The Pakistan Credit Rating Agency Limited

Rating Report

Sadiq Poultry (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Apr-2022	BBB+	A2	Stable	Maintain	-
10-Mar-2022	BBB+	A2	Stable	Maintain	Yes
14-Sep-2021	BBB+	A2	Stable	Maintain	-
17-Dec-2020	BBB+	A2	Stable	Maintain	Yes
22-Jul-2020	BBB+	A2	Stable	Downgrade	Yes
21-Jan-2020	A-	A1	Stable	Maintain	-
22-Jul-2019	A-	A1	Stable	Maintain	-
20-Mar-2019	A-	A1	Stable	Maintain	-
18-Sep-2018	A-	A1	Stable	Maintain	-
22-Mar-2018	A-	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The poultry industry is one of the largest agro-based segments in Pakistan, comprising domestic & commercial poultry. The industry has posted annual growth of ~ 10%-12% lately. Pakistan is sufficient in poultry meat and egg production. However, per capita protein consumption remains low (11th) when compared to the world's average. The industry generates an estimated annual revenue of ~ PKR 1,092bln from local and export sales during FY21. The industry has witnessed recovery after the dip in prices and demand amidst the pandemic. Subsequently, prices of poultry products, especially day-old chicks, witnessed a hike and benefited the players involved in the poultry allied chain. Increasing demand, and hence, prices eased down the liquidity problems of the industry. As business avenues became operational, demand for poultry products is likely to stay favorable for the industry players.
The ratings reflect Sadiq Poultry (Pvt.) Ltd.'s ('Sadiq Poultry" or "the Company') association with an established and vertically integrated poultry Group, Sadiq Group. The Company has an established profile in poultry industry and is a leader in broiler chicken, eggs, and day-old chicks segment. Post Dr. Sadiq's demise, division of breeder and layer farms and subsequent ownership was in transition. Lately, the split has been streamlined. Previously, the Company held 38 poultry farms (30 - breeder farms, 4 broiler farms, and 4 layer farms) and 2 hatcheries. Post transition, Sadiq Poultry owns ~ 34 farms and 2 hatcheries. These farms and hatcheries have a placement capacity of ~1mln birds ~ 2.3mln eggs. Remaining farms (~ 4) have been transferred to Sadiq Feeds, a group company. The Company's revenue stream is concentrated towards day-old chicks and eggs. Rise in prices of day-old chicks and bulk procurement of feed from Group companies supplemented the margins. Financial risk profile is characterized by strong coverages, moderate leveraging and elongated working capital cycle. Loan mix is skewed towards short term borrowings, availed to fund the working capital requirements.

The ratings are dependent on the Sponsor's ability to prudently manage business risk for perishable consumer products, while sustaining business margins. Going forward, continued harmonization between Sponsors and consistent generation of sustainable operational cashflows is important.

Disclosure

Name of Rated Entity	Sadiq Poultry (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Poultry(Sep-21)
Rating Analysts	Shayan Farooq | shayan.farooq@pacra.com | +92-42-35869504

Profile

Legal Structure Sadiq Poultry (Pvt.) Ltd. ('Sadiq Poultry' or 'the Company') was incorporated on 17-Sept-04 as a Private Limited Company.

Background Sadiq Group came into existence as a small scale family business and became formally operational in April, 1975. Today, the Group is known as one of the leaders in poultry industry with presence throughout the poultry chain operating under the brand name of Sadiq.

Operations The Company is primarily engaged in operating poultry breeding units/farms, broiler production farms, commercial egg production and layer units, poultry hatcheries, livestock pharmaceuticals, grain storage and livestock feeds, and organic fertilizer plants.

Ownership

Ownership Structure The shareholding is divided between Dr. Sadiq's two wives and six children: Salman Sadiq (42%), Asif Zubair (25%), Sanan Sadiq (9%), Saad Sadiq (9%), Saima Elahi (4%), Ayesha Bilal (4%), Rasheeda Begum (3%) and Saadia Sadiq (3%).

Stability The Company's succession to new Sponsors has been completed.

Business Acumen Sadiq Group has experienced multiple business cycles, showing strong business acumen of sponsors. The Group's broiler farms are among the highest chick producers in Pakistan. Currently, there are seven companies, one AoP and one trust working under Sadiq Group. All are operating in various segments of poultry and oil industries.

Financial Strength At the end of FY20, Sadiq Group has consolidated equity of PKR 11bln. Moreover, group is managing an asset base of PKR 40bln. Through its diverse set of businesses, it is generating a turnover of almost PKR 43bln.

Governance

Board Structure The Board consists of four members, including one executive and three non-executive members. The Company's Board lacks independence, indicating room for improvement in the governance framework.

