



The Pakistan Credit Rating Agency Limited

Rating Report

Mumtaz Feed Mills (Pvt.) Limited

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Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|--------------------|------------------|-------------------|---------|---------|--------------|
| 12-Nov-2019 | BB+ | A3 | Stable | Upgrade | - |
| 27-May-2019 | BB | A3 | - | Initial | - |

Rating Rationale and Key Rating Drivers

The global feed industry is valued at ~ \$460bln, with poultry (~\$166bln) constituting ~36% of the total industry. Pakistan produces ~8mln MT of feed annually with a total of ~150 registered feed mills, and ~200 unregistered feed mills catering to it.

The ratings reflect Mumtaz Feed Mills (Pvt.) Limited's (Mumtaz Feed) developing business profile in the Poultry Feed Industry. Two years ago, the Company entered the feed business by manufacturing and selling Broiler and Layer Feed. The Company has a relatively small top-line and lower margins when compared to its peers. Utilization level remains low, though, have improved on timeline basis. The Company remains exposed to inherent risks in the feed industry emanating from raw material price changes and disease risk in poultry farms. The Company's working capital remains in check on account of procuring raw materials on cash and prudent debtor management. The Company enjoys synergies as it procures raw material (mainly soybean meal) from associated concern. Mumtaz Feed financial profile is characterized by an aggressively leveraged capital structure. Financial support from Sponsors, in the form of loan, provides comfort to the ratings. The leveraging may rise in future in line with expanding operations. Going forward, additional debt and rising interest rate scenario may exert pressure on the Company's cashflows and coverage ratios. During the year, the Company changed its Auditor (SBP Panel 'B' auditor appointed) and strengthened its control mechanism.

The ratings are dependent on the management's ability to gain market share, improve margins, and, in-turn, profitability. Maintaining strict working capital discipline and maintaining adequate leveraging remain critical. Any significant deterioration in margins and/or coverage's will have negative impact on the ratings.

Disclosure

| | |
|------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Name of Rated Entity | Mumtaz Feed Mills (Pvt.) Limited |
| Type of Relationship | Solicited |
| Purpose of the Rating | Entity Rating |
| Applicable Criteria | Methodology Corporate Ratings(Jun-19),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria Rating Modifier(Jun-19) |
| Related Research | Sector Study Poultry Feed(Mar-19) |
| Rating Analysts | Ayesha Malik ayesha.malik@pacra.com +92-42-35869504 |

Profile

Legal Structure Mumtaz Feed and Allied Industries (Pvt.) Ltd ("The Company" or "Mumtaz Feed") was incorporated as a private limited company in Mar-16.

Background The Sponsors have been associated with the poultry feed industry for fifteen years in different capacities. In 2016, they collaborated to incorporate Mumtaz Feed. A year later, the Company started commercial production of poultry feed.

Operations Mumtaz Feed is primarily involved in manufacturing and sale of poultry feed in sixteen variants. The Company has an installed annual production capacity of 109,500 MT (15 MT per hour) with capacity utilization of 60%. The management plans to expand the installed capacity to 292,000 MT (40 MT per hour). The Company's head office and production plant are located in Multan.

Ownership

Ownership Structure Major shareholding of Mumtaz Feed resides with Mr. Aamir Ali Khan (35%), followed by Mr. Muhammad Umer (20%). Mr. Nasir Malik and his brother Mr. Yasir Malik owns an equal stake (~ 17.5%) in the Company. The remaining stake vests with Dr. Muhammad Aslam (10%).

Stability Ownership of the Company vests among five sponsors with no formal succession plan.

Business Acumen The Sponsors have been part of the poultry industry for more than a decade and are well aware about the industry's business cycles.

Financial Strength The Company's financial strength is represented through the support of its Sponsors and associated entities having vested interest in the poultry feed industry. During FY19, the Sponsors of the Company had a collective total net asset base of ~ PKR 82mln.

Governance

Board Structure The Company's Board of Directors comprise one Executive Director and two Non-Executive Directors. Lack of Independent oversight signifies a weak governance structure.

Members' Profile Board's Chairman, Mr. Aamir Ali Khan has been associated with the sale of poultry feed and trading Soybean meal for more than two decades.

Board Effectiveness To ensure effectiveness, the Board has formed two sub-committees, Audit & Risk Management and Procurement & Development. During FY19, several BoD and sub-committee meetings were held with high participation. Minutes of these meetings are not formally documented, indicating room for improvement.

