



The Pakistan Credit Rating Agency Limited

ENTITY RATINGS REPORT

SHABBIR FEED MILLS (PVT.) LTD

ENTITY	RATING	OUTLOOK	ACTION	DATE
Shabbir Feed Mills (Pvt.) Ltd	Long Term: BBB- Short Term: A3	Stable	Initial	29-Dec-2017

RATING RATIONALE

The ratings incorporate Shabbir Feed's strong presence in the southern Punjab in its related fields – poultry feeds, birds and eggs. This is underpinned by strong demand dynamics. The company has lately camped up its capacities and is catching on utilization levels. This along with incentives to production staff and sales channels, are keeping margins under check. However, with achieving stability in production and ensuring efficiencies, margins are likely to benefit. The company is strengthening its marketing team with a whole some mandate: to pursue a market penetration strategy. Shabbir Feed has relatively long working capital cycle due to seasonal nature of inputs that leads to larger holding period, while receivable credit is adequate. The company operates with high leveraging, primarily in the form of short-term borrowings. They are used to fund working capital, advances/financial support to associates, and, to some extent, for fixed assets. Although, cashflows are adequate, given extended leveraging, coverages are constrained. Strong growth in poultry sector amidst improving macro-economic conditions and increasing population is expected to result in robust consumer demand.

The ratings are dependent on the management's ability to build profitable volumes while benefiting from positive demand fundamentals. Financial discipline is crucial; Strengthening of governance framework would be beneficial. The management should consider holding debt driven growth and improving debt mix.

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SHABBIR FEED MILLS (PVT.) LTD PROFILE	
Incorporated	2001
Major business lines	<ul style="list-style-type: none"> ▪ Production and sale of poultry feed ▪ Poultry broiler farming for live meat ▪ Poultry layer farming for production of table eggs.
Legal status	Un-Listed

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> ▪ Turnover of Pakistan Poultry Industry is about PKR 750 billion. ▪ Growth rate is 10-12% per annum. ▪ Over 25,000 poultry farms from Karachi to Peshawar. ▪ 40-45% of the total meat consumption is being procured from poultry products. ▪ Annually we are producing 18,000 million table eggs.

OWNERSHIP	GOOD
<ul style="list-style-type: none"> ▪ Shabbir Feed Mills Private Limited (Shabbir Feeds) was incorporated in 2001 as a private limited company under name of Shujabad Group. ▪ Shujabad Group of Industries has a long history spanning over 35 years, diversified in various industries with operations across textile, cotton ginning, edible oil and poultry sector. Group is initiated by three individuals i) Mian Shabbir Ahmad (Late), ii) Muhammad Akram and iii) Abdul Waheed ▪ 75% shares of Shabbir Feeds is owned by Mian Shabbir's family, comprising equal shareholding amongst his five sons. Remaining 25% shares has been owned by Mr. Malik Muhammad Akram. ▪ Mr. Qasier Shabbir – CEO of the company having more than fifteen years of Poultry experience ▪ Mr. Muhammad Akram, founder of Shujabad group, is the chairman of the board, having more than four decades of experience. 	
GOVERNANCE	NEEDS IMPROVEMENT
<ul style="list-style-type: none"> ▪ The board is dominated by the Shabbir's family. The board comprises of total four members including CEO. The board does not have any non-executive and independent director. ▪ Board members have significant industry experience as Ismail Family is involved in the confectionary business for decades. ▪ External auditors, M/s Ghazi & Co. Chartered Accountants, gave an unmodified opinion on Jun'16 financials 	
MANAGEMENT	ADEQUATE
<ul style="list-style-type: none"> ▪ Mr. Qaiser Shabbir – elder son of Mian. Shabbir Ahmed (Late) heads the management team of the company as Chief Executive Officer. ▪ Mr. Qaiser Shabbir has done his Master in Arts and is performing procurement of meals, financial and tax matters. He has been associated with the company since the start of the operations. ▪ Shabbir Feed has five broad functional areas, which includes i) Marketing (ii) Accounts (iii) Finance (iv) Purchase and (v) IT. ▪ Mr. Faisal Shabbir involved in Marketing and sales of layer and broiler, while, Mr. Majid Shabbir and Mr. Hamid Shabbir is engaged in procurement of medicines, grains, production, marketing and sales. ▪ Key management personnel are qualified having extensive experience in the poultry industry 	
SYSTEM & CONTROLS	NEEDS IMPROVEMENT
<ul style="list-style-type: none"> ▪ The company installed customized software for inventory management, procurement, receivable and payable positions ▪ Prompt availability of MIS for higher management's use. ▪ Centralized multi-tier credit approval process in place ▪ A dedicated team of professionals is placed to maintain and continuously upgrade the information systems as per changing business needs. 	
BUSINESS RISK	NEEDS IMPROVEMENT
<ul style="list-style-type: none"> ▪ During FY17, topline (PKR 9,521mln) grew by 52% YoY. ▪ However, the company's business margins deteriorated (gross: FY17: 7.9%, FY16: 10.8%; operating: FY17: 6.0%, FY16: 8.3%) on the back of (i) increased raw material cost, and (ii) higher marketing and personal cost. ▪ Higher finance costs (FY17: PKR 319mln, FY16: PKR 248mln) owing to increased short-term borrowings. ▪ Bottom-line increased to PKR 197mln (FY16: PKR 249mln, resulting from strong revenue growth. ▪ Shabbir Feed is positioned to derive benefits from group synergies in the form of (i) bulk discounts for suppliers of raw materials and (ii) better bank relationship. 	
FINANCIAL RISK	NEEDS IMPROVEMENT
<ul style="list-style-type: none"> ▪ Inventory up by ~54% (YoY) in line with the increased sales in FY17, working capital needs increased, reflecting in slightly higher net working capital days (FY17: 89days, FY16: 81days). ▪ Owing to increased working capital requirements, short-term borrowing have increased reflecting ~97% utilization of working capital lines (available line: PKR 4,301 mln) at end FY17 as compare to 71% (available line: PKR 3,740 mln) at end FY16. ▪ Net cash cycle increased amounting to 93 days in FY17 (FY16: 81 days) ▪ Borrowings have surged to ~PKR 4,478mln (FY16: ~PKR 3,028mln, FY15: ~PKR 1,962mln) largely in order to finance working capital needs and machinery equipment and other accessories. Major portion of debt comprises STB (93%). ▪ Though Shabbir Feed's free cash flows (FCFO) are strong, PKR 609mln, merely up by ~1.4% YoY debt service coverage remains adequate FY17: 1.4x, FY16: 1.7x, owing to better working capital management. ▪ Going forward, Shabbir Feed is committed to expand its operational capacity to meet high demand of customers, which would compensate increasing finance cost with improved coverages. 	



Shabbir Feed Mills (Pvt.) Limited

BALANCE SHEET	30-Jun-17	30-Jun-16	PKR mln 30-Jun-15
	FY17	FY16	FY15
Non-Current Assets	1,722	1,387	1,236
Investments (incl. Associates)	1,372	664	456
Equity	-	-	-
Debt Securities (incl. income funds)	1,372	664	456
Current Assets	4,602	3,338	2,307
Inventory	2,955	1,585	1,088
Trade Receivables	697	948	694
Others	950	805	525
Total Assets	7,697	5,389	4,000
Debt	4,478	3,028	1,962
Short-term	4,155	2,666	1,565
Long-term (incl. Current Maturity of Long-Term debt)	323	361	397
Other Short-term Liabilities	1,215	944	895
Other Long-term Liabilities	221	145	116
Shareholder's Equity	1,784	1,272	1,027
Total Liabilities & Equity	7,697	5,389	4,000
INCOME STATEMENT			
Turnover	9,521	6,280	5,662
Gross Profit	757	677	591
Other Income	116	59	26
Financial Charges	(319)	(248)	(182)
Net Income	197	249	251
Cashflow Statement			
Free Cashflow from Operations (FCFO)	609	601	512
Net Cash changes in Working Capital	(1,673)	(1,099)	(10)
Net Cash from Operating Activities	(1,343)	(720)	359
Net Cash from Investing Activities	(137)	(261)	(769)
Net Cash from Financing Activities	1,450	1,066	378
Net Cash generated during the period	(30)	85	(32)
Ratio Analysis			
Performance			
Turnover Growth	51.6%	10.9%	13.1%
Gross Margin	7.9%	10.8%	10.4%
Net Margin	2.1%	4.0%	4.4%
ROE	13.0%	19.5%	28.0%
Coverages			
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	0.5	1.0	1.4
Interest Coverage (x) (FCFO/Gross Interest)	1.9	2.4	2.8
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	3.8	1.8	1.7
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	89	81	71
Capital Structure (Total Debt/Total Debt+Equity)	71.5%	70.4%	65.6%



STANDARD RATING SCALES & 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	<p>Highest credit quality. Lowest expectation of credit risk.</p> <p>Indicate exceptionally strong capacity for timely payment of financial commitments.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+ AA AA-	<p>Very high credit quality. Very low expectation of credit risk.</p> <p>Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p>	
A+ A A-	<p>High credit quality. Low expectation of credit risk.</p> <p>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.</p>	
BBB+ BBB BBB-	<p>Good credit quality. Currently a low expectation of credit risk.</p> <p>The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.</p>	
BB+ BB BB-	<p>Moderate risk. Possibility of credit risk developing.</p> <p>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.</p>	
B+ B B-	<p>High credit risk.</p> <p>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.</p>	
CCC CC C	<p>Very high credit risk.</p> <p>“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.</p>	
D	<p>Obligations are currently in default.</p>	

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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

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’.

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, a suspended 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, or e) the entity/issuer defaults.

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Regulatory and Supplementary Disclosure

Name of Entity
Sector
Type of Relationship

Shabbir Feed Mills (Pvt.) Ltd
Food & Allied
Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Table with 5 columns: Dissemination Date, LT Rating, ST Rating, Outlook, Action. Row 1: 29-Dec-17, BBB-, A3, Stable, Initial

Related Criteria and Research

Food & Allied-Dec 2017

Rating Methodology

Corporate Rating Methodology

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Rating Team Statement

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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