Members' Profile Mr. Asif Zubair is the Chairman and CEO of the Board, whereas Mr. Salman Sadiq, Ms. Rasheeda Begum and Ms. Saadia Sadiq are the non-executive members. Mr. Asif Zubair and Mr. Salman Sadiq, are US graduates and have experience of more than 10 years.

Board Effectiveness During the year, 4 board meetings were held, with majority attendance. Board meeting minutes are not much detailed and lack depth.

Financial Transparency The external auditors of the Company are Muniff Ziauddin and Co Chartered Accountants, have been QCR rated by ICAP. Also have been placed in 'category A by SBP'. They have given an unqualified opinion for the year ended Jun-21.

Management

Organizational Structure The organization structure implies that Head Office oversees all the farms. These include: i) Breeder farms (KPK and Punjab region) ii) Layer farms iii) Broiler farms and iv) Hatcheries. Sales & 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 Team Post Dr. Sadiq's demise, Mr. Asif Zubair has been appointed as the CEO of the Company. He is assisted by Mr. Naeem Haider, the Group CFO. He possess more than 25 years of overall experience and has been associated with the Group for more than 2 decades.

Effectiveness Management ensures effectiveness through Technical, Interview and Operational committees, established at the Group level. Each comprises 4 members. MIS Two financial software, set by Sidat Hyder, are used at the Group level. However, for internal dissemination, information is documented as and when required.

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Control Environment The internal audit department has been established at group level. Financial information is timely disclosed.

Business Risk

Industry Dynamics Poultry industry is one of the largest agro based segment in Pakistan, comprising domestic & commercial poultry. The industry has posted an annual growth of ~ 10%-12% lately. Pakistan is sufficient in poultry meat and egg production. However, per capita protein consumption remains low when compared to the world's average. The industry generates an estimated annual revenue of ~ PKR 1,082bln from local and export sales. Due to Covid-19 outbreak, marriage halls/restaurants were closed. This, along with no exports of poultry products, led to supply glut in local market. Prices of poultry products, especially day-old chicks, posted a dip despite being an essential food item due to lower demand with many poultry farms becoming non-operational. Demand, and hence, prices have recovered lately, easing down the liquidity problems of the industry. Moreover, SBP measures have provided respite. As business avenues became operational, demand for poultry products has improved.

Relative Position Sadiq Poultry's has 25% share in the market. Despite being the market leader, the Company's control over pricing is negligible.

Revenues Sadiq Poultry's sales mix comprises table eggs (32%), day old chicks (57%) and broiler - (7%). Sadiq Poultry reaped a revenue of PKR 15bln in FY21 (FY20: PKR 8.1bln). This was mainly attributable to better volumes and prices of Eggs and day old chicks. Sales during 2QFY22 stood at PKR 3.8bln (2QFY21: PKR 6.7bln).

Margins Though revenue has remained stable, gross margin has decreased from 12% in FY21 to % in FY22, on the back of higher cost of raw materials and relatively lower rise in prices of meat products. Stable borrowings to meet the working capital needs and lower interest rate kept the finance cost relatively low at PKR 294mln in FY21 (FY20: PKR 369mln). Resultantly, the Company achieved an increased bottom-line of PKR 249mln in FY21 (FY20: PKR 127mln). This translated into a net margin of 2% (FY20: 2%). Net income stood at PKR 151mln during 2QFY22 (2QFY21: PKR 523mln).

Sustainability Post Dr. Sadiq demise and transfer of shareholding, the Company's ownership and management have been stabilized. On the industry's front, the uncertainty due to the COVID-19 outbreak created challenges in the previous period. Sustaining operations and generating adequate revenues will be tough if the lockdown is enforced again for longer periods.

Financial Risk

Working Capital Inventory held days have improved to 77 days during FY21 (FY20: 151 days). As the restaurants and marriage halls were reopened, the Company's stock offtake improved. Average debtor days remained stable at 51 days as at FY21 from 57 days in FY20, suggesting that the Company is relying on credit sales. There is a special management group that works only on recovery. The receivables stand at PKR 2,779mln as at FY21 (FY20: PKR 1,438mln) and has inflated over time. Creditors' days of 15 (FY20: 22 days) suggests that most of the raw material purchased is on cash. Procurement of parent flock is the most expensive item. Net working capital days stood at 114, from 184 days in FY20. Net working capital days increased to 239 days as at 2QFY22 (2QFY21: 132 days) primarily due to elongated receivable days of 144.

Coverages The Company's interest coverage increased to 9.6x during FY21 (FY20: 2x) on the back of better free cashflows (FY21: PKR 2.5bln, FY20: 664mln) and decreased finance costs (FY21: PKR 294mln, FY20: PKR 396mln). Similarly, core and total coverages posted a surge (FY21: 4.3x, FY20: 1.3x). Coverage stood at 3.8x during 2QFY22 (2FY21: 4.9x).

