



The Pakistan Credit Rating Agency Limited

Rating Report

Nizami Feeds (Pvt.) Limited

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Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 17-Oct-2019 | BBB- | A3 | Stable | Maintain | - |
| 19-Apr-2019 | BBB- | A3 | - | Initial | - |

Rating Rationale and Key Rating Drivers

The global feed industry can be valued at around ~\$460bln, with poultry (~\$166bln) constituting ~36% of the total industry. Pakistan produces ~8mln MT of feed annually with a total of ~150 registered feed mills, and ~200 unregistered feed mills catering to it.

The ratings reflect Nizami Feeds developing business profile in the Poultry Feed Industry. The Company entered feed manufacturing business in 2016 and is primarily engaged in sales of Broiler and Layer Feed in central region. The Company has a relatively small top-line in comparison to its peers. However, sustained healthy margins on the back of controlled input costs and quality product. The Company remains exposed to inherent risks in the feed industry emanating from raw material price changes and potential hazards to flocks. The Company procures raw materials on cash throughout the period. Lately, the Company built raw material inventory in anticipation of higher prices. Average debtors days increased leading to stretched working capital requirement that are met through short-term borrowings. Nizami Feed's has a moderately leveraged capital structure and healthy coverages. The leveraging may rise further with increase in operations to meet working capital requirements.

The ratings are dependent on the management's ability to increase its top-line, sustain margins, and enhance profitability. Maintaining strict working capital discipline and ensuing borrowings remains critical. Any significant deterioration in margins and/or coverages will have negative impact on the ratings.

Disclosure

| | |
|------------------------------|--|
| Name of Rated Entity | Nizami Feeds (Pvt.) Limited |
| Type of Relationship | Solicited |
| Purpose of the Rating | Entity Rating |
| Applicable Criteria | PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Criteria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19) |
| Related Research | Sector Study Poultry Feed(Mar-19) |
| Rating Analysts | Ayesha Malik ayesha.malik@pacra.com +92-42-35869504 |

Profile

Legal Structure Nizami Feeds (Pvt.) Limited ('Nizami Feeds') is a Private Limited Company.

Background Nizami Feeds initially started as a partnership in 2006, when it was set up solely for import and trading of soybean meal, medical vaccines and poultry feed in the local market. The partnership was registered as a Private limited Company in 2010. Later, in 2016, the Company moved into manufacturing of poultry feed.

Operations Nizami Feeds deals in both poultry and animal feed, with poultry feed being its primary focus. The Company produces six poultry feed variants, with broiler and broiler layer feed as main products. Wanda is the sole product under animal feed. The installed capacity of the production plant is 131,400 MT per annum or 50 MT per hour. The Company's head office is situated in Lahore, while its production plant is located in Sheikhpura.

Ownership

Ownership Structure The Company's shareholding vests with the sponsoring family. Mr. Mian Muhammad Ahmad Sethi, Mr. Mian Muhammad Tayyab and Mr. Mian Muhammad Hamza Nizami (brothers) own 47%, 42% and 8% shares of the Company, respectively. While, the remaining shareholding resides with the family members of late Mr. Mian Muhammad Abdul Rehman (4%).

Stability Ownership of the business is seen as stable as all family members have similar share at Group level. With next generation joining the business, succession planning and transition remain important.

Business Acumen Sponsors of the Company have been associated with the poultry feeds industry for a decade. The Group, named 'Nizami Brothers', also has interests in Construction and Steel sectors.

Financial Strength The Company's financial strength is represented through the support of its Group which has vested business interest in the poultry feed, steel and construction industries. During FY19, the Group had a total asset base of ~ PKR 5,233mln with turnover and net profit of ~ PKR 9,502mln and ~ PKR 405mln, respectively.

Governance

Board Structure The Company's Board of Directors comprise four members, including the Chief Executive, and three executive directors. The Board structure can be strengthened by introduction of other members with diversified experience.

Members' Profile The Board is Chaired by Mr. Mian Muhammad Ahmad Sethi. He has more than 12 years of relevant experience and also serves on the Board of all Companies in the Group. All the Directors have been associated with the Board since inception of the Company.

Board Effectiveness The Board of Directors meet on an as-required basis. There are no Board level committees. The Directors meet on a weekly basis to discuss Group level activities with limited documentation.

Financial Transparency Hassan Farooq & Company, not rated by SBP but with a satisfactory QCR rating, are the external auditors of the Company. They have been expressed an unqualified opinion on the financial statements of the Company.

Management

Organizational Structure The Company shares its organizational structure on a Group level. The structure flows down from Mr. Mian Muhammad Ahmad Sethi, the CEO, with Marketing, Sales, Finance, Internal Audit, Production, Procurement and Administration departments reporting to him.

Management Team Nizami Feeds management comprises experienced professionals. Mr. Mian Muhammad Ahmad Sethi, CEO, has more than 12 years of relevant experience. Senior management also possess relevant experience with half of them being associated with the group a decade.

Effectiveness The Management ensures effectiveness through Finance and Audit, Production, Procurement and Marketing Committees. Adequate frequency and a full participation in Committee meetings bodes well for the Company.

MIS The Company manages its information through Oracle. Sales, Stock and Financial modules are fully integrated with each other, while the Production module is not linked yet. The Company maintains dual-backup on I-cloud and on the local systems.

Control Environment The Company has setup an in-house Internal Audit Function at Group level. This function monitors procurement, monthly financials and bank reconciliations. Variance reports are shared with the Board, directly.

Business Risk

Industry Dynamics From a Global perspective, the feed industry can be valued at around ~\$460bln. Poultry constitutes 36% of the total industry ~ \$166bln. Pakistan produced ~ 8mln MT of Feed in FY19. There a total of ~150 registered feed mills, with ~200 unregistered feed mills catering to Pakistan's feed industry

Relative Position The Company is a relatively small player in the poultry feed industry with 1.6% market share. The Company contributes just 131,400 MT out of the total 8mln MT of feed production.

Revenues The Company sources its revenue from seven different products, namely, Broiler Starter, Broiler Finisher, Broiler Breeder Starter, Broiler Breeder Grower, Broiler Breeder Pre-layer, Broiler Breeder Layer and Wanda. The Company's revenue directed an increasing trend. In FY19, revenue surged by 8% and clocked in at PKR 3.9bln (FY18: PKR 3.6bln). This growth was mainly supported by volumes. Moreover, increase in feed prices had a positive impact.

Margins In FY19, the Company's margins remain stable at both gross and operating levels (Gross margins: FY19 - 9.9%, FY18 - 10% and Operating margins: FY19 - 7%, FY18 - 7.4%). The Company was able to pass on the increased raw material cost - after rupee devaluation - to poultry farms. Also, marketing and selling expenses remain low.

Sustainability Nizami Feeds aims to further increase its production capacity utilization while keeping the costs under control. Going Forward, the Company is projecting its top and bottom line to consistently increase by ~10% over the next 3 years. The Company is planning to enhance its capacity in near future.

Financial Risk

Working Capital Increase in inventory held and debtor days led the surge in gross working cycle. The Company gave high credit days to its buyers to maintain its market share. Raw-materials were procured in bulk to handle its production according to the orders received. The Company usually purchase stocks on cash to avail discounts. Lately, the management procured raw material in anticipation of price increase. The Company maintains borrowing buffer at trade level.

Coverages Interest cover posted a dip (FY19: 4x, FY18: 12x) on the back of increased finance cost due to higher quantum of borrowings and rising interest rates. Core and Total coverage ratios also came down during FY19 to 3.8x (FY18: 9x) though remained string. Short term borrowings have been variable owing to frequent large inter-group balance transfers.

Capitalization Reduced reliance on borrowings led to improvement in the Company's leverage ratio (FY19: 26%, FY18: 34%). Debt taken up by the Company comprises mainly of short-term borrowings (97%) which are utilized for working capital requirements and retirement of letters of credit. During FY19, total debt stood at ~PKR 421mln, decreasing by ~18% as compared to FY18 (PKR 514mln).



| Nizami Feeds (Pvt.) Limited Poultry Feed | Jun-19 12M | Jun-18 12M | Jun-17 12M | Jun-16 12M |
|---|---------------|---------------|---------------|---------------|
|---|---------------|---------------|---------------|---------------|

A BALANCE SHEET

| | | | | |
|----------------------------|-------|-------|-------|-------|
| 1 Non-Current Assets | 251 | 239 | 212 | 195 |
| 2 Investments | - | - | - | - |
| 3 Related Party Exposure | 19 | 10 | - | - |
| 4 Current Assets | 2,514 | 1,703 | 800 | 823 |
| <i>a Inventories</i> | 778 | 231 | 123 | 177 |
| <i>b Trade Receivables</i> | 1,408 | 1,156 | 537 | 533 |
| 5 Total Assets | 2,784 | 1,953 | 1,012 | 1,018 |
| 6 Current Liabilities | 876 | 200 | 35 | 437 |
| <i>a Trade Payables</i> | 811 | - | 9 | 87 |
| 7 Borrowings | 421 | 514 | 218 | 27 |
| 8 Related Party Exposure | 274 | 220 | - | - |
| 9 Non-Current Liabilities | 15 | 15 | 12 | 15 |
| 10 Net Assets | 1,198 | 1,004 | 747 | 539 |
| 11 Shareholders' Equity | 1,198 | 1,004 | 747 | 539 |

