



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
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

Poultry is one of the largest agro based segment in Pakistan, accounting both domestic and commercial poultry. With an investment of more than PKR 700bln in FY19, Pakistan is sufficient in poultry meat and egg production. However, lacks regional peers and world average in per capita protein consumption. This shows room for growth. The industry has witnessed 8-10% annual growth in recent years.

The ratings reflect Sadiq Poultry's association with an established and vertically integrated poultry group, Sadiq Group. The Company has an established profile in poultry industry and enjoys the lead position in broiler, chicken, eggs and day old chicks segment. Due to relatively low prices of poultry products, topline posted a decline and remains concentrated towards day old chicks sale. Business margins improved as the management was able to keep the costs under control and managed to reap economies of scale. Nevertheless, the Company remains exposed to volatility in prices and contingent health risk associated with its products (live chicken stock and eggs). Procuring feed in bulk from Group's own company create synergies. The Company's financial risk profile is characterized by moderate leverage and adequate coverage ratios. The loan mix is skewed towards short term borrowings to fulfill the working capital requirements.

The ratings are dependent on the management's ability to prudently manage the business risk for of perishable consumer products, while sustaining business margins. Moreover, governance framework needs attention. Meanwhile, prudent management of working capital and maintaining strong coverages remain critical.

Disclosure

Name of Rated Entity	Sadiq Poultry (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-19),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria Rating Modifier(Jun-19)
Related Research	Sector Study Poultry(Jan-20)
Rating Analysts	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504

Profile

Legal Structure Sadiq Poultry (Pvt.) Ltd. (Sadiq Poultry or 'the Company') was incorporated on 17-Sept, 2004 as a Private Limited Company.

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

Operations The Company is primarily operating poultry breeding units/farms, broiler production farms, commercial egg production and layer units, poultry hatcheries, livestock pharmaceuticals, grain storage and livestock feeds, paper pulp tray production plant and organic fertilizer plants. During the year, the Company leased its fixed assets to its associated entities, Salman Poultry and Zubair Feeds; along with transfer of inventory as a part of Group level business re-structuring.

Ownership

Ownership Structure Sadiq Poultry's major shareholding vests with Dr. Muhammad Sadiq (70%); followed by his two sons, Mr. Asif Zubair (15%) and Mr. Salman Sadiq (15%). While ownership is not expected to change, the sponsors have re-structured assets in its Group among associated companies.

Stability Ownership of the business is seen as stable as the major ownership vests with Dr. M. Sadiq. Group assets have been distributed among two sons of Dr. Sadiq.

Business Acumen Sadiq Group has experienced multiple business cycles, showing strong acumen of sponsors. The Group's broiler farms are among the highest chick producers in Pakistan. Currently, there are eight Companies and one Trust working under Sadiq Group. All Companies are operating in various segments.

Financial Strength Sadiq Group has consolidated asset base of ~ PKR 43bln supported by an equity of ~ PKR 12bln as at end Jun'19. Through its diverse set of businesses, it has generating a turnover of ~ PKR 50bln.

Governance

Board Structure Sadiq Poultry's Board, comprising three members, is dominated by the sponsoring family. The Company's Board lacks independence, indicating room for improvement in the governance framework.

Members' Profile All the BoD members have relevant expertise. Dr. Muhammad Sadiq, Board's Chairman, holds a DVM degree and has four decades of experience in poultry and integrated businesses. Mr. Asif Zubair and Mr. Salman Sadiq, Directors of the Company, are US graduates and have experience of more than 10 years.

Board Effectiveness Keeping in view the size of the Board, absence of sub-committees may not impact Board's effectiveness. During FY19, 4 Board meetings, with full/majority attendance, were held to discuss pertinent matters and make strategic decisions.

Financial Transparency Sadiq Poultry's external auditors, Muniff Ziauddin and Co. Chartered Accountants, have expressed an unqualified opinion on the financial reports for FY19. The firm has been QCR rated by ICAP and is in Category 'A' of SBP panel.

Management

Organizational Structure The Company'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 CEO.

Management Team Sadiq Poultry's management comprise experienced professionals. Dr. Muhammad Sadiq, Group's CEO, has headed several national and international forums and is also recognized as a leading authority on poultry sciences and avian welfare.

Effectiveness Management ensures effectiveness through Technical, Interview and Operational committees, established at the Group level. Weekly meetings are held by these committees to discuss the performance and issues faced by each department.

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.

Control Environment The internal audit department has been established at the Group level to ensure internal controls. The Company's breeder farms, broiler farms and hatcheries are fully equipped with environmentally controlled systems.

Business Risk

Industry Dynamics Poultry is one of the largest agro based segment in Pakistan, accounting both domestic & commercial poultry. With an investment of more than PKR 700bln in FY19, industry had an annual growth of 8-10%. Pakistan is sufficient in poultry meat and egg production. However, lacks in per capita protein consumption remains low when compared to the world's average.

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

Revenues Sadiq Poultry's sales mix comprises day old chicks - (54%), table eggs - (36%), and broiler meat - (3%) during FY19. During FY19, the Company's revenue decreased by 14% and clocked in at PKR 8.1bln (FY18: PKR 9.4bln). This decline was mainly due to reduction in prices of poultry products throughout the country. During 3MFY20, revenue clocked in at PKR 2.2bln, (3MFY19: PKR 2.4bln).

Margins Gross margins increased due to efficiency in the production process achieved from better management control (FY19: 14.7%, FY18: 13.2%, 3MFY20: 14.9%, 3MFY19: 14.8%). On the other hand, price hikes in other input costs (poultry feed) was catered to by passing on the increase to customers. Operating margins remained under control leading to a surge in operating margin (FY19: 6.7%, FY18: 5.9%, 3MFY20: 7.1%, 3MFY19: 7.8%). The net income improved as the company received rental income from associated companies. The company posted net profit of PKR 284mln in FY19 (FY18: PKR 275mln).

Sustainability The Company does not plan on enhancing its capacities in the near future.

Financial Risk

Working Capital Sadiq Poultry's net working capital days emanate predominantly from high finished goods inventory held of day old chicks and eggs (FY19: 156days, FY18: 118days, 3MFY20: 154days, 3MFY19: 123days). Average debtor days surged to 54 days in FY19 (FY18: 35days) on the back of inclining receivables from associated companies. Average creditor days increased to manage working capital flows (FY19: 22days, FY18: 14days). Despite the increase in working capital days, the Company maintains adequate cushion against net trade assets.

Coverages The Company's interest coverage deteriorated to 3.4x during FY19 (FY18: 7.2x, 3MFY20: 3.5x, 3MFY19: -1.1x) on the back of lower free cashflows and increased finance costs. Similarly, core and total coverages posted a dip (FY19: 1.5x, FY18: 1.7x). However, they improved in 3MFY20 to 1.8x, (3MFY19: -0.3x), owing to lower finance costs and lower upcoming maturities of long-term debt.

Capitalization The Company has a moderately leveraged capital structure with short term borrowings comprising 74% in FY19 (FY18: 64%) of the total debt. As the Company settles its long term debt, the leveraging reduced to ~37% at end FY19 from ~42% at end FY18 (3MFY20: 35%, 3MFY19: 40%). The Company does not plan for capacity enhancements in the near future, thus less borrowings are expected for working capital requirement needs.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Sadiq Poultry Private Limited Food and Allied	Sep-19 3M	Jun-19 12M	Jun-18 12M	Jun-17 12M
A BALANCE SHEET				
1 Non-Current Assets	4,320	4,426	4,416	4,708
2 Investments	-	-	-	-
3 Related Party Exposure	280	280	-	-
4 Current Assets	5,650	5,337	5,407	3,537
a Inventories	3,646	3,048	2,358	2,650
b Trade Receivables	936	1,094	1,405	425
5 Total Assets	10,250	10,043	9,823	8,245
6 Current Liabilities	2,229	1,932	1,546	382
a Trade Payables	493	506	471	247
7 Borrowings	2,494	2,673	3,281	3,141
8 Related Party Exposure	191	191	-	-
9 Non-Current Liabilities	407	407	440	441
10 Net Assets	4,929	4,839	4,556	4,281
11 Shareholders' Equity	4,929	4,839	4,556	4,281
B INCOME STATEMENT				
1 Sales	2,285	8,124	9,451	10,680
a Cost of Good Sold	(1,945)	(6,929)	(8,202)	(9,469)
2 Gross Profit	340	1,195	1,249	1,210
a Operating Expenses	(177)	(652)	(687)	(685)
3 Operating Profit	163	543	562	526
a Non Operating Income or (Expense)	25	81	74	1
4 Profit or (Loss) before Interest and Tax	188	624	636	527
a Total Finance Cost	(98)	(310)	(293)	(237)
b Taxation	-	(30)	(68)	(135)
6 Net Income Or (Loss)	89	284	275	155
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	308	849	1,374	981
b Net Cash from Operating Activities before Working Capital Changes	215	571	1,087	728
c Changes in Working Capital	520	964	(601)	(328)
1 Net Cash provided by Operating Activities	735	1,535	486	400
2 Net Cash (Used in) or Available From Investing Activities	(558)	(1,193)	(554)	(630)
3 Net Cash (Used in) or Available From Financing Activities	(180)	(442)	121	(117)
4 Net Cash generated or (Used) during the period	(3)	(100)	53	(347)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	12.5%	-14.0%	-11.5%	51.0%
b Gross Profit Margin	14.9%	14.7%	13.2%	11.3%
c Net Profit Margin	3.9%	3.5%	2.9%	1.5%
d Cash Conversion Efficiency (EBITDA/Sales)	13.9%	11.1%	15.1%	9.6%
e Return on Equity (ROE)	7.3%	6.0%	6.2%	3.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	174	178	132	97
b Net Working Capital (Average Days)	154	156	118	89
c Current Ratio (Total Current Assets/Total Current Liabilities)	2.5	2.8	3.5	9.3
3 Coverages				
a EBITDA / Finance Cost	3.6	3.6	7.5	6.3
b FCFO / Finance Cost+CMLTB+Excess STB	1.8	1.5	1.7	1.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.8	1.2	1.0	2.0
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	35.3%	37.2%	41.9%	42.3%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Average Borrowing Rate	12.6%	8.1%	6.0%	5.1%

Credit Rating Scale & Definitions

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 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.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

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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)
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- 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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Conduct of Business

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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)
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- (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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