Capitalization Keeping the nature of business in view, working capital requirement is moderate. Short term borrowings stood at PKR 1,742mln (FY20: PKR 2,084mln). Long term debt stood at PKR 779mln as at FY21 (FY20: PKR 646mln). As at FY21, Sadiq Poultry's capital structure suggests that the Company has a modest debt to debt plus equity ratio of 33% (FY20: 37%). Debt to debt plus equity ratio improved further as at 2QFY22 to 32% (2QFY21: 35%).

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Financial Summary
PKR mln

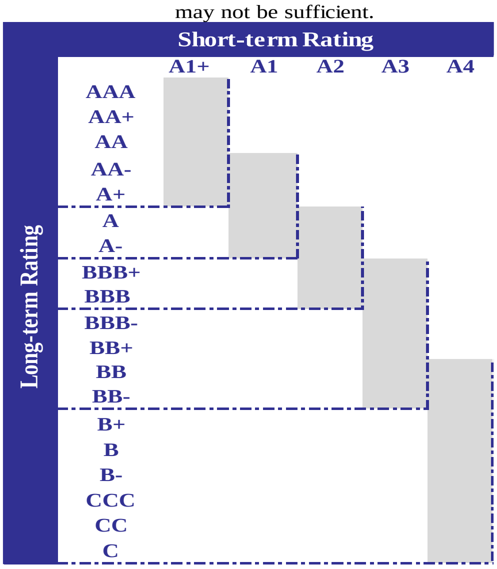
Sadiq Poultry Private Limited	Dec-21	Jun-21	Jun-20	Jun-19
Poultry	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	3,185	3,365	3,760	4,426
2 Investments	-	-	-	-
3 Related Party Exposure	200	529	1,263	280
4 Current Assets	6,084	5,631	5,750	5,337
a Inventories	*2,642*	*2,604*	*3,672*	*3,048*
b Trade Receivables	*3,165*	*2,779*	*1,438*	*1,094*
5 Total Assets	9,469	9,525	10,772	10,043
6 Current Liabilities	1,374	1,530	1,778	1,551
a Trade Payables	*621*	*664*	*524*	*506*
7 Borrowings	2,429	2,520	2,731	2,673
8 Related Party Exposure	40	-	999	573
9 Non-Current Liabilities	289	289	328	407
10 Net Assets	5,338	5,186	4,937	4,839
11 Shareholders' Equity	5,338	5,186	4,937	4,839
B INCOME STATEMENT				
1 Sales	3,776	14,945	8,138	8,124
a Cost of Good Sold	*(3,314)*	*(13,692)*	*(7,158)*	*(6,929)*
2 Gross Profit	462	1,253	980	1,195
a Operating Expenses	(206)	(699)	(709)	(652)
3 Operating Profit	256	554	271	543
a Non Operating Income or (Expense)	*62*	*130*	*198*	*81*
4 Profit or (Loss) before Interest and Tax	318	684	469	624
a Total Finance Cost	*(166)*	*(294)*	*(369)*	*(310)*
b Taxation	-	*(141)*	*27*	*(30)*
6 Net Income Or (Loss)	151	249	127	284
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*565*	*2,547*	*664*	*849*
b Net Cash from Operating Activities before Working Capital	*453*	*2,227*	*296*	*571*
c Changes in Working Capital	*(213)*	*(1,588)*	*173*	*964*
1 Net Cash provided by Operating Activities	240	639	469	1,535
2 Net Cash (Used in) or Available From Investing Activities	(165)	(515)	(38)	(1,193)
3 Net Cash (Used in) or Available From Financing Activities	(51)	(330)	(158)	(442)
4 Net Cash generated or (Used) during the period	23	(207)	273	(100)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-49.5%	83.6%	0.2%	-14.0%
b Gross Profit Margin	12.2%	8.4%	12.0%	14.7%
c Net Profit Margin	4.0%	1.7%	1.6%	3.5%
d Cash Conversion Efficiency (FCFO adjusted for Working C	9.3%	6.4%	10.3%	22.3%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	5.7%	4.9%	2.6%	6.0%
2 Working Capital Management				
a Gross Working Capital (Average Days)	270	128	207	178
b Net Working Capital (Average Days)	239	114	184	156
c Current Ratio (Current Assets / Current Liabilities)	4.4	3.7	3.2	3.4
3 Coverages				
a EBITDA / Finance Cost	4.0	9.7	2.1	3.6
b FCFO / Finance Cost+CMLTB+Excess STB	2.1	4.3	1.3	1.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	0.9	0.3	2.4	1.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equit	31.6%	32.7%	36.7%	37.2%
b Interest or Markup Payable (Days)	127.1	67.9	82.6	109.3
c Entity Average Borrowing Rate	11.2%	9.6%	12.3%	8.3%

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):

Entities

a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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.
(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 | 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)

Proprietary Information