle because of perishable consumer products, while sustaining business margins. Moreover, governance framework needs attention.

Disclosure

Name of Rated Entity	Sadiq Poultry (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating Methodology(Jul-2017), Methodology Correlation between long-term and short-term rating scale(Jun-2017)
Related Research	Sector Study Food and Allied Poultry(Mar-2018)
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SADIQ POULTRY (PVT.) LIMITED PROFILE		INDUSTRY SNAPSHOT
Incorporated	2004	<ul style="list-style-type: none"> 31% of total meat consumption is from Pakistan's annual poultry meat production of 1,275 million tons. As per estimates there are around 25,000 poultry farms across the country. Total number of parent stocks in Pakistan are 12 million. Annual eggs production from domestic poultry is 4 billion, whereas commercially 13 billion eggs are produced. In FY17, 1,037 million day old chicks are hatched, out of which 1,004 million are from commercial poultry farms. Growth in country's overall poultry sector is 10% per annum. Total investment in poultry sector has touched to 700 billion in FY17. Poultry sector has contributed 1.4% in GDP in FY17 and has provided employment to 1.5 million people.
Major business lines	<ul style="list-style-type: none"> Primarily engaged in operating breeding sheds, broiler production farms, commercial egg production and layer units, poultry hatcheries, livestock pharmaceuticals, and paper pulp tray production. Six major product lines: SB Chicks, SB Chicken, SB Eggs, SB Poultry Labs, SB Organic fertilizer and SB Egg Trays from environment friendly paper pulp. 	
Legal status	Private Limited	

PROFILE AND OWNERSHIP
<ul style="list-style-type: none"> Profile: Sadiq Poultry (Pvt.) Limited was incorporated in 2004 as a parent venture of SB Group; well-known player of Pakistan's poultry industry. Ownership: Major shareholding vests with Dr. Muhammad Sadiq (70%); followed by his two sons, Mr. Asif Zubair (15%) and Mr. Salman Sadiq (15%). Dr. Muhammad Sadiq, group's founder, has an experience of four decades in poultry & allied businesses. Currently, there are six companies & one trust working under SB Group. All are operating in various segments of poultry supply chain.

GOVERNANCE
<ul style="list-style-type: none"> Board Structure: Sponsoring family dominates the board of Sadiq Poultry (Pvt.) Limited. It comprises five members with non-existence of board sub-committees. Company's board lack independence, indicating room for improvement in company's governance framework as there is no independent non-executive director on the board. Member Profile: Board's Chairman, Dr. Muhammad Sadiq holds a DVM degree and four decades of experience in poultry and integrated businesses. Directors, Mr. Asif Zubair and Mr. Salman Sadiq, are US graduates and an experience of more than 10 years. Board Effectiveness: Four board meetings were held with full attendance of board member to discuss pertinent matters. Financial Transparency: Internal audit department has been established at group level. The external auditors of the company are Muniff Ziauddin and Co Chartered Accountants, have been QCR rated by ICAP.

MANAGEMENT
<ul style="list-style-type: none"> Organizational Structure: Sadiq Poultry's sales and production are monitored by GM Production. Whereas, support departments work as shared services for the group. All departments eventually report to the Chief Executive Officer. Management Profile: Dr. Muhammad Sadiq, group's CEO, is a veterinarian professional. Mr. Naeem Haider, group's CFO, having two decades of experience, is part of the company since beginning. GM Production, Dr Gulraiz Ahmed, has been associated for 22 years. Effectiveness: Three management committees are established at group level, naming Technical, Interview, and Operational committees. Control Environment: Sadiq Poultry's all breeding, layering, hatching & broiler sheds are automated. MIS: Two financial software, set upped by Sidat Hyder, are used at group level. However, for internal dissemination, information is documented when required.

