The Pakistan Credit Rating Agency Limited

PRESS RELEASE

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SECTORWATCH | CORONAVIRUS | FEED & POULTRY

Since the start of 2020, the novel coronavirus (COVID-19) outbreak has quickly spread across the world and caused disruptions in economies worldwide. Starting in China – itself a global manufacturing hub – and moving to more than 200 countries and territories, virtually all major economies and markets have been adversely impacted. The full impact of such an outbreak on Pakistan's economy is difficult to ascertain at present and will depend on the severity and duration of the outbreak as well as Government's response. However, it is clear that credit conditions are under stress and this will impact credit quality of many entities and sectors. In this context, PACRA aims to provide analysis on how the ongoing outbreak of COVID-19 may impact various sectors in Pakistan.

SECTOR	SUB-SECTOR
FOOD & ALLIED	FEED & POULTRY
SIZE	- Contribution towards GDP ~ 1.1%, Agriculture Value ~ 7.5% - Growth ~ 8 – 10% - Feed Production: ~ 4 MMT, Estimated Revenue ~ PKR 200bln - Poultry Production: Table Eggs ~ 19bln, Day Old Chicks ~ 1.2bln, Poultry Meat ~ 1.5mln tons, Estimated Revenue ~ PKR 300bln to 350bln
NUMBER OF PLAYERS	- Feed: Registered players – 150, Unregistered players – 200 - Poultry: Farms ~ 25,000, Controlled Sheds ~ 6,500
PACRA PENETRATION	- PACRA rates 6 players in the feed sector having ~ 40% market share - PACRA rates 2 players in the poultry sector having ~ 5% market share
IMPACT	- Sales: Feed and Poultry industry mainly generates sales from local market with some exports – day old chicks and table eggs – to Afghanistan. Closure of marriage halls/restaurants and nil exports has led to overproduction of poultry products in the local market. Prices of day old chick, eggs and chicken have posted a dip (down by over 20%) and are expected to remain low, leading to suppressed revenues for the industry players. Subsequently, sales of feed and recovery expected to remain under pressure - Supply Side: Key raw materials for manufacturing feed – maize and soybean meal – available for ~4 months as feed industry has sufficient inventory. Soybean meal, derived from soybean crushing, may face supply side risk as it is imported. Day old chicks are over supplied. Their prices have crashed putting immense pressure on hatcheries - Sales and margin of poultry products are expected to remain depressed as lockdown prolongs and fewer farms remain operational. Liquidity problem may persist as farms follow 40-day cycle before new flock is ready. Recent cut of 425 bps and SBP relaxation on repayments will provide relief to moderately leveraged financial position of poultry players - Demand for feed expected to remain subdued and liquidity concerns may intensify due to low or no recoveries from farms. Moreover, lower international commodity prices (soybean prices down by ~ 8% since Jan 20) may lead to higher existing inventory costs and lower margins as players have already procured inventory for ~4 months - Highly leveraged financial profile of industry players, especially, in feed will get some relief from the interest rate cut and SBP relaxation in repayments. However, industry facing severe challenges due to subdued demand and constrained cash flows - Large industry players, having integrated operations and/or presence in processed food segment, may remain afloat. Smaller players fighting for survival

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