



The Pakistan Credit Rating Agency Limited

Rating Report

Sadiq Feeds (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Mar-2018	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Poultry feed manufacturing formally started in Pakistan in early 1960's. At present, poultry feed is produced by commercial feed mills as well as home mixtures. There are 350 poultry feed mills, making country's annual production capacity of around 10 MMT. This industry directly drives its demand from poultry – chicken and eggs consumption. With growing income levels and expanding population, the demand for poultry stays robust, in terms of poultry feed as well. The industry is experiencing ~10% growth.

The ratings reflect Sadiq Feeds association with an established poultry group, named SB Group. The company is in the centre of the group's integrated poultry chain – oil/meal, feed and poultry. However, the group is in process of asset split, once done, this would bring consolidation to the company cost structures, in terms of margins. Lean inventory management system and related efficiencies continued to remain the competitive edge. Topline is concentrated towards broiler feed and major sale to group's own company. Moreover, procuring maize in bulk due to seasonal constraints, highlights the inherent price risk of raw material along with storage issues and high holding (short-term borrowing cost). Consequently, company's financial risk profile is characterized by high leverage. To manage this, management is committed to a) gradually reduce short term borrowings and b) reprofile its debt mix with some switch towards long-term borrowings. this along with improving cashflows, should help manage financial risk. However, this remains a competitive business where volumes and margins are function of timeliness and cost of raw material procurement and supply competition amongst different feed mills. The company had relatively suppressed results in FY17. However, lately these have improved. Both loan mix, after transfer of properties, referring to short term borrowings and long term borrowings will be re-profiled and may improve the cushion for future borrowings.

The ratings are dependent on the management's ability to prudently manage the liquidity and debt profile of the company, particularly working capital, while improving business margins. Envisaged improvement in business and financial profile along with effective changes in governance framework would be beneficial.

Disclosure

Name of Rated Entity	Sadiq Feeds (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating Methodology(Jul-2017), Methodology Correlation between long-term and short-term rating scale(Jun-2017)
Related Research	Sector Study Food and Allied Poultry Feed(Mar-2018)
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Sadiq Feeds (Pvt.) Limited Profile		Industry Snapshot
Incorporated	2005	<ul style="list-style-type: none"> As per estimates there are around 150 registered and 200 unregistered feed mills across the country. Pakistan's annual poultry feed production capacity (all feed mills) ~ 10 MMT. They manufacture feed by using agricultural products and by-products worth PKR 190 billion Growth in country's overall poultry sector is approximately 10% per annum. Sector's contribution is 1.4% in GDP for in FY17, employing 1.5 million people.
Major business lines	<ul style="list-style-type: none"> Manufacturing and selling poultry feed variants Specializes in manufacturing three different feed variants, namely; poultry feed, strain specific layered feed and cattle feed of different types and age groups. 	
Legal status	Private Limited	

Profile and Ownership
<ul style="list-style-type: none"> Profile: Sadiq Feeds (Pvt.) Limited was incorporated in 2005 as a as a vertically integrated venture of SB Group; well-known player of Pakistan's poultry industry. Ownership: Major shareholding vests with Dr. Muhammad Sadiq (70%); followed by his two sons, Mr. Asif Zubair (15%) and Mr. Salman Sadiq (15%). Dr. Muhammad Sadiq, group's founder, has an experience of four decades in poultry & allied businesses. Currently, there are six companies & one trust working under SB Group. All are operating in various segments of poultry supply chain.

Governance
<ul style="list-style-type: none"> Board Structure: Sponsoring family dominates the board of Sadiq Feeds (Pvt.) Limited. It comprises three members with non-existence of board sub-committees. Company's board lack independence, indicating room for improvement in company's governance framework as there is no independent non-executive director on the board. Member Profile: Board's Chairman, Dr. Muhammad Sadiq holds a DVM degree and four decades of experience in poultry and integrated businesses. Directors, Mr. Asif Zubair and Mr. Salman Sadiq, are US graduates and an experience of more than 10 years. Board Effectiveness: Four board meetings were held with full attendance of board member to discuss pertinent matters. Financial Transparency: Internal audit department has been established at group level. The external auditors of the company are Muniff Ziauddin and Co Chartered Accountants, have been QCR rated by ICAP.

Management
<ul style="list-style-type: none"> Organizational Structure: Sadiq Feeds sales and production are monitored by GM Production. Whereas, support departments work as shared services for the group. All departments eventually report to the Chief Executive Officer. Management Profile: Dr. Muhammad Sadiq, group's CEO, is a veterinarian professional. Mr. Naeem Haider, group's CFO, having two decades of experience, is part of the company since beginning. GM Production, Dr Gulraiz Ahmed, has been associated for 22 years. Effectiveness: Three management committees are established at group level, naming Technical, Interview, and Operational committees. Control Environment: Sadiq Feeds entire feed manufacturing facility is automated. MIS: Two financial software, set upped by Sidat Hyder, are used at group level. However, for internal dissemination, information is documented when required.

Business Risk
<ul style="list-style-type: none"> Performance: During FY17, Sadiq Feeds generated a topline to PKR 18 billion (FY16: PKR 20 billion). Its sales mix comprises broiler feed, breeder feed and layer feed. Moreover, 31% revenue is generated from company's forward integrated venture i.e. Sadiq Poultry (Pvt.) Limited. Top 5 feed reaps a revenue of PKR 11 billion, maximizing concentration risk. Sadiq Feeds business margins are relatively low (gross: FY17: 7%). Operating margins remain (FY17: 5.5%) on the back of high cost associated to seasonal raw materials like maize, procured & stored in bulk. Consistent borrowings to meet maize & other raw material procurement needs, kept the interest expenses high ~ PKR 856 million. However, Sadiq Feeds achieved a bottom-line of PKR 79 million. Sustainability: Group is in process of asset split, once done, this would bring consolidation to the company cost structures.

Financial Risk
<ul style="list-style-type: none"> Capital Structure: Due to current business activity levels and need for credit facility has taken the leverage to a higher side (FY17 ~ 75%). Working Capital Management: Sadiq Feeds high inventory days refers to maize procured for atleast 6 months. Operating mostly on credit basis surges the average debtor days (36 days). Advance base used for the procurement of raw materials, abridge the creditor's days (23 days), leading to a net cash cycle of 246 days. Coverages: Though the long term borrowings are minimal (FY17~ 814 million), hiked short term borrowings leaves diminutive room to borrow against net trade assets. Interest coverage of 1.2 times, associated with larger quantum of borrowings, assigns a question as to their ability to fulfill debt obligations.



Sadiq Feeds (Pvt.) Limited

BALANCE SHEET

	31-Dec-17	30-Jun-17	30-Jun-16	30-Jun-15
	6M	Annual	Annual	Annual
Non-Current Assets	1,662	1,635	1,764	1,823
Investments (Incl. Associates)	-	-	-	-
Equity	-	-	-	-
Debt Securities	-	-	-	-
Investment Property	-	-	-	-
Current Assets	14,534	13,561	15,038	11,431
Inventory	11,853	10,862	12,312	9,057
Trade Receivables	1,449	1,629	1,884	1,693
Others	1,232	1,070	842	681
Total Assets	16,196	15,196	16,802	13,254
Debt	10,967	10,109	12,258	8,907
Short-Term (STB)	10,007	8,943	10,963	8,476
Long-term (Incl. Current Maturity of Long-Term Debt - CMLTD)	960	1,166	1,295	431
Other Short-Term Liabilities	1,720	1,716	1,218	1,131
Other Long-Term Liabilities	-	-	34	47
Shareholder's Equity	3,509	3,371	3,292	3,169
Total Liabilities & Equity	16,196	15,196	16,802	13,254

INCOME STATEMENT

Turnover	10,216	17,913	20,364	22,552
Gross Profit	774	1,249	1,316	1,443
Other Income/(Expense)	(11)	(8)	(14)	(17)
Financial Charges	(426)	(856)	(849)	(1,008)
Net Income	138	79	123	163

Cashflow Statement

EBITDA	684	1,182	1,238	1,437
Free Cashflow from Operations (FCFO)	584	994	921	1,362
Net Cash changes in Working Capital	(989)	2,137	(3,155)	(1,678)
Net Cash from Operating Activities	(824)	2,284	(3,131)	(1,334)
Net Cash from Investing Activities	(120)	(56)	(127)	(137)
Net Cash from Financing Activities	866	(2,279)	3,351	1,551
Net Cash Generated during the period	(78)	(50)	93	80

Ratio Analysis

Performance				
Turnover Growth (same period last year)	-43.0%	-12.0%	-9.7%	10.1%
Gross Margin	7.6%	7.0%	6.5%	6.4%
Net Margin	1.3%	0.4%	0.6%	0.7%
ROE	3.9%	2.2%	4.2%	5.7%
Coverages				
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	0.8	0.8	0.9	1.2
Interest Coverage (x) (FCFO/Gross Interest)	1.4	1.2	1.1	1.4
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Term Borrowings) / FCFO)	6.1	8.4	18.1	1.2
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	208	250	209	149
Capital Structure (Total Debt/Total Debt+Equity)	76%	75%	79%	74%



ENTITY CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity; 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. 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. B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. C: An inadequate capacity to ensure timely repayment.	
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	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.		
AA-	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.		
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	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-	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+	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 or economic conditions are more likely to impair this capacity.		
BBB	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.		
BBB-	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.		
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	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-	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+	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	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-	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	Very high 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	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.		
C	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.		
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 or 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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Rating Team Statements

(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

- (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)
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- (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)
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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)

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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