Financial Transparency During FY19, the Company changed their external auditor by appointing Mudassar Ehtisham & Co., Chartered Accountants. The firm is QCR rated and in category 'B' of SBP panel. The auditor have expressed an unqualified opinion on the financial statements of the Company ending in Jun-19.

Management

Organizational Structure The Company has developed a horizontal organizational structure. The core functions such as Production, Marketing and Procurement are headed by respective General Managers reporting to the CEO. Other functions such as Accounts, Human Resource and Information Technology are shared with associated entities.

Management Team The management comprises experienced individuals with relevant technical know-how. Mumtaz Feed's CEO, Mr. Aamir Ali Khan, has been associated with the sale of poultry feed and trading Soybean meal for more than two decades. Dr. M. Aslam, General Manager Production, holds an Msc (Hons) in animal nutrition. He has an overall experience of more than a decade in poultry feed manufacturing and formulation. General Manager Sales and Logistics also has over 15 years of experience in feed industry.

Effectiveness There are no management committees in place to monitor management's effectiveness.

MIS The Company developed an in-house software with three modules - Financial Accounting, Sale Purchase and Software Security - designed to meet the need for accounting and inventory management. Financial statements are prepared on a quarterly basis, while production, sales, receivables, and stock reports are prepared on a weekly and monthly basis.

Control Environment Internal audit function is not in place at the Company leading to operational risk concerns. However, the Company emphasizes on quality control measures with strict policies to comply with food authority's regulatory framework.

Business Risk

Industry Dynamics From a Global perspective, the feed industry is valued at ~\$460bln. Poultry constitutes 36% of the total industry ~ \$166bln. Pakistan produced ~ 8mln MT of Feed production in FY19. There a total of ~150 registered feed mills, with ~200 unregistered feed mills catering to Pakistan's feed industry.

Relative Position Mumtaz Feed has recently ventured into the poultry feed industry. It's a small player and contributes only 109,500 MT in the country's annual feed production, translating into ~1.4% market share.

Revenues The Company generates revenue by selling sixteen poultry feed variants from Southern and Central region of the country. Top four products make up a significant portion (~75%) of the total revenue. The Company posted a significant growth in revenues a year after commencing operations (FY19: PKR 1.5bln, FY18: PKR 428mln). This increase was mainly backed by higher capacity utilization as well as better prices in FY19. In comparison to peers, the Company has a relatively small topline. The capacity utilization is improving.

Margins Mumtaz Feed has registered increasing margins since its inception. During FY19, the Company's gross margins stood at 7.5% owing to rise in sale prices and operational efficiencies gained from improving the utilization levels. Operating margins stood at 3.5% due to a drop in marketing cost. Bottom-line closed in at ~ PKR 33mln in FY19. Despite the increasing trends, margins remain lower than industry averages, while the Company focuses on expanding its customer base.

Sustainability Going forward, the Company intends to increase the installed production capacity to 40MT per hour from existing 15MT per hour. The management foresees an increased market share in poultry industry by focusing on improved quality at better price.

Financial Risk

Working Capital The Company's working capital management is a function of its inventory held days. In a bid to purchase raw-materials at lower prices and to maintain sufficient stock levels, the Company keeps around 60 days inventory. Effective control on stock of finished goods have helped average inventory levels float around 62 days in FY19. Prudent management of debtors is reflected in average debtor days as they range between 11 - 27 days. Payable days have also come down (FY19: 31 days, FY18: 80 days) as the Company has reverted to early payments to seek discounts. Therefore, during FY19, effective working capital days, came down (FY19: 45 days, FY18: 63 days).

Coverages The Company's cashflows increased based on better profitability though quantum remains small. Free cash flow during FY19 stood at ~PKR 64mln (FY18: PKR 12mln). Dip in short-term borrowings and interest free loans from Sponsor helped the Company to maintain strong coverage ratios. During FY19, interest coverage stood at ~ 8.6x. Core and Total debt coverage ratio come down to 7.5x (FY18: 10.9x), due to higher utilization of short-term borrowings. Going forward, additional debt and rising interest rate scenario exert pressure on the Company's cashflows and coverage ratios.

Capitalization The Company's capital structure remains stretched and mainly comprise long term borrowings, in form of loan from Sponsor, needed to fulfill the inclining working capital requirements. Short term borrowings stood at PKR 50mln in FY19. The total debt stood expanded by ~ 174% (FY19: PKR 323mln, FY18: PKR 118mln). Going forward, the management plans to inject equity resulting in an increased authorized and paid up capital (PKR 70mln). This will bring leveraging to an adequate level amid growing operations of the Company.



| Mumtaz Feed and Allied Industries (Pvt.) Limited Poultry Feed | Jun-19 12M | Dec-18 6M | Jun-18 12M |
|------------------------------------------------------------------|---------------|--------------|---------------|
|------------------------------------------------------------------|---------------|--------------|---------------|

A BALANCE SHEET

| | | | |
|--------------------------------|------------|------------|------------|
| 1 Non-Current Assets | 178 | 173 | 62 |
| 2 Investments | - | - | - |
| 3 Related Party Exposure | - | - | - |
| 4 Current Assets | 546 | 524 | 232 |
| <i>a Inventories</i> | 382 | 423 | 137 |
| <i>b Trade Receivables</i> | 85 | 70 | 31 |
| 5 Total Assets | 724 | 697 | 294 |
| 6 Current Liabilities | 190 | 147 | 104 |
| <i>a Trade Payables</i> | 165 | 135 | 94 |
| 7 Borrowings | 52 | 92 | 3 |
| 8 Related Party Exposure | 272 | 272 | 115 |
| 9 Non-Current Liabilities | 2 | 2 | 2 |
| 10 Net Assets | 209 | 186 | 71 |
| 11 Shareholders' Equity | 210 | 186 | 71 |

B INCOME STATEMENT

| | | | |
|---------------------------------------------------|------------|-----------|-----------|
| 1 Sales | 1,527 | 808 | 428 |
| <i>a Cost of Good Sold</i> | (1,412) | (760) | (411) |
| 2 Gross Profit | 115 | 48 | 18 |
| <i>a Operating Expenses</i> | (62) | (33) | (12) |
| 3 Operating Profit | 54 | 15 | 6 |
| <i>a Non Operating Income or (Expense)</i> | 1 | 1 | 0 |
| 4 Profit or (Loss) before Interest and Tax | 54 | 16 | 6 |
| <i>a Total Finance Cost</i> | (8) | (2) | (0) |
| <i>b Taxation</i> | (14) | (4) | (4) |
| 6 Net Income Or (Loss) | 33 | 10 | 2 |

C CASH FLOW STATEMENT

| | | | |
|----------------------------------------------------------------------------|--------------|--------------|-------------|
| <i>a Free Cash Flows from Operations (FCFO)</i> | 64 | 19 | 12 |
| <i>b Net Cash from Operating Activities before Working Capital Changes</i> | 64 | 19 | 12 |
| <i>c Changes in Working Capital</i> | (243) | (296) | (76) |
| 1 Net Cash provided by Operating Activities | (179) | (277) | (64) |
| 2 Net Cash (Used in) or Available From Investing Activities | (133) | (119) | (28) |
| 3 Net Cash (Used in) or Available From Financing Activities | 311 | 351 | 118 |
| 4 Net Cash generated or (Used) during the period | (1) | (45) | 25 |

D RATIO ANALYSIS

| | | | |
|---------------------------------------------------------------------------|--------|--------|-------|
| 1 Performance | | | |
| <i>a Sales Growth (for the period)</i> | 256.7% | 277.4% | -- |
| <i>b Gross Profit Margin</i> | 7.5% | 5.9% | 4.1% |
| <i>c Net Profit Margin</i> | 2.2% | 1.2% | 0.5% |
| <i>d Cash Conversion Efficiency (EBITDA/Sales)</i> | 4.2% | 2.4% | 2.8% |
| <i>e Return on Equity (ROE)</i> | 23.6% | 14.9% | 2.9% |
| 2 Working Capital Management | | | |
| <i>a Gross Working Capital (Average Days)</i> | 76 | 75 | 143 |
| <i>b Net Working Capital (Average Days)</i> | 45 | 49 | 63 |
| <i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i> | 2.9 | 3.6 | 2.2 |
| 3 Coverages | | | |
| <i>a EBITDA / Finance Cost</i> | 8.6 | 8.3 | 83.4 |
| <i>b FCFO / Finance Cost+CMLTB+Excess STB</i> | 7.5 | 6.9 | 10.9 |
| <i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i> | 4.8 | 8.1 | 10.0 |
| 4 Capital Structure (Total Debt/Total Debt+Equity) | | | |
| <i>a Total Borrowings / Total Borrowings+Equity</i> | 60.7% | 66.1% | 62.3% |
| <i>b Interest or Markup Payable (Days)</i> | 0.0 | 0.0 | 0.0 |
| <i>c Average Borrowing Rate</i> | 3.4% | 1.9% | 0.1% |

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.

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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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- (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)
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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)

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- (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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