The Pakistan Credit Rating Agency Limited

Rating Report

Islamabad Feeds (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
15-Sep-2023	BBB	A2	Stable	Maintain	-
16-Sep-2022	BBB	A2	Stable	Maintain	-
16-Sep-2021	BBB	A2	Stable	Maintain	-
19-Jan-2021	BBB	A2	Stable	Maintain	-
26-Aug-2020	BBB	A2	Negative	Maintain	Yes
03-Sep-2019	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan's poultry industry is one of the largest agro-based segments, comprising domestic & commercial poultry. Livestock having share of ~62.6% in agriculture and ~14.3% percent in GDP. 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 ~53.1% during FY23. However, during 9MFY23, oilseed cost remain on an increasing trend. While rupee depreciation made exports expensive for the local crusher; hence, meal cost also posted an inflationary trend. Despite increase in the feed and poultry product prices, the industry's margins remain stretched. However, the industry is able to manage its working capital cycle in a stable manner. Going forward, cashflows and liquidity are expected to remain stretch. The FY22 floods have damaged livestock and crops. Overall, ~31% of livestock holders have lost animal/poultry due to floods and ~54% of affected households reportedly lost poultry feed. Consequently, livestock holders are facing a severe shortage of fodder/feed for livestock. This has lead to an increase in feed prices in FY23. The ratings reflect Islamabad Feeds (Pvt.) Ltd.'s ('the Company') established presence in poultry and allied chain including feed, hatcheries, broiler, and layer farms. The second generation has been successfully inducted into the family business. The current sponsors have adequate acumen in the poultry segment. The company continues to face market risk, largely attributed to the indirect consequences of GMO import restrictions, particularly affecting its feed suppliers, primarily solvent extractors and seed crushing units. Conversely, there is stability in demand. Furthermore, the anticipated rise in poultry product prices is expected to alleviate some of the Company's challenges. However, for optimal production and sales levels to be achieved, it is contingent on the continued operation of demand avenues such as banquet halls and dine-in restaurants, as well as a reduction in demand uncertainties. The Company's topline posted growth of ~42% and reported at ~PKR 20bln during 9MFY23 (9MFY22: ~PKR 14bln) due to a rise in feed and poultry product prices. Resultantly, the net income of the Company has shown increase of ~24% and stood at PKR 162mln (9MFY22: ~PKR 130mln). The margins have remained stable, however the company maintains an aggressively leveraged capital structure, relying on short-term borrowings to meet its working capital requirements.

The ratings are dependent on the management's ability to prudently manage liquidity and working capital requirements. The management's ability to build profitable volumes remains critical for the ratings. Envisioned improvement in business and financial profile along with effective changes in governance framework would be beneficial. Significant deterioration in coverages and/or margins will have a negative impact on the ratings.

Disclosure

Name of Rated Entity	Islamabad Feeds (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Poultry Feed(Jan-23)
Rating Analysts	Muhammad Zain Ayaz | zain.ayaz@pacra.com | +92-42-35869504

Profile

Legal Structure Islamabad Feeds (Pvt.) Limited ('Islamabad Feeds' or 'the Company') was incorporated in Aug-2008 as a Private Limited Company

Background Islamabad Feeds is an established player in the poultry industry, comprising poultry farms and feed mills. The sponsors of the Company started poultry business in 1981 and integrated by setting up poultry feed mill, poultry farms and hatcheries. The Company set up its first feed mill in Rewat in 1996. Second feed mill was setup in Okara in 2011

Operations Islamabad Feeds is primarily engaged in the production and sale of poultry feed through its two feed mills, located in Rewat and Okara. They have a combined installed capacity of 150 MT per hour, utilized upto ~50%. The Company has also set up its poultry farms for broiler chicken, in Lahore, Multan, Okara, Muree, Hyderabad, Karachi, and Attock. The bird and breeder placement capacity of these farms is around ~2mln and 1.1mln respectively.

