



The Pakistan Credit Rating Agency Limited

Rating Report

Hi-Tech Feeds (Pvt.) Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
10-Mar-2022	BBB	A2	Stable	Upgrade	-
15-Sep-2021	BBB-	A3	Stable	Maintain	-
19-Jan-2021	BBB-	A3	Stable	Maintain	-
16-Jul-2020	BBB-	A3	Developing	Maintain	Yes
17-Jul-2019	BBB-	A3	Stable	Maintain	-
15-Jan-2019	BBB-	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

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, from where the industry extracts soybean meal, has seen a surge of ~50% till Dec-21. Moreover, the cost of maize posted an increase (~50%) in the local market. 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.

The ratings reflect Hi-Tech Feeds (Pvt.) Limited's ('the Company') association with an established poultry group, Hi-Tech Group. The Company is part of Group's integrated poultry chain – oil/meal, feed and poultry – and enjoys an adequate market share with good Feed Conversion Ratio. The Company is exposed to inherent risks in the feed industry emanated from raw material price changes. At present, the Company has a strong topline dominated by poultry feed sales followed by poultry breeder stock and day old chick sales. Topline is expected to post stable growth on the back of significant demand for poultry products and increased prices. Margins in turn profitability are currently stable and are expected to improve as the Company's ability to pass on the increased raw material cost to poultry farms. The Company procured high levels of raw material inventory on cash, in anticipation of higher prices. This led to stretched working capital requirements, with receivable days also high, met through short-term borrowings. The Company had a moderately leveraged capital structure, while coverages remain adequate. Adequate support from sponsors bodes well for the 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(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Poultry Feed(Jan-22)
Rating Analysts	Faiqa Qamar faiqa.qamar@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, broiler and layers. The Company has two feed production units. Unit I, located in Lahore, manufactures feed at an installed capacity of 100 MT per hour. While, Unit II, located in Sahiwal, has an installed capacity of 90 MT per hour. The combined annual capacity of the Company is 396,000 MT per year with capacity utilization standing at ~50%.

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 experienced multiple business cycles and are considered among pioneers of poultry industry.

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, 2021. 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. Both of the Company's feed mills are monitored by their respective 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 of ~50% till Dec-21. 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 FY21 the Company posted revenue of ~PKR 10.9bln (3QFY20: ~PKR 10.0bln), reflecting an increase of ~10% 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 FY21, the Company's gross margin dipped and stood at 9.7% (FY20: 11.6%) due to inability to pass on the price towards the end customer. Similarly, operational margins followed a similar trend and declined to 7.0% (FY20: 9.2%). The Company posted healthy net profit of PKR 481mln (FY20: PKR 33mln) due to contribution from non-recurring non-operating income and rationalized finance costs. Consequently, net margin increased to 4.4% (FY20: 0.3%).

Sustainability High poultry feed prices and recovery of demand due to relaxation in lockdown tends to 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 stable at 172 days in FY21 (FY20: 171 days). Similarly, receivable days stood at 49 days (FY20: 51 days). However, payable days stood at 86 days (FY20: 96 days) indicating timely payments, resulting in stretching of net working capital to 136 days (FY20: 126 days). Furthermore, the Company's room to borrow against trade leverage remains very limited due to high reliance of short term borrowings to procure raw material.

Coverages During FY21, the Company's free cash flows from operations regressed towards ~PKR 640mln (FY20: ~PKR 1,082mln). Meanwhile, the finance cost declined to ~PKR 440mln (FY20: ~PKR 786mln) on the back of lower borrowings utilized. Consequently, the interest and core operating coverage ratio stood stable at 1.5x (FY20: 1.4x) and 1.4x (FY19: 1.3x), respectively. Debt payback deteriorated slightly to 2.7x (FY20: 1.7x).

Capitalization Hi-Tech Feeds has a moderately leveraged capital structure with a leveraging ratio of ~42% in FY21 (FY20: ~46%). Short-term borrowing constituted nearly 90% of total borrowings. Total debt of the Company declined to ~PKR 4.1bln (FY20: ~PKR 4.7bln) indicating better utilization of borrowings. Going forward, the leverage is expected to remain at the current levels.



Hi-Tech Feeds (Pvt.) Limited Poultry Feeds	Jun-21 12M	Jun-20 12M	Jun-19 12M
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A BALANCE SHEET

1 Non-Current Assets	5,574	5,702	5,267
2 Investments	-	-	-
3 Related Party Exposure	500	299	475
4 Current Assets	8,052	7,089	7,653
a Inventories	5,686	4,570	4,743
b Trade Receivables	1,500	1,449	1,306
5 Total Assets	14,127	13,090	13,396
6 Current Liabilities	3,687	2,550	3,906
a Trade Payables	3,025	2,088	3,128
7 Borrowings	4,062	4,700	3,789
8 Related Party Exposure	143	72	-
9 Non-Current Liabilities	492	134	75
10 Net Assets	5,743	5,635	5,626
11 Shareholders' Equity	5,743	5,635	5,626

B INCOME STATEMENT

1 Sales	10,892	9,955	9,741
a Cost of Good Sold	(9,838)	(8,797)	(8,953)
2 Gross Profit	1,054	1,158	788
a Operating Expenses	(297)	(243)	(247)
3 Operating Profit	757	915	541
a Non Operating Income or (Expense)	249	(2)	(1)
4 Profit or (Loss) before Interest and Tax	1,006	912	539
a Total Finance Cost	(440)	(786)	(364)
b Taxation	(85)	(93)	(34)
6 Net Income Or (Loss)	481	33	141

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	640	1,082	562
b Net Cash from Operating Activities before Working Capital Changes	158	358	310
c Changes in Working Capital	(132)	(1,211)	(588)
1 Net Cash provided by Operating Activities	26	(853)	(277)
2 Net Cash (Used in) or Available From Investing Activities	358	390	(368)
3 Net Cash (Used in) or Available From Financing Activities	(1,006)	416	232
4 Net Cash generated or (Used) during the period	(622)	(47)	(413)

D RATIO ANALYSIS

1 Performance			
a Sales Growth (for the period)	9.4%	2.2%	19.4%
b Gross Profit Margin	9.7%	11.6%	8.1%
c Net Profit Margin	4.4%	0.3%	1.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	4.7%	-1.3%	-0.3%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	8.7%	0.6%	3.2%
2 Working Capital Management			
a Gross Working Capital (Average Days)	222	221	195
b Net Working Capital (Average Days)	136	126	90
c Current Ratio (Current Assets / Current Liabilities)	2.2	2.8	2.0
3 Coverages			
a EBITDA / Finance Cost	1.3	1.5	1.7
b FCFO / Finance Cost+CMLTB+Excess STB	1.4	1.3	1.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.7	1.7	0.2
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	42.3%	45.9%	40.2%
b Interest or Markup Payable (Days)	44.3	67.2	129.1
c Entity Average Borrowing Rate	8.8%	16.3%	8.8%

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+	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+	
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	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.
CC	
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):

<p>Entities</p> <ul style="list-style-type: none"> 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 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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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

- 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

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- (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

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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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- (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)
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- (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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