



The Pakistan Credit Rating Agency Limited

## Rating Report

### Shabbir Feed Mills (Pvt.) Limited

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#### Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action   | Rating Watch |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 30-Apr-2019        | BBB-             | A3                | Stable  | Maintain | -            |
| 01-Nov-2018        | BBB-             | A3                | Stable  | Maintain | -            |
| 07-May-2018        | BBB-             | A3                | Stable  | Maintain | -            |
| 29-Dec-2017        | BBB-             | A3                | Stable  | Initial  | -            |

#### Rating Rationale and Key Rating Drivers

Among the largest agro based segments in Pakistan, poultry holds a prominent place. In Pakistan, formal feed manufacturing started in early 1960. With 350 poultry feed mills and home mixtures, country annually produces around 8 MMT of poultry feed. This industry directly derives its demand from poultry – chicken and eggs consumption. With growing income levels and expanding population, the demand for poultry has substantial growth prospects. The industry is experiencing ~ 10% growth.

The ratings reflects Shabbir Feed Mills strong presence in Southern Punjab in its related fields – poultry feeds, broiler meat and table eggs. During 6MFY19, the Company's topline witnessed an incline despite volatile demand in the poultry industry. Moreover, procuring raw materials - maize and meal, at low cost benefited the margins. The Company's long working capital cycle is due to seasonal nature of inputs that leads to longer holding period. Operating with high leveraging, primarily in the form of short-term borrowings, to fund the inventory and providing financial support to other group companies. Due to increased borrowings, the Company's financial profile; in turn, coverages remain stressed.

The ratings are dependent on the management's ability to build profitable volumes while maintaining its margins. Financial discipline is crucial. Improvement in the debt mix and better coverages will benefit the ratings. Meanwhile, strengthening of governance framework would be positive for the ratings.

#### Disclosure

|                              |   |
|------------------------------|---|
| <b>Name of Rated Entity</b>  | Shabbir Feed Mills (Pvt.) Limited   |
| <b>Type of Relationship</b>  | Solicited   |
| <b>Purpose of the Rating</b> | Entity Rating   |
| <b>Applicable Criteria</b>   | Methodology   Corporate Ratings(Jun-18),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-18) |
| <b>Related Research</b>      | Sector Study   Poultry Feed(Mar-19)   |
| <b>Rating Analysts</b>       | Adnan Dilawar   adnan@pacra.com   +92-42-35869504   |

## Profile

**Legal Structure** Shabbir Feed Mills (Pvt.) Limited was incorporated as a Private Limited Company.

**Background** At the time of incorporation, the Company was named Shabbir Edible Oil Industries (Pvt.) Ltd as it was commercially producing Banola Oil. In FY05, the Company began to commercially manufacture poultry feed as well and changed its title to Shabbir Edible Oil and Feed Mills (Pvt.) Ltd. Later, the Company discontinued the extraction of edible oil and limited its operations to poultry feed manufacturing only. The Company also integrated into broiler and layer farms. In FY17, the Company again changed its title to Shabbir Feed Mills (Pvt.) Ltd.

**Operations** Shabbir Feed Mills is primarily engaged in the production and sale of poultry feed, poultry broiler farming for live meat and poultry layer farming for the production of table eggs. In FY05, the Company started the commercial production of poultry feed at 15 ton per hour. In FY17, the production capacity was increased to 45 tons per hour. The Company's feed mill is located in Moza Wan Chatah, Muzafarghar Bypass Road, Multan. While, broiler and layer sheds have been scattered in the outskirts of Multan.

## Ownership

**Ownership Structure** Shabbir Feed Mills is majorly owned by Shabbir family (75%), with an equal stake ~ 15% divided among the five brothers. Remaining 25% shares of the Company vests with Mr. Muhammad Akram.

**Stability** Ownership of the Company seems stable as its primarily owned by Shabbir family.

**Business Acumen** Shujabad Group entered into the business arena in 1980's and began to trade different commodities. Later, they entered into ginning business by hiring a mill on operating lease basis. In FY86, the Group setup its own ginning mill named Shujabad Industries (Pvt.) Limited. Over time, the Group diversified into textile, edible oil and poultry.

**Financial Strength** Shujabad Group has a modest standing in textile, edible oil and poultry sectors. The Group had an annual turnover is almost PKR 26bln in FY18.

## Governance

**Board Structure** Shabbir Feed Mills Board, comprising four Directors, is dominated by the sponsoring family. Lack of independent Director on the Board, indicates a room for improvement in the Company's governance framework.

**Members' Profile** All the BoD members have relevant expertise. The Board's Chairman, Mr. Muhammad Akram, is among the founders of the Group. He has an overall business experience of almost four decades.

**Board Effectiveness** Keeping in view the size of the Board, absence of sub-committees may not impact Board's effectiveness. During 6MFY18, one Board meetings, with majority attendance, were held to discuss pertinent matters and make strategic decisions.

**Financial Transparency** Shabbir Feed Mills external auditors, M/s Ghazi & Co. Chartered Accountants, have expressed an unqualified opinion on the financial statements of the Company for the year ended June 30, 2018. The firm has been QCR rated by ICAP but is not in the SBP panel of auditors.

## Management

**Organizational Structure** Shabbir Feed Mills operate through two divisions: Poultry Feed and Poultry Farms - Broiler and Layer. Marketing and sales of each division is monitored by its respective Director, who reports to the Company's CFO. All pertinent matters are reported by the CFO to the Company's CEO. However, support functions (finance, IT and purchase) are shared at Group level.

**Management Team** The Company's management comprises of professionals having relevant experience in poultry industry. The Company's CEO, Mr. Qaisar Shabbir, has been associated with the Company since inception. He has an overall business experience of 15 years in poultry and textile businesses.

**Effectiveness** The Company does not have management committees in place.

**MIS** Shabbir Feed Mills has installed customized software to periodically monitor the inventory position with receivable and payable cycle. The Company's feed manufacturing facility is fully automated, along with control breeding sheds for broiler and layers.

**Control Environment** Absence of internal audit function indicates a room for improvement. However, on an operational level, samples of maize, meals, medicines and manufactured feed variants are tested for quality in a well-equipped laboratory.

## Business Risk

**Industry Dynamics** 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 8 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.

**Relative Position** The Company has secured a prominent position in the market due to its high FCR, culminating in increased demand for their product

**Revenues** Shabbir Feed Mills' generates revenue by selling Poultry Feed (86%), Table Eggs (9%) and Poultry Live Birds (5%). In 6MFY19, the Company's topline posted an incline of 26% (6MFY19: PKR 4.7bln, FY18: PKR 7.5bln). This incline was supported by increased feed prices and demand from the poultry sector due to high FCR.

**Margins** The Company's margins improved on the back of procuring bulk of raw materials at low price and improved operational efficiency (Gross: 6MFY19: 9.9%, FY18: 8.4% and Operating: 6MFY19: 7.6%, FY18: 5.9%).

**Sustainability** In past 3-4 years the Group has expanded much. Going forward, the Group is planning to consolidate. However, some expansion might be witnessed in poultry feed and broiler/layer farms.

## Financial Risk

**Working Capital** Shabbir Feed Mills working capital needs originates from financing and storing inventory in bulk. High inventory levels kept the net working capital days on the higher side (6MFY19: 123 days, FY18: 142 days). High inventory levels emanate from increased demand due to high FCR. The Company makes credit sales. Despite procuring raw material on credit, the Company able to improve its creditor days (6MFY19: 32 days, FY18: 47 days). However, strict discipline in the working capital management is required to improve the short term borrowing buffer.

**Coverages** Marginally improved interest coverage (6MFY19: 1.6x, FY18: 1.4x), core and total coverage (6MFY19: 0.6x, FY18: 0.2x) are due to the Company's reduced short term borrowings (6MFY19: PKR 4.4bln, FY18: PKR 4.6bln).

**Capitalization** Shabbir Feed Mills capital structure is characterized by high leveraging (6MFY19: PKR 70bln, FY18: PKR 71bln). Major portion of the debt comprises short term borrowings (96%) due to seasonal procurement of Maize in bulk and increased lending to other Group Companies. The Company's long term borrowings amount to PKR 183mln in 6MFY19.



**Shabbir Feeds (Pvt.) Limited**

**Private Limited**

**BALANCE SHEET**

|  | Dec-18       | Jun-18       | Jun-17       | Jun-16       |
|--|--------------|--------------|--------------|--------------|
|  | 6M           | 12M          | 12M          | 12M          |
| <b>a Non-Current Assets</b>                          | <b>1,567</b> | <b>1,637</b> | <b>1,722</b> | <b>1,387</b> |
| <b>b Investments (Incl. Associates)</b>              | -            | -            | -            | -            |
| Equity   | -            | -            | -            | -            |
| Fixed Income   | -            | -            | -            | -            |
| <b>c Current Assets</b>                              | <b>6,118</b> | <b>6,712</b> | <b>5,975</b> | <b>4,002</b> |
| Inventory  | 3,497        | 2,908        | 2,955        | 1,585        |
| Trade Receivables                                    | 681          | 587          | 534          | 761          |
| Others   | 1,939        | 3,217        | 2,486        | 1,655        |
| <b>d Total Assets</b>                                | <b>7,685</b> | <b>8,349</b> | <b>7,697</b> | <b>5,389</b> |
| <b>e Debt/Borrowings</b>                             | <b>4,602</b> | <b>4,843</b> | <b>4,478</b> | <b>3,028</b> |
| Short-Term   | 4,419        | 4,599        | 4,155        | 2,666        |
| Long-Term (Incl. Current Maturity of Long-Term Debt) | 183          | 245          | 323          | 361          |
| Other Short-Term Liabilities                         | 845          | 1,358        | 1,215        | 944          |
| Other Long-Term Liabilities                          | 205          | 205          | 212          | 137          |
| <b>f Shareholder's Equity</b>                        | <b>2,034</b> | <b>1,942</b> | <b>1,792</b> | <b>1,280</b> |
| <b>g Total Liabilities &amp; Equity</b>              | <b>7,685</b> | <b>8,349</b> | <b>7,697</b> | <b>5,389</b> |