Ownership

Ownership Structure The Company is owned by the family of late Dr. Muhammad Aslam. Majority ownership lies with Dr. Aslam's two sons, Mr. Muhammad Ali (~38.75%) and Mr. Muhammad Hassan (~33.75%). The remaining stake resides among Dr. Aslam's daughters, Ms. Saleha Aslam (~9.37%) and Ms. Yumna Aslam (~9.37%), and his wife, Mrs. Alia Mehmood (~8.75%)

Stability Ownership transition to next generation is visible, post Dr. Aslam's demise. However, the structure remains stable

Business Acumen The Company is a venture of Islamabad Group, an established player with substantial presence in Pakistan’s poultry and poultry feed industry. The Group’s flagship entity, Islamabad Feeds, has established itself as a provider of high quality poultry feed. Post Dr. Aslam's demise, the Company's succession has been mainly transferred to his sons. The current sponsors have adequate acumen in the poultry segment.

Financial Strength The Group’s overall financial position and performance are strong and the Group has a consolidated asset base of ~ PKR 16bln with an equity base of ~PKR 4.7bln. The Group generated a ~PKR 23bln turnover with a PAT of ~ PKR 211mln.

Governance

Board Structure The Company's BoD comprises one Executive Director and one Non-Executive Director from the sponsoring family. Lack of independent oversight and diversity indicate room for improvement in the governance structure.

Members’ Profile Mr. Ali is the Board's Chairman and has completed his Bachelor's in Business Administration from the National University of Sciences and Technology, Islamabad. He has been associated with the Group for more than one and a half year

Board Effectiveness There are no sub-committees of the Board. The Board meets informally to discuss pertinent matters. Minutes of these meetings are not adequately maintained

Financial Transparency The external auditors of the Company, Muniff Ziauddin and Co. Chartered Accountants, have expressed an unqualified opinion on the financial statements of the Company for the year ended Jun-22. The firm has been QCR rated by ICAP and is placed in 'category A of SBP' panel of auditors.

Management

Organizational Structure The Company operates through Finance, Accounts, Production, Sales & Marketing, Human Resource, IT and Internal Audit division. All functional heads report to the CEO who makes strategic decisions. Thus, highlighting key man risk of management

Management Team Islamabad Feeds has an experienced management team. Mr. Ali has is the Company's CEO. He has completed his graduation from the National University of Sciences and Technology, Islamabad. Dr. Mukhtar Nadeem- GM Production, has been associated with the group for the past 25 years. Mr. Faraz Ashraf-ACA, Group CFO, has an overall experience of 18 years and has been associated with the Group for the past three months.

Effectiveness At Islamabad Feeds, six management committees are formally in place; namely, audit, finance, sales and recovery, production, broiler, and layer farms. These committees meet informally to discuss pertinent matters and minutes are not adequately maintained.

MIS Customized software, installed by Sidat Hyder, is used at the Group level. Standardized reports are generated as per requirement.

Control Environment To ensure operational efficiency, the Company has setup an internal audit function to implement the policies and procedures.

Business Risk

Industry Dynamics Pakistan's poultry industry is one of the largest agro-based segments, comprising domestic & commercial poultry. Livestock having share of ~62.6% in agriculture and ~14.3% percent in GDP. 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 ~53.1% during FY23. However, during 9MFY23, oilseed cost remain on an increasing trend. While rupee depreciation made exports expensive for the local crusher; hence, meal cost also posted an inflationary trend. Despite increase in the feed and poultry product prices, the industry's margins remain stretched. However, the industry is able to manage its working capital cycle in a stable manner. Going forward, cashflows and liquidity are expected to remain stretch. The FY22 floods have damaged livestock and crops. Overall, ~31% of livestock holders have lost animal/poultry due to floods and ~54% of affected households reportedly lost poultry feed. Consequently, livestock holders are facing a severe shortage of fodder/feed for livestock. This has lead to an increase in feed prices in FY23

Relative Position The Company has a market share of ~3.7% in terms of revenue and ~4.4% in terms of production in the poultry feeds sector.

Revenues The Company mainly generates revenue by manufacturing and selling variants of poultry feed (~55%), cattle feed (~4%) broiler meat (~7%), and eggs (~9%). Around 25% of the Company's revenue is generated by selling to the associated company, Islamabad Farms. The Company's topline posted growth of ~42% and reported at ~PKR 20bln during 9MFY23 (9MFY22: ~PKR 14bln) owing to a significant increase in feed and poultry product prices. Going forward, the revenues are expected to remain stable.

Margins During 9MFY23, the Company’s gross margins remain stable, and came out to be ~5.7% (9MFY22: ~5.8%), the stability is a result of increase in sale price of the products in correspondence to the import cost of soybean seed. On operational level, the management kept production and overhead expenses in check resulting in a stable operating margin of ~4.3% (9MFY22: ~4.4%). On the net level, net profit stood at ~PKR 162mln (9MFY22: PKR 130mln) leading to a net profit margin of ~0.8% (9MFY22: ~0.9%). Going forward, margins are expected to shrink resulting from high input costs.

Sustainability Sustaining operations and generating sufficient cash flows are expected to improve as the prices of day-old chicks, broiler chicken and eggs have risen

Financial Risk

Working Capital Inventory days slightly improved (9MFY23: 111 days, 9MFY22: 124 days) due to less procurement of stock. Receivable days also decreased (9MFY23: 34 days, 9MFY22: 39 days) indicating timely payments received against receipts. Payable days remain minimal at ~45 days in 9MFY23 (9MFY22: ~53 days). As a result, net working capital improved (9MFY23: 99 days, 9MFY22: 110 days). The Company has limited room to borrow against trade assets, only. Going forward, the networking cycle is expected to remain stable.

Coverages The free cash flows of the Company decreased and stood at ~PKR 637mln in 9MFY23 (9MFY22: ~PKR 686mln). The Company finance cost stood at ~PKR 659mln in 9MFY23 (9MFY22: ~PKR 419mln). The increase in finance cost was due to increased short-term borrowings leading to a drop in interest cover, which came out to be 1.0x in 9MFY23 (9MFY22: 1.6x). Core and total interest cover stood at 0.9x each in 9MFY23. Moreover, debt payback decreased owing to increase in finance cost. Going forward, coverages are expected to remain stretched.

Capitalization The total debt of the Company stood at ~PKR 6bln as of 9MFY23 (9MFY22: ~PKR 5.6bln) due to increased short-term borrowings of PKR 5.8bln (9MFY22: PKR 5.4bln) to fund the working capital requirement and constitutes ~97% of the total debt in 9MFY23. The equity base stood strong at ~PKR 4bln (9MFY22: ~PKR 3bln) supported by better profits. Thus, the leverage ratio is considered adequate (9MFY23:~60%, 9MFY22: ~66%).