B INCOME STATEMENT

| | | | | |
|--|---------|---------|---------|---------|
| 1 Sales | 3,961 | 3,666 | 3,350 | 3,045 |
| <i>a Cost of Good Sold</i> | (3,568) | (3,302) | (3,023) | (2,673) |
| 2 Gross Profit | 393 | 365 | 327 | 372 |
| <i>a Operating Expenses</i> | (115) | (92) | (99) | (78) |
| 3 Operating Profit | 278 | 273 | 228 | 294 |
| <i>a Non Operating Income or (Expense)</i> | (5) | (12) | (11) | (7) |
| 4 Profit or (Loss) before Interest and Tax | 272 | 261 | 217 | 287 |
| <i>a Total Finance Cost</i> | (78) | (24) | (11) | (35) |
| <i>b Taxation</i> | - | (2) | (0) | (44) |
| 6 Net Income Or (Loss) | 194 | 235 | 205 | 208 |

C CASH FLOW STATEMENT

| | | | | |
|--|-------|-------|-------|-------|
| <i>a Free Cash Flows from Operations (FCFO)</i> | 290 | 276 | 194 | 273 |
| <i>b Net Cash from Operating Activities before Working Capital Changes</i> | 212 | 252 | 182 | 238 |
| <i>c Changes in Working Capital</i> | 312 | (137) | (117) | (247) |
| 1 Net Cash provided by Operating Activities | 524 | 115 | 66 | (10) |
| 2 Net Cash (Used in) or Available From Investing Activities | (37) | (42) | (39) | (147) |
| 3 Net Cash (Used in) or Available From Financing Activities | (480) | 15 | 4 | 136 |
| 4 Net Cash generated or (Used) during the period | 7 | 88 | 30 | (21) |

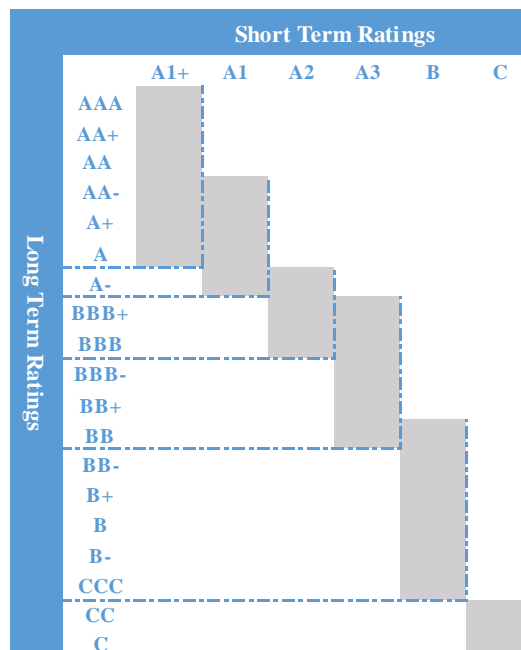
D RATIO ANALYSIS

| | | | | |
|---|-------|-------|-------|--------|
| 1 Performance | | | | |
| <i>a Sales Growth (for the period)</i> | 8.0% | 9.4% | 10.0% | 191.0% |
| <i>b Gross Profit Margin</i> | 9.9% | 10.0% | 9.8% | 12.2% |
| <i>c Net Profit Margin</i> | 4.9% | 6.4% | 6.1% | 6.8% |
| <i>d Cash Conversion Efficiency (EBITDA/Sales)</i> | 7.5% | 7.8% | 7.2% | 10.0% |
| <i>e Return on Equity (ROE)</i> | 17.7% | 26.8% | 31.9% | 38.6% |
| 2 Working Capital Management | | | | |
| <i>a Gross Working Capital (Average Days)</i> | 165 | 102 | 76 | 85 |
| <i>b Net Working Capital (Average Days)</i> | 90 | 101 | 71 | 75 |
| <i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i> | 2.9 | 8.5 | 22.8 | 1.9 |
| 3 Coverages | | | | |
| <i>a EBITDA / Finance Cost</i> | 3.9 | 12.4 | 22.8 | 9.1 |
| <i>b FCFO / Finance Cost+CMLTB+Excess STB</i> | 3.8 | 8.6 | 12.2 | 8.2 |
| <i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i> | 0.1 | 0.1 | 0.1 | 0.0 |
| 4 Capital Structure (Total Debt/Total Debt+Equity) | | | | |
| <i>a Total Borrowings / Total Borrowings+Equity</i> | 26.0% | 33.9% | 22.6% | 4.8% |
| <i>b Interest or Markup Payable (Days)</i> | 0.0 | 0.0 | 0.0 | 0.0 |
| <i>c Average Borrowing Rate</i> | 16.3% | 6.3% | 8.6% | 121.7% |

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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(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)

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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)
- (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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