BUSINESS RISK
<ul style="list-style-type: none"> Performance: During FY17, Sadiq Poultry generated a topline to PKR 11 billion (FY16: PKR 7 billion). Its sales mix comprises day old chicks, Table eggs and Broiler meat. Moreover, 90% revenue is generated from central region of the country. Sadiq Poultry's business margins are relatively low (gross: FY17: 11%). Operating margins remain (FY17: 11%) on the back of high cost associated with imported equipment and being very close to the end consumer in poultry's supply chain. Moderate level of borrowings to meet working capital needs, kept the interest expenses in control ~ PKR 237 million. However, Sadiq Poultry achieved a bottom-line of PKR 155 million. Sustainability: Group is in process of asset split, once done, this would bring consolidation to the company cost structures.

FINANCIAL RISK
<ul style="list-style-type: none"> Capital Structure: Current business activity levels require a moderate need of credit; keeping the leverage stable (FY17 ~ 42.3%). Working Capital Management: Sadiq Poultry's has limited inventory days, emanating from short cycle of its products except laying flocks. It operates mostly on cash basis (average debtor days ~ 11 days). Advance base used for the procurement of raw materials, abridge the creditor's days (11 days), leading to a net cash cycle of 44 days. Coverages: Though the long term borrowings are minimal (FY17~ 941 million), hiked short term borrowings (FY17~ PKR 1,473 million) leaves some room to borrow against net trade assets. Interest coverage of 4.1 times, illustrates company's ability to fulfill its debt obligations.



Sadiq Poultry (Pvt.) Limited

BALANCE SHEET

	31-Dec-17	30-Jun-17	30-Jun-16	30-Jun-15
	6M	Annual	Annual	Annual
Non-Current Assets	4,811	4,708	4,975	4,713
Investments (Incl. Associates)	-	-	-	-
Equity	-	-	-	-
Debt Securities	-	-	-	-
Investment Property	-	-	-	-
Current Assets	3,837	3,537	3,378	2,053
Inventory	2,831	2,650	2,375	1,511
Trade Receivables	390	406	225	88
Others	616	482	778	454
Total Assets	8,648	8,245	8,353	6,766
Debt	3,233	3,141	3,167	2,230
Short-Term (STB)	1,777	1,473	1,322	1,297
Long-term (Incl. Current Maturity of Long-Term Debt - CMLTD)	1,456	1,668	1,845	933
Other Short-Term Liabilities	476	382	734	319
Other Long-Term Liabilities	484	441	326	202
Shareholder's Equity	4,455	4,281	4,126	4,015
Total Liabilities & Equity	8,648	8,245	8,353	6,766

INCOME STATEMENT

Turnover	5,279	10,680	7,073	7,125
Gross Profit	664	1,210	927	933
Other Income/(Expense)	(15)	1	30	(5)
Financial Charges	(126)	(237)	(214)	(218)
Net Income	174	155	111	86

Cashflow Statement

EBITDA	604	1,027	868	942
Free Cashflow from Operations (FCFO)	544	981	826	896
Net Cash changes in Working Capital	(190)	(328)	(146)	(251)
Net Cash from Operating Activities	96	400	453	443
Net Cash from Investing Activities	(103)	(630)	(847)	(1,350)
Net Cash from Financing Activities	175	(117)	702	889
Net Cash Generated during the period	168	(347)	308	(18)

Ratio Analysis

Performance				
Turnover Growth (same period last year)	N/A	51.0%	-0.7%	-65.2%
Gross Margin	12.6%	11.3%	13.1%	13.1%
Net Margin	3.3%	1.5%	1.6%	1.2%
ROE	4.0%	3.6%	3.0%	1.7%
Coverages				
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	1.3	1.0	1.0	1.5
Interest Coverage (x) (FCFO/Gross Interest)	4.3	4.1	3.9	4.1
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Term Borrowings) / FCFO)	1.5	2.2	3.0	1.4
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	43	45	73	37
Capital Structure (Total Debt/Total Debt+Equity)	42%	42%	43%	36%



ENTITY CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity; 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 RATINGS		SHORT TERM RATINGS	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	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. B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. C: An inadequate capacity to ensure timely repayment.	
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	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.		
AA-			
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			
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 or 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+	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			
B-			
CCC	Very high 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.		
CC			
C			
D	Obligations are currently in default.		
Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.	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 or 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'.	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, a suspended rating should be considered withdrawn.	Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.
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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

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- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

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- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (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 | 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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