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Islamabad Feeds (Pvt) Ltd.	Mar-23	Dec-22	Jun-22	Mar-22	Jun-21	Jun-20
Poultry feed	9M	6M	12M	9M	12M	12M
A BALANCE SHEET						
1 Non-Current Assets	3,043	3,102	3,175	2,328	2,383	2,397
2 Investments	-	-	-	-	-	-
3 Related Party Exposure	224	189	186	-	-	-
4 Current Assets	11,243	10,189	11,158	8,936	9,398	10,313
a Inventories	*8,242*	*6,139*	*7,940*	*6,403*	*6,658*	*6,821*
b Trade Receivables	*2,180*	*3,580*	*2,749*	*2,048*	*2,096*	*3,089*
5 Total Assets	14,509	13,480	14,519	11,264	11,781	12,710
6 Current Liabilities	4,012	3,201	3,853	2,378	3,457	2,814
a Trade Payables	*3,221*	*2,636*	*3,390*	*2,259*	*3,314*	*2,540*
7 Borrowings	6,068	5,942	6,496	5,668	5,235	6,762
8 Related Party Exposure	-	215	194	-	-	66
9 Non-Current Liabilities	204	204	204	120	121	176
10 Net Assets	4,225	3,918	3,771	3,097	2,968	2,893
11 Shareholders' Equity	4,225	3,918	3,771	3,097	2,968	2,893
B INCOME STATEMENT						
1 Sales	20,033	15,623	20,181	14,427	16,496	13,626
a Cost of Good Sold	*(18,891)*	*(14,731)*	*(19,074)*	*(13,588)*	*(15,462)*	*(12,322)*
2 Gross Profit	1,142	893	1,106	839	1,034	1,304
a Operating Expenses	(287)	(322)	(263)	(209)	(279)	(239)
3 Operating Profit	854	571	843	629	755	1,066
a Non Operating Income or (Expense)	*26*	*14*	*(20)*	*(7)*	*(14)*	*(11)*
4 Profit or (Loss) before Interest and Tax	880	585	823	622	742	1,055
a Total Finance Cost	*(661)*	*(399)*	*(611)*	*(421)*	*(600)*	*(966)*
b Taxation	*(58)*	*(39)*	*(77)*	*(72)*	*(68)*	*(51)*
6 Net Income Or (Loss)	162	147	135	130	74	38
C CASH FLOW STATEMENT						
a Free Cash Flows from Operations (FCFO)	*637*	*363*	*1,182*	*686*	*296*	*1,162*
b Net Cash from Operating Activities before Working Capital Changes	*322*	*143*	*616*	*266*	*(382)*	*235*
c Changes in Working Capital	*386*	*511*	*(1,786)*	*(837)*	*2,484*	*(746)*
1 Net Cash provided by Operating Activities	708	654	(1,170)	(571)	2,102	(511)
2 Net Cash (Used in) or Available From Investing Activities	(55)	(31)	(350)	(79)	(238)	(120)
3 Net Cash (Used in) or Available From Financing Activities	(330)	(554)	1,218	458	(1,515)	599
4 Net Cash generated or (Used) during the period	323	69	(301)	(192)	349	(32)
D RATIO ANALYSIS						
1 Performance						
a Sales Growth (for the period)	32.4%	54.8%	22.3%	16.6%	21.1%	-2.8%
b Gross Profit Margin	5.7%	5.7%	5.5%	5.8%	6.3%	9.6%
c Net Profit Margin	0.8%	0.9%	0.7%	0.9%	0.4%	0.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	5.1%	5.6%	-3.0%	-1.0%	16.9%	3.1%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	5.4%	7.6%	4.0%	5.7%	2.5%	1.3%
2 Working Capital Management						
a Gross Working Capital (Average Days)	144	119	176	163	206	252
b Net Working Capital (Average Days)	99	84	115	110	142	184
c Current Ratio (Current Assets / Current Liabilities)	2.8	3.2	2.9	3.8	2.7	3.7
3 Coverages						
a EBITDA / Finance Cost	1.1	1.0	2.0	1.8	0.6	1.3
b FCFO / Finance Cost+CMLTB+Excess STB	0.9	0.9	1.8	1.5	0.4	1.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-6.8	-5.6	0.7	0.5	-1.4	1.7
4 Capital Structure						
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	59.0%	61.1%	64.0%	64.7%	63.8%	70.2%
b Interest or Markup Payable (Days)	192.7	135.9	70.2	47.2	43.8	57.0
c Entity Average Borrowing Rate	14.3%	13.0%	10.4%	9.6%	9.0%	14.2%

Credit Rating

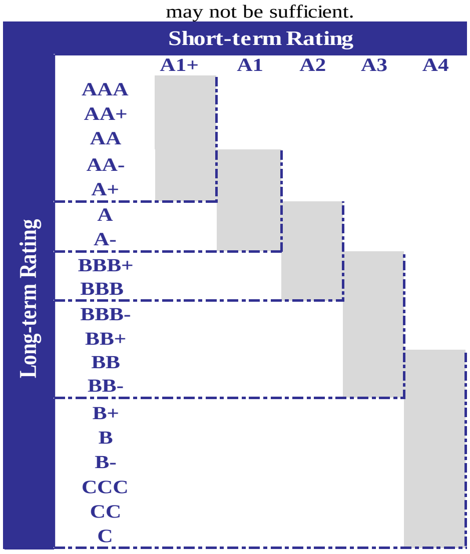
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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

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Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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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
(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 | Clause 11-(A)(p).
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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)
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(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)
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(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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