



The Pakistan Credit Rating Agency Limited

Rating Report

Hi-Tech Feeds (Pvt.) Limited

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
17-Jul-2019	BBB-	A3	Stable	Maintain	-
15-Jan-2019	BBB-	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Among the largest agro based segments in Pakistan, poultry holds a prominent place. Poultry feed manufacturing formally started in Pakistan in early 1960's as home mixtures as well as in commercial feed mills. Today, there are around ~ 350 feed mills, with annual production capacity of around 8 MMT. Increase in income levels and expanding population, pushes demand for poultry; however, higher conversion ratio has stagnated volumetric growth . This remains a competitive business where volumes and margins are function of timeliness and cost of procuring raw material along with favorable supply chain dynamics of various feed mills.

The ratings reflect Hi-Tech Feeds (Pvt.) Limited association is with an established poultry group, Hi-Tech Group. The Company is part of Group's integrated poultry chain – oil/meal, feed and poultry and enjoys a moderate market share with good Feed Conversion Ratio. Turnover witnessed an incline due to improved efficiency of poultry feed, despite higher competition as many small players have entered the market. However, business margins and profitability remain on the lower side; and are dependent on timely purchase of key raw materials leading to higher working capital requirement. Leveraging is characterized as high, consisting of short-term borrowings only, to fund the inventory and provide financial support to Group's own companies. This could exert pressure on the financial profile of the Company in the rising interest rate scenario, going forward, Moreover, coverages remain stressed.

The ratings are dependent on the management's ability to build profitable volumes while improving its margins. Financial discipline remains crucial. Envisaged improvement in business and financial profile along with strengthening of governance framework would be beneficial. Any further deterioration in margins and/or coverages will have negative impact on ratings.

Disclosure	
Name of Rated Entity	Hi-Tech Feeds (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Criteria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study Poultry Feed(Mar-19)
Rating Analysts	Silwat Malik silwat.malik@pacra.com +92-42-35869504

Profile

Legal Structure Hi-Tech Feeds (Pvt.) Limited is incorporated as a Private Limited Company.

Background In 1980, the Sponsors started from small scale poultry breeder business and later diversified vertically across the poultry supply chain. Today, the Group has poultry feed mills, poultry farms, rice processing unit, edible oil mill and a veterinary pharmaceutical unit. Hi-Tech Feeds' became formally operational in 1985 when the Company set up its first feed mill in Lahore. Another feed mill was setup in Sahiwal in 2009.

Operations Hi-Tech Feeds is primarily engaged in the production and sale of poultry feed for breeder chicks, broiler and layers. The Company has two feed production units. Unit I, located in Lahore, manufactures feed at an installed capacity of 100 MT per hour. While, Unit II, located in Sahiwal, has an installed capacity of 90 MT per hour. The Company is well equipped with the modern technologies and is considered a high quality of feed manufacturer. Currently, the Company has 200 permanent employees and 400-1000 contractual employees depending upon the seasonality in the business.

Ownership

Ownership Structure Hi-Tech Feeds, like other Group Companies, is equally (25%) owned by Dr. Muhammad Arshad, Dr. Abdul Qayyum, Dr. Muhammad Asim Khan and Dr. Anwar Mahmood Randhawa.

Stability Ownership of the business is seen as stable as equal ownership vests with the Sponsors. Moreover,, the second generation of the Sponsors have recently joined the Group Companies.

Business Acumen Hi-Tech Group entered into the business arena in 1980. The Group's first venture was Hi-Tech Feeds (Pvt.) Limited. Later, the Group set up various business entities across poultry supply chain. Over time, the Group has experienced multiple business cycles. Today, Hi-Tech Group is ranked among the leading players in poultry industry of Pakistan.

Financial Strength Hi-Tech Group comprises four Companies and two Association of Persons. In 9MFY19, Hi-Tech Group had a total annual turnover ~ PKR 22bln with an equity base of PKR 3.8bln. Total PAT generated by the Group was PKR 274mln, during the year.

Governance

Board Structure Hi-Tech Feeds BoD comprises four Executive Directors, who are also the Sponsors of the Company. Absence of non-executive Director and lack of independent oversight indicates a room for improvement in the Company's governance framework.

Members' Profile All four Directors hold a veterinary degree and are very well equipped with the relevant industry's knowledge. The Board's Chairman, Dr. Anwar Mahmood Randhawa, is a Doctor of Veterinary Medicine. He has overall experience of 44 years in poultry and integrated businesses. Dr. Anwar is a member of Standing Committee (North) in Pakistan Poultry Association.

Board Effectiveness During 9MFY19, the Board met informally to discuss pertinent matters and make strategic decisions, with majority attendance. However, minutes of these meeting are not formally kept. Sub-committees are not in place in the Company.

Financial Transparency Hi-Tech Feeds external auditors, M/s Hameed Zahid & 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 and is not in the SBP panel of auditors.

Management

Organizational Structure Hi-Tech Feeds operates through six departments; Procurement, Production, Marketing and Sales, Finance, Information Technology and Tax. Both of the Company's feed mills are monitored by their respective GM Productions. All Departmental Heads report to the Company's CEO, who then makes pertinent decisions. As the Company's CEO is making key decisions, this highlights key man's risk of management.

Management Team Hi-Tech Feeds CEO, Dr. Muhammad Arshad laid the foundation of the Group and set up Hi-Tech Feeds. He actively participates in many international and local seminars on poultry, feed milling and veterinary pharmaceutical industry. He is assisted by a team of experienced professionals. Mr. Abid Shiko, the Company's CFO, has an overall experience of 22 years and is associated with Hi-Tech Group from 13 months. Dr. Muhammad Athar, GM Production, has an overall experience of 30 years and is associated with Hi-Tech Feeds' from past 28 years.

Effectiveness At Hi-Tech Feeds, management committees are not formally in place. However, pertinent matters in the Company are discussed by the four Directors/Sponsors as per requirement. No formal documentation of these discussion sessions are maintained.

MIS Hi-Tech Group has built a customized software in-house to monitor and generate reports relating to the Company's inventory management, sales, receivables and payables. To ease out other functions, many other modules are in the development stage. Moreover, the Company's feed manufacturing facilities are fully automated.

Control Environment To ensure operational efficiency, an internal audit function is placed at Group level, which implements and monitors the policies and procedures of the Company. 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 industry is experiencing ~4 to 5% growth.

Relative Position Hi-Tech Feeds has secured prominent position in the market due to its high FCR, culminating in an increased demand for their product. The Company is ranked among the second tier players of poultry feed industry

Revenues Hi-Tech Feeds generates revenue by manufacturing and selling variants of poultry feed. The Company generates a significant share of revenue from central region of the country. Comparing Group to external sales, the latter dominates the sales mix. In 9MFY18, the Company's top line witnessed a volumetric increase of 19% due to high demand from the poultry sector (9MFY19: 7.3bln, FY18: PKR 8.2bln). Moreover, continuous research and development in the feed ingredients have improved its efficiency and thus giving an FCR of around 1.5x. Entrance of new and small players have put pressure on the Company's sales.

Margins The Company's gross margins deteriorated on the back of procuring bulk of maize - main raw material, at high rates (9MFY19: 7.9%, FY18: 8.6%). Continuous R&D for improving feeds efficiency significantly reduced the quality claims, leading to improved operating margins (9MFY19: 4.8%, FY18: 4%). However, the margins remain lower when compared to peers.

Sustainability Currently, Hi-Tech Feeds is not fully utilizing its production capacity, yet they aim to do so by keeping their costs under control. No further capacity expansions are planned. The Company is focused on boosting sales and efficiency.

Financial Risk

Working Capital Hi-Tech Feeds working capital needs originates from financing and storing maize and soybean meal in bulk. Improved, however high inventory levels, kept the working capital days on the higher side (9MFY19: 107 days, FY18: 72 days). Receivable days (9MFY19: 40 days, FY18: 44 days) emanates from credit terms of 45 - 50 days and showed slight improvement. The Company procures raw materials on credit. Reduced reliance on trade payable to finance the working capital requirement led to dip in the creditor days (9MFY19: 75 days, FY18: 127 days). However, strict discipline in the working capital management is required to improve the short term borrowing buffer.

Coverages Hi-Tech Feeds interest coverage (9MFY19: 1.9x, FY18: 2.3x) is a function of decline in the Company's free cash flows (9MFY19: PKR 360mln FY18: PKR 407mln). Increase of 26% in the short term borrowings of the Company stressed the core and total coverage ratios (9MFY19: 1x, FY18: 1.6x.).

Capitalization Hi-Tech Feeds has relatively reduced its reliance on trade creditors to finance seasonal procurement of Maize in bulk and investing in other Group Companies, therefore short term borrowings have witnessed an increase (9MFY19: 4.5bln, FY18: PKR 3.6bln) leading to increased leveraging (9MFY19: 76%, FY18: 73%). The Company has relatively small equity base when compared to peers.



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Financial Summary

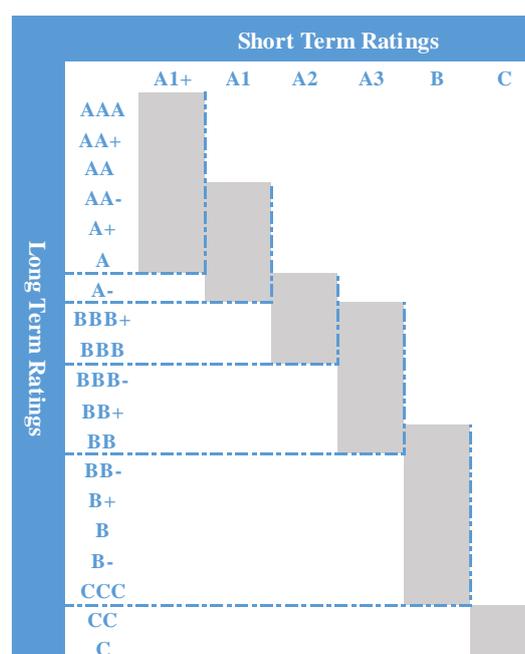
PKR mln

Hi-Tech Feeds (Pvt.) Limited Poultry Feeds	Mar-19 9M	Jun-18 12M	Jun-17 12M	Jun-16 12M
A BALANCE SHEET				
1 Non-Current Assets	933	935	1,123	1,003
2 Investments	-	85	-	-
3 Related Party Exposure	1,019	882	552	646
4 Current Assets	6,343	5,770	5,397	7,544
<i>a Inventories</i>	3,937	3,488	3,409	5,316
<i>b Trade Receivables</i>	1,248	886	1,090	1,228
5 Total Assets	8,295	7,672	7,072	9,193
6 Current Liabilities	2,096	2,282	3,764	5,857
<i>a Trade Payables</i>	1,934	2,072	3,585	5,659
7 Borrowings	4,474	3,556	1,567	1,698
8 Related Party Exposure	172	386	385	379
9 Non-Current Liabilities	137	131	148	135
10 Net Assets	1,416	1,317	1,208	1,124
11 Shareholders' Equity	1,416	1,317	1,208	1,124
B INCOME STATEMENT				
1 Sales	7,302	8,160	8,630	10,065
<i>a Cost of Good Sold</i>	(6,726)	(7,460)	(8,080)	(9,540)
2 Gross Profit	576	699	549	525
<i>a Operating Expenses</i>	(225)	(351)	(355)	(367)
3 Operating Profit	351	348	194	158
<i>a Non Operating Income or (Expense)</i>	(6)	(36)	42	27
4 Profit or (Loss) before Interest and Tax	346	313	236	185
<i>a Total Finance Cost</i>	(205)	(185)	(151)	(66)
<i>b Taxation</i>	(41)	(19)	(1)	(60)
6 Net Income Or (Loss)	100	108	84	59
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	360	408	199	186
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	178	238	56	131
<i>c Changes in Working Capital</i>	(1,450)	(1,083)	(60)	(443)
1 Net Cash provided by Operating Activities	(1,271)	(845)	(4)	(312)
2 Net Cash (Used in) or Available From Investing Activities	25	(521)	(180)	(97)
3 Net Cash (Used in) or Available From Financing Activities	917	2,305	(246)	497
4 Net Cash generated or (Used) during the period	(329)	939	(430)	88
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	19.3%	-5.4%	-14.3%	--
<i>b Gross Profit Margin</i>	7.9%	8.6%	6.4%	5.2%
<i>c Net Profit Margin</i>	1.4%	1.3%	1.0%	0.6%
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	5.4%	5.4%	4.0%	2.8%
<i>e Return on Equity (ROE)</i>	9.7%	8.6%	7.2%	5.3%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	182	198	234	226
<i>b Net Working Capital (Average Days)</i>	107	72	38	21
<i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>	3.0	2.5	1.4	1.3
3 Coverages				
<i>a EBITDA / Finance Cost</i>	2.1	2.4	2.4	4.6
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.0	1.6	1.1	1.8
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	1.0	0.3	3.2	1.4
4 Capital Structure (Total Debt/Total Debt+Equity)				
<i>a Total Borrowings / Total Borrowings+Equity</i>	76.0%	73.0%	58.4%	62.0%
<i>b Interest or Markup Payable (Days)</i>	50.4	56.0	43.9	90.4
<i>c Average Borrowing Rate</i>	6.3%	6.9%	8.3%	3.3%

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

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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.
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- (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)
- (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)

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