**INCOME STATEMENT**

|                            |              |              |              |              |
|----------------------------|--------------|--------------|--------------|--------------|
| <b>a Turnover</b>          | <b>4,738</b> | <b>7,538</b> | <b>9,521</b> | <b>6,280</b> |
| <b>b Gross Profit</b>      | 467          | 634          | 757          | 677          |
| <b>c Net Other Income</b>  | 6            | 53           | 10           | 5            |
| <b>d Financial Charges</b> | (258)        | (425)        | (319)        | (248)        |
| <b>e Net Income</b>        | <b>91</b>    | <b>152</b>   | <b>182</b>   | <b>249</b>   |

**CASH FLOW STATEMENT**

|  |       |       |         |         |
|--|-------|-------|---------|---------|
| <b>a Free Cash Flow from Operations (FCFO)</b> | 408   | 597   | 609     | 601     |
| <b>b Total Cashflows (TCF)</b>                 | 408   | 597   | 609     | 601     |
| <b>c Net Cash changes in Working Capital</b>   | 26    | (354) | (1,673) | (1,099) |
| <b>d Net Cash from Operating Activities</b>    | 130   | (179) | (1,343) | (720)   |
| <b>e Net Cash from Investing Activities</b>    | 0     | (67)  | (137)   | (261)   |
| <b>f Net Cash from Financing Activities</b>    | (275) | 365   | 1,450   | 1,066   |
| <b>g Net Cash generated during the period</b>  | (145) | 120   | (30)    | 85      |

**RATIO ANALYSIS**

**a Performance**

|                           |       |      |     |     |
|---------------------------|-------|------|-----|-----|
| Turnover Growth (vs SPLY) | 2%    | -21% | 52% | 11% |
| Gross Margin              | 9.86% | 8%   | 8%  | 11% |
| Net Margin                | 2%    | 2%   | 2%  | 4%  |
| ROE                       | 9%    | 8%   | 13% | 21% |

**b Coverages**

|   |      |      |      |     |
|---|------|------|------|-----|
| Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+U      | 0.6  | 0.2  | 0.4  | 0.7 |
| Interest Coverage (X) (FCFO/Gross Interest)                 | 1.6  | 1.4  | 1.9  | 2.4 |
| Debt Payback (Years) (Total Debt (excluding Covered Short T | 17.6 | 38.9 | 19.7 | 9.9 |

**c Capital Structure (Total Debt/Total Debt+Equity)**

|  |     |     |    |    |
|--|-----|-----|----|----|
| Net Cash Cycle (Inventory Days + Receivable Days - Payable D | 116 | 122 | 82 | 74 |
|--|-----|-----|----|----|

**d Capital Structure (Total Debt/Total Debt+Equity)**

|  |     |     |     |     |
|--|-----|-----|-----|-----|
|  | 69% | 71% | 71% | 70% |
|--|-----|-----|-----|-----|

**Shabbir Feeds (Pvt.) Limited**

**Apr-19**

## 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 |  |
|--|---|--------------------|--|
| <b>AAA</b>                               | <b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments  | <b>A1+</b>         | The highest capacity for timely repayment.   |
| <b>AA+</b><br><b>AA</b><br><b>AA-</b>    | <b>Very high credit quality.</b> 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.   | <b>A1</b>          | A strong capacity for timely repayment.  |
| <b>A+</b><br><b>A</b><br><b>A-</b>       | <b>High credit quality.</b> 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.  | <b>A2</b>          | A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.   |
| <b>BBB+</b><br><b>BBB</b><br><b>BBB-</b> | <b>Good credit quality.</b> 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.   | <b>A3</b>          | An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions. |
| <b>BB+</b><br><b>BB</b><br><b>BB-</b>    | <b>Moderate risk.</b> 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>           | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.                   |
| <b>B+</b><br><b>B</b><br><b>B-</b>       | <b>High credit risk.</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>C</b>           | An inadequate capacity to ensure timely repayment.   |
| <b>CCC</b><br><b>CC</b><br><b>C</b>      | <b>Very high credit risk.</b> 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. |                    |  |
| <b>D</b>                                 | 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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