



The Pakistan Credit Rating Agency Limited

Rating Report

Sadiq Poultry (Pvt.) Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Mar-2019	A-	A1	Stable	Maintain	-
18-Sep-2018	A-	A1	Stable	Maintain	-
22-Mar-2018	A-	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Poultry is one of the largest agro based segment in Pakistan, accounting both domestic & commercial poultry. With an investment of almost PKR 700 billion in FY18, industry had an annual growth of 10%. Pakistan is sufficient in poultry meat and egg production. However, lacks in per capita protein consumption remains low when compared to the world's average.

The ratings reflect Sadiq Poultry's association with an established vertically integrated poultry group, named SB Group. The company enjoys established profile in its business – broiler, chicken, eggs and day old chicks. It is a leading player in these segments. After significant expansion in capacities, margins improved as the management kept the cost under control and has economies of scale. Nevertheless, the Company remains exposed to volatility in prices and contingent health risk to its products (live chicken stock). Procuring feed in bulk from group's own company creates synergies. The Company's financial risk profile is characterized by moderate leverage and adequate coverages. The loan mix is skewed towards short term borrowings to meet working capital needs.

The ratings are dependent on the management's ability to prudently manage the business risk for of perishable consumer products, while sustaining business margins. Moreover, governance framework needs attention. Meanwhile, prudent management of working capital and maintaining strong coverages remain critical.

Disclosure

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



Profile

Legal Structure Sadiq Poultry (Pvt.) Ltd. 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 Apr, 1975. Today, the Group is known as one of the leaders in poultry operating under the brand name of Sadiq.

Operations The Company is primarily operating poultry breeding units/farms, broiler production farms, commercial egg production and layer units, poultry hatcheries, livestock pharmaceuticals, grain storage and livestock feeds, paper pulp tray production plant and organic fertilizer plants. During the year, the Company leased its fixed assets to its associated entities Salman Poultry and Zubair Feeds along with transfer of inventory as a part of Group level business re-structuring.

Ownership

Ownership Structure Sadiq Poultry's major shareholding vests with Dr. Muhammad Sadiq (70%); followed by his two sons, Mr. Asif Zubair (15%) and Mr. Salman Sadiq (15%).

Stability Ownership of the business is seen as stable as the major ownership vests with Dr. M. Sadiq. While ownership is not expected to change, the Company is in the process of re-structuring assets in its Group among associated entities.

Business Acumen Sadiq Group has experienced multiple business cycles, maintaining their league since 1975. The Group's broiler farms are among the highest chick producers in Pakistan. Currently, there are six Companies and one Trust working under Sadiq Group. All Companies are operating in various segments.

Financial Strength Sadiq Group has consolidated asset base of ~PKR 35bln supported by an equity of the ~PKR 10.5bln as at end Jun' 2018. Through its diverse set of businesses, it has generating a turnover of ~PKR 43bln and a pre-tax bottom line of ~PKR 948mln in FY18.

Governance

Board Structure Sadiq Poultry's Board, comprising three members, is dominated by the sponsoring family. The Company's Board lack independence, indicating room for improvement in the Company's governance framework.

Members' Profile All the BoD members have relevant expertise. Dr. Muhammad Sadiq, Board's Chairman, holds a DVM degree and has four decades of experience in poultry and integrated businesses. Mr. Asif Zubair and Mr. Salman Sadiq, Directors of the Company, are US graduates and have an experience of more than 10 years.

Board Effectiveness Keeping in view the size of the Board, absence of sub-committees may not impact Board's effectiveness. During FY18, four Board meetings, with full/majority attendance, were held to discuss pertinent matters and make strategic decisions.

Financial Transparency Sadiq Poultry's external auditors, Muniff Ziauddin and Co. Chartered Accountants, have expressed an unqualified opinion on the financial reports for FY18. The firm has been QCR rated by ICAP and are in Category 'A' of 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 Sadiq Poultry's management comprise experienced professionals. Dr. Muhammad Sadiq, Group's CEO, has headed several national and international forums and is also recognized as a leading authority on poultry sciences and avian welfare.

Effectiveness Management ensures effectiveness through Technical, Interview and Operational committee, established at the Group level. Weekly meetings are held by these committees to discuss the performance and issues faced by each department.

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

Control Environment At Sadiq Poultry, internal audit department has been established at the Group level to ensure internal controls. The Company's breeder farms, broiler farms and hatcheries are fully equipped with environmentally controlled systems.

Business Risk

Industry Dynamics Poultry is one of the largest agro based segment in Pakistan, accounting both domestic & commercial poultry. With an investment of almost PKR 700 billion in FY18, industry had an annual growth of 10%. Pakistan is sufficient in poultry meat and egg production. However, lacks in per capita protein consumption remains low when compared to the world's average.

