The Pakistan Credit Rating Agency Limited

Rating Report

Islamabad Feeds (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-Sep-2024	BBB	A2	Stable	Maintain	-
15-Sep-2023	BBB	A2	Stable	Maintain	-
16-Sep-2022	BBB	A2	Stable	Maintain	-
16-Sep-2021	BBB	A2	Stable	Maintain	-
19-Jan-2021	BBB	A2	Stable	Maintain	-
26-Aug-2020	BBB	A2	Negative	Maintain	Yes
03-Sep-2019	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflects Islamabad Feeds (Pvt.) Limited's (or 'the Company') established presence across the poultry sector, encompassing feed production, hatcheries, broiler operations, and layer farms. The Company remains exposed to market risks stemming from fluctuations in demand and supply, as well as industry-wide shortages. Pakistan faces various challenges, including disease outbreaks, feed quality issues, high production costs, non-availability of locally grown crops like soybeans, and increasing interest rates. However, the industry is expected to be stable during FY25 on account of improving macro-economic indicators and reduced interest rates. The ownership structure is considered stable, evidenced by the successful integration of the second generation into the family business, ensuring continuity and growth. Additionally, the current leadership demonstrates a deep and proficient understanding of the poultry industry. The Company's Board lacks independence oversight and diversity, indicating room for improvement. The management implemented a strategic decision to reduce sales volume to enhance the efficiency of working capital management hence reducing short-term borrowing. As a result, during 9MFY24, the Company experienced a ~59% decrease in sales, with total revenue reaching PKR 6bln. The Company has significantly enhanced its margins through strategic cost reductions including operational cost, leading to a notable rise in gross margins from 5.7% (9MFY23) to 14.5% (9MFY24). On the financial front, the Company faced challenges with deteriorated working capital days driven by reduced sales of finished stock. Higher finance cost due to high interest rates further impacted the profitability. Consequently, during 9MFY24 the net income significantly dropped to PKR 25mln (9MFY23: PKR 162mln). The Company maintains an aggressively leveraged capital structure of 55.8%, relying on short-term borrowings to meet its working capital requirements. To strengthen financial stability, the Company has devised a comprehensive strategy to reduce overall borrowing, which includes engaging with banks to restructure existing debt. Additionally, to strengthen the equity position, the sponsor has injected equity of PKR 1bln. Going forward, the leverage position of the Company is expected to improve resulting from lower debt position and stronger equity standing.

The management intends to manage the Company’s cash flows more effectively by relying on internal cash resources rather than additional external borrowing. The ratings are dependent on the management's ability to prudently manage liquidity and working capital requirements. The management's ability to build profitable volumes remains critical for the ratings. Envisioned improvement in business and financial profile along with effective changes in governance framework would be beneficial. Significant deterioration in coverages and/or margins will have a negative impact on the ratings.

Disclosure

Name of Rated Entity	Islamabad Feeds (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Rating Modifiers(Apr-24),Methodology | Corporate Rating(Jul-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24)
Related Research	Sector Study | Poultry Feed(Jan-24)
Rating Analysts	Hina Harram | hina.harram@pacra.com | +92-42-35869504

Profile

Legal Structure Islamabad Feeds (Pvt.) Limited ('Islamabad Feeds' or 'the Company') was incorporated in Aug-2008 as a Private Limited Company

Background Islamabad Feeds is an established player in the poultry industry, comprising poultry farms and feed mills. The sponsors of the Company started poultry business in 1981 and integrated by setting up poultry feed mill, poultry farms and hatcheries. The Company set up its first feed mill in Rewat in 1996. Second feed mill was setup in Okara in 2011

Operations Islamabad Feeds is primarily engaged in the production and sale of poultry feed through its two feed mills, located in Rewat and Okara. They have a combined installed capacity of 150 MT per hour, utilized up to ~50%. The Company has also set up its poultry farms for broiler chicken, in Lahore, Multan, Okara, Muree, Hyderabad, Karachi, and Attock. The bird and breeder placement capacity of these farms is around ~2mln and 1.1mln respectively.

Ownership

Ownership Structure The Company is owned by the family of late Dr. Muhammad Aslam. Majority ownership lies with Dr. Aslam's two sons, Mr. Muhammad Ali (~38.75%) and Mr. Muhammad Hassan (~33.75%). The remaining stake resides among Dr. Aslam's daughters, Ms. Saleha Aslam (~9.37%) and Ms. Yumna Aslam (~9.37%), and his wife, Mrs. Alia Mehmood (~8.75%)

Stability Ownership transition to next generation is visible, post Dr. Aslam's demise. However, the structure remains stable

Business Acumen The Company is a venture of Islamabad Group, an established player with substantial presence in Pakistan’s poultry and poultry feed industry. The Group’s flagship entity, Islamabad Feeds, has established itself as a provider of high quality poultry feed. Post Dr. Aslam's demise, the Company's succession has been mainly transferred to his sons.

Financial Strength The Group’s overall financial position and performance are strong and the Company has a asset base of ~ PKR 13bln with an equity base of ~PKR 4.5bln. Moreover, generated a ~PKR 6.4bln turnover with a PAT of ~ PKR 25mln.

Governance

Board Structure The Company's BoD comprises one Executive Director and one Non-Executive Director from the sponsoring family. Lack of independent oversight and diversity indicate room for improvement in the governance structure

Members’ Profile Mr. Ali is the Board's Chairman and has completed his Bachelor's in Business Administration from the National University of Sciences and Technology, Islamabad. He has been associated with the Group since 4 years.

Board Effectiveness There are no sub-committees of the Board. The Board meets informally to discuss pertinent matters. Minutes of these meetings are not adequately maintained

Financial Transparency The external auditors of the Company, Alam & Aulakh Chartered Accountants, have expressed an unqualified opinion on the financial statements of the Company for the year ended Jun-23. The firm has been QCR rated by ICAP but is not on SBP' panel of auditors.

Management

Organizational Structure The Company operates through Finance, Accounts, Production, Sales & Marketing, Human Resource, IT and Internal Audit division. All functional heads report to the CEO who makes strategic decisions. Thus, highlighting key man risk of management

Management Team Islamabad Feeds has an experienced management team. Mr. Ali, the Company’s CEO, graduated from the National University of Sciences and Technology in Islamabad. Mr. Muhammad Hassan serves as the Director Operations, while Dr. Mukhtar Nadeem, heads Quality Control. Mr. Muhammad Humair Ansari fulfills the role of Company Secretary, and Dr. Abid Hayat is the General Manager of Production.

Effectiveness At Islamabad Feeds, six management committees are formally in place; namely, audit, finance, sales and recovery, production, broiler, and layer farms. These committees meet informally to discuss pertinent matters and minutes are not adequately maintained.

MIS Customized software, installed by Sidat Hyder, is used at the Group level. Standardized reports are generated as per requirement

Control Environment To ensure operational efficiency, the Company has setup an internal audit function to implement the policies and procedures.

Business Risk

Industry Dynamics Pakistan has the capacity to produce ~10mln MT of feed annually. During FY24,The industry generates an estimated annual turnover of ~PKR 8bln to ~PKR 850bln 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 and maize has seen a surge. In spite of Pakistan being sufficient in poultry meat and egg production still the availability of calories per capita per day decreased compared to prior years, although it remained above the minimum calorie requirements of the general population. Despite its growth and potential, the poultry sector in Pakistan faces various challenges, including disease outbreaks, feed quality issues, high production costs, non-availability of locally grown crops like soybeans, and market fluctuations. Addressing these challenges is essential for sustaining the sector's growth and ensuring food security in the country.

Relative Position The Company has