



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
14-Sep-2022	BBB+	A2	Stable	Maintain	-
14-Sep-2021	BBB+	A2	Stable	Maintain	-
19-Jul-2021	BBB+	A2	Stable	Maintain	-
22-Jul-2020	BBB+	A2	Negative	Maintain	Yes
21-Jan-2020	BBB+	A2	Stable	Maintain	-
22-Jul-2019	BBB+	A2	Stable	Maintain	-
20-Mar-2019	BBB+	A2	Stable	Maintain	-
18-Sep-2018	BBB+	A2	Stable	Maintain	-
22-Mar-2018	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan's capacity to produce has improved to ~10 to 13mln MT of feed annually. The industry generates an estimated annual turnover of ~PKR 400bln to PKR 500bln 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 in the international market has witnessed a surge of 23.2%; while, the cost of maize, in the local market, has surged to ~ 10.6% during 8MCY22. The surge in the cost of the raw materials, internationally and locally, relative to the price of poultry feed and poultry products has squeezed the industry's margins. However, the industry remains able to manage its working capital cycle in an efficient manner. Lately, interest rate hikes and recent floods are expected to further impact production. However, cashflows and liquidity are expected to remain afloat backed by the high price.

The ratings reflect Sadiq Feeds (Pvt.) Ltd.'s ("Sadiq Feeds" or "the Company") association with an established poultry group, Sadiq Group. The Company is part of the Group's integrated poultry chain – oil/meal, feed, and poultry. During the year, the ownership and asset transition has been achieved. The new Sponsors inherited 2 layers and 3 breeder units. Topline is concentrated on broiler feed with sales to group companies as a major source. The Company enjoyed good margins and profitability, however, recorded notably lower volumes due to the transfer of the Mandra mill to the other family. In order to combat price fluctuations of meal and maize, the Company reduced the quantum and holding period of raw materials. The financial risk profile of the Company is characterized by an improved working capital cycle, supplemented by transferred inventory and receivables to Mandra mill. This also aided the reduction in short-term debt availed to finance working capital requirements, strengthening the cashflow coverages and leverage position. The ratings incorporate potential support from Sponsors and/or group companies.

The ratings are dependent on the management's ability to manage business risk while sustaining business margins in the forthcoming challenges. Moreover, the governance framework needs attention. Going forward, continued harmonization between Sponsors and consistent generation of sustainable operational cashflows is important.

Disclosure

Name of Rated Entity	Sadiq 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-22)
Rating Analysts	Ahmad Faraz Arif ahmad.faraz@pacra.com +92-42-35869504

Profile

Legal Structure Sadiq Feeds (Pvt.) Ltd. (Sadiq Feeds or 'the Company') was incorporated on July 07, 2005, as a Private Limited Company.

Background Sadiq Group came into existence as a small-scale family business and became formally operational in April 1975. Today, the Group is known as one of the leaders in the poultry industry with a presence throughout the poultry chain operating under the brand name of Sadiq.

Operations Sadiq Feeds produces three different types of feeds namely; i) poultry feed, ii) strain-specific layer feed, and iii) cattle feed for birds and livestock of different types and age groups. During FY22 as part of asset distribution at Group level, the Company inherited 2 layer and 3 breeder units, whereas it transferred the Mandra feed mill to Zubair and Salman Sadiq. Respective receivables and payables were also transferred along. The Company now has a feed mill situated in Sahiwal, with production capacity 130 MT per hour.

Ownership

Ownership Structure Post Dr. Sadiq's demise in Oct'20, the Company's shareholding stands with Ms. Saadia Sadiq (22%) and her sons M. Arsal Sadiq (25%), M. Sanan Sadiq (27%), and M. Saad Sadiq (27%).

Stability Ownership of the business is seen as stable as the ownership has been successfully transferred to Ms. Saadia Sadiq and her sons.

Business Acumen Apart from shareholding in Sadiq Group, Mr. Arsal and Ms. Saadia owns Sadiq Oil Extraction (Pvt.) Limited.

Financial Strength Financial strength of the Sponsors is deemed strong, as there are multiple companies present in the poultry and allied segment of the economy.

Governance

Board Structure Sadiq Feeds Board, comprising of two members, is dominated by the sponsoring family. The Company's Board lacks independence, indicating room for improvement in the governance framework.

Members' Profile All BoD members are new and lack relevant expertise. Ms. Saadia Sadiq, Board's Chairman, holds experience in textile designing business.

Board Effectiveness The Company has a small-sized board with no sub-committees. During FY21, four Board meetings, with full attendance, were held to discuss pertinent matters and make strategic decisions.

Financial Transparency Sadiq Feeds external auditors, Muniff Ziauddin and Co. Chartered Accountants have expressed an unqualified opinion on the financial reports of FY21. The firm has been QCR rated by ICAP and is in Category 'A' of the SBP panel.

Management

Organizational Structure The Company's sales and production are monitored by GM Production. Whereas, support departments work as shared services for the Group. All departments eventually report to the CEO.

Management Team Post Dr. Sadiq's demise, Ms. Saadia Sadiq has been appointed as the CEO of the Company. She is assisted by Mr. Gulraiz Ahmed, the GM Production, and Mr. Naem Haider, the Group CFO. Both possess more than 25 years of overall experience in their respective fields and have been associated with the Group for more than 2 decades.

Effectiveness Management ensures effectiveness through Technical, Interview, and Operational committees, established at the Group level. Each comprises 4 members.

MIS Two financial software, set by Sidat Hyder, are used at the Group level. However, for internal dissemination, information is documented as and when required.

Control Environment An internal audit department has been established at the group level to ensure internal controls. The Company's feed mills are fully automated.

Business Risk

Industry Dynamics Pakistan's capacity to produce has improved to ~10 to 13mln MT of feed annually. The industry generates an estimated annual turnover of ~PKR 400bln to PKR 500bln 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 in the international market has witnessed a surge of 23.2%; while, the cost of maize, in local market, has surge to ~ 10.6% during 8MCY22. Surge in the raw materials cost, internationally and locally, relative to the price of poultry feed and poultry products have squeezed industry's margins. However, the industry remain able to manage its working capital cycle in an efficient manner. Lately, interest rate hike and recent floods are expected to further impact production. However, cashflows and liquidity are expected to remain afloat backed by high price.

Relative Position Among the top 12 best players in the Punjab's feed industry, Sadiq Feeds (Pvt.) Limited holds a market share of 12-15% approximately.

Revenues Sadiq Feeds sales mix comprises broiler feed, breeder feed, and layer feed. Topline has decreased to PKR 20bln in 3QFY22 from PKR 24bln in 3QFY21. This decrease was volume driven, as Mandra Feed mill was transferred to the families of Zubair Sadiq and Salman Sadiq.

Margins Gross margin has dipped slightly to 8% in 3QFY22 from 9% in 3QFY21 on the back of increased costs of raw materials. Finance cost of PKR 749mln (3QFY21: PKR 841mln) decreased on the back of lower borrowings. The Company achieved a bottom-line of PKR 482mln in 3QFY22 (3QFY21: PKR 1,029mln). Hence, net profit margin has reduced to 2% in 3QFY22 (3QFY21: 4%).

Sustainability Post COVID induced lockdown uncertainties, the Sponsors are looking to streamline the operations of the Group, and expect to create synergies with the new and previous Sponsors.

Financial Risk

Working Capital Sadiq Feeds has high net working capital days emanating predominantly from high raw material inventory days (maize) procured on a seasonal basis (3QFY22: 130 days, 3QFY21: 115 days). Sales are mostly on credit basis, with high average debtor days of 42 days as of 3QFY22 (3QFY21: 79 days). This led the networking capital days to 49 days as of 3QFY22 (3QFY21: 154 days). Majority of the sales are to Group companies, which provide comfort to an extent.

Coverages During 3QFY22, interest coverage improved marginally (3QFY22: 4x, 3QFY21: 2.7x), due to low finance costs of PKR 749mln in 3QFY22 (3QFY21: PKR 1,029mln). This was as a result of decrease in short term borrowings, despite lower free cashflows (3QFY22: PKR 1,500mln, 3QFY21: 2,134mln). Total and core coverage, also increased to 4x during 3QFY22 from 1x in 3QFY21. This was a result of no current maturity of long-term debt.

Capitalization Leverage has improved significantly, to 40% in 3QFY22 (3QFY21: 70%), as debt portion for Mandra feed mill was transferred as well. Sadiq Feeds total debt comprises of Short-term debt (82%) from various commercial banks and Long-term debt (18%). Keeping the nature of business in view, working capital requirement is comparatively high. The Company's short-term borrowings are at PKR 4.3bln as at 3QFY22 (3QFY21: PKR 7.8bln), for this purpose.



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Financial Summary
PKR mln

Sadiq Feeds Pvt. Limited Poultry Feed	Mar-22 9M	Jun-21 12M	Jun-20 12M	Jun-19 12M
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A BALANCE SHEET

1 Non-Current Assets	5,019	1,782	1,700	1,650
2 Investments	5	5	5	5
3 Related Party Exposure	-	257	-	-
4 Current Assets	10,817	16,368	18,618	17,191
a Inventories	6,898	12,465	10,353	10,576
b Trade Receivables	3,140	3,069	6,679	5,514
5 Total Assets	15,841	18,411	20,323	18,846
6 Current Liabilities	2,538	2,455	5,180	4,194
a Trade Payables	2,065	1,347	3,516	2,903
7 Borrowings	5,276	10,897	11,348	11,009
8 Related Party Exposure	-	991	11	9
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	8,027	4,068	3,784	3,634
11 Shareholders' Equity	8,027	4,068	3,784	3,634

B INCOME STATEMENT

1 Sales	20,311	31,888	28,154	24,796
a Cost of Good Sold	(18,628)	(29,843)	(25,671)	(22,861)
2 Gross Profit	1,682	2,045	2,483	1,935
a Operating Expenses	(493)	(490)	(483)	(468)
3 Operating Profit	1,189	1,554	2,000	1,467
a Non Operating Income or (Expense)	42	63	(15)	(12)
4 Profit or (Loss) before Interest and Tax	1,231	1,618	1,985	1,455
a Total Finance Cost	(749)	(1,090)	(1,636)	(1,190)
b Taxation	-	(244)	(199)	(103)
6 Net Income Or (Loss)	482	284	150	162

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	1,467	1,842	2,081	1,419
b Net Cash from Operating Activities before Working Capital	826	557	548	390
c Changes in Working Capital	5,253	154	(639)	(716)
1 Net Cash provided by Operating Activities	6,079	711	(91)	(326)
2 Net Cash (Used in) or Available From Investing Activities	(788)	(311)	(251)	(264)
3 Net Cash (Used in) or Available From Financing Activities	(5,278)	(469)	335	611
4 Net Cash generated or (Used) during the period	12	(69)	(7)	21

D RATIO ANALYSIS

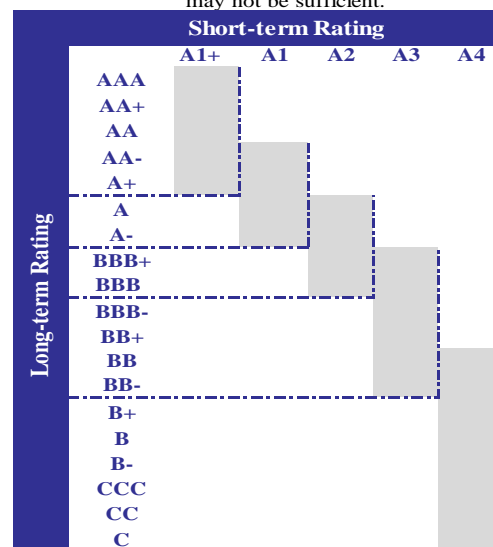
1 Performance				
a Sales Growth (for the period)	-15.1%	13.3%	13.5%	15.8%
b Gross Profit Margin	8.3%	6.4%	8.8%	7.8%
c Net Profit Margin	2.4%	0.9%	0.5%	0.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital / Net Profit Margin)	33.1%	6.3%	5.1%	2.8%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets / Total Equity)]	10.6%	7.2%	4.0%	4.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	172	186	215	215
b Net Working Capital (Average Days)	149	159	173	190
c Current Ratio (Current Assets / Current Liabilities)	4.3	6.7	3.6	4.1
3 Coverages				
a EBITDA / Finance Cost	4.0	1.8	1.4	1.4
b FCFO / Finance Cost + CMLTB + Excess STB	4.0	0.8	1.1	1.0
c Debt Payback (Total Borrowings + Excess STB) / (FCFO - Finance Cost)	0.7	4.0	1.0	2.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings + Shareholders' Equity)	39.7%	72.8%	75.0%	75.2%
b Interest or Markup Payable (Days)	250.6	81.2	99.4	103.6
c Entity Average Borrowing Rate	6.5%	9.2%	14.5%	10.6%

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	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-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
C	
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 conditions.
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 surveil 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):

Entities

- Broker Entity Rating
- Corporate Rating
- Financial Institution Rating
- Holding Company Rating
- Independent Power Producer Rating
- Microfinance Institution Rating
- Non-Banking Finance Companies (NBFCs) Rating

Instruments

- Basel III Compliant Debt Instrument Rating
- Debt Instrument Rating
- Sukuk Rating

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(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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Conduct of Business

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- (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).
- (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)
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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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)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (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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