Relative Position Sadiq Poultry's has 25% share in the market. Despite being the market leader, the Company's control over the market price is negligible.

Revenues Sadiq Poultry's sales mix comprises day old chicks - 46%, table eggs - 34%, and broiler meat - 4%. The business was segregated among group companies namely Salman Poultry and Zubair Poultry. Post this restructuring, the Company posted revenue of PKR 5.2bln in 1HFY19, down by 2% (1HFY18: PKR 5.3bln).

Margins Gross margins for 1HFY19 increased to ~14% due to efficiency in the production process achieved from better management control. On the other hand, price hikes in other input costs (poultry feed) was catered to by passing on the increase to customers. Operating costs remained under control leading to operating margins averaging ~8% in 1HFY19 in comparison to ~6% in FY18. Despite higher finance costs, net profit margins improved to ~6% in 1HFY19 in comparison to ~3% in FY18 on the back of rental income from associated companies for leased assets.

Sustainability The Company does not plan on enhancing its capacities in the near future.

Financial Risk

Working Capital Sadiq Poultry has a networking capital days of 119 days in 1HFY19 (FY18: 118 days). Working capital days emanate predominantly from high finished goods inventory days (day old chicks and eggs). Average debtor days surged to 51 days in 1HFY19 from 35 days in FY18 on the back of receivables from associated companies to whom inventory had been transferred during the period as a part restructuring. Average creditor days increase to 20 days 1HFY19 in from 14 days in FY18 to manage working capital flows. Despite the increase in working capital days, the Company maintains cushion in times borrowing lines.

Coverages The Company maintained adequate coverages with interest coverage of 4.7x during 1HFY19 on the back of improved FCFO. Core Coverage improved to 2x end of 1HFY19 owing lower upcoming maturities of long-term debt.

Capitalization The Company has a moderately leveraged capital structure with short term borrowings comprising 70% of the total debt. As the Company settles its long-term debt the leveraging reduced to ~38% at end 1HFY19 from ~42% at end FY18. Current maturities will be settled through internal cashflows. As the Company plans for no capacity enhancements in the near future, no borrowings expect for working capital requirement needs are expected.



**Sadiq Poultry (Private) Limited
Private Limited**

BALANCE SHEET

	Dec-18 6M	Jun-18 12M	Jun-17 12M	Jun-16 12M
Non-Current Assets	4,423	4,416	4,708	4,975
Investments (Incl. Associates)	-	-	-	-
Equity	-	-	-	-
Fixed Income	-	-	-	-
Current Assets	5,949	5,407	3,537	3,378
Inventory	2,677	2,358	2,650	2,375
Trade Receivables	1,527	1,405	425	225
Others	1,745	1,644	463	778
Total Assets	10,372	9,823	8,245	8,353
Debt/Borrowings	2,933	3,281	3,141	3,167
Short-Term	2,040	2,101	1,473	1,322
Long-Term (Incl. Current Maturity of Long-Term Debt)	893	1,181	1,668	1,845
Other Short-Term Liabilities	2,151	1,546	382	734
Other Long-Term Liabilities	440	440	441	326
Shareholder's Equity	4,847	4,556	4,281	4,126
Total Liabilities & Equity	10,372	9,823	8,245	8,353

INCOME STATEMENT

Turnover	5,220	9,451	10,680	7,073
Gross Profit	749	1,249	1,210	927
Net Other Income	69	74	1	30
Financial Charges	(144)	(293)	(237)	(214)
Net Income	291	275	155	111

CASH FLOW STATEMENT

Free Cash Flow from Operations (FCFO)	674	1,374	981	826
Total Cashflows (TCF)	674	1,374	981	826
Net Cash changes in Working Capital	342	(601)	(328)	(146)
Net Cash from Operating Activities	867	486	400	453
Net Cash from Investing Activities	(466)	(554)	(630)	(847)
Net Cash from Financing Activities	(348)	121	(117)	702
Net Cash generated during the period	52	53	(347)	308

RATIO ANALYSIS

Performance

Turnover Growth (vs SPLY)	-1%	-12%	51%	-1%
Gross Margin	14%	13%	11%	13%
Net Margin	6%	3%	1%	2%
ROE	12%	6%	4%	3%

Coverages

Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+Uncovered STB)	2.0	1.5	1.0	1.0
Interest Coverage (X) (FCFO/Gross Interest)	4.7	4.7	4.1	3.9

Capital Structure (Total Debt/Total Debt+Equity)

Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	119	118	89	99
Capital Structure (Total Debt/Total Debt+Equity)	38%	42%	42%	43%

Sadiq Poultry (Private) Limited

Feb-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	
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.
AA+ 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.	A1	A strong capacity for timely repayment.
A+ 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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ 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.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ 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.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	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.		
D	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.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (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)

Independence & Conflict of interest

- (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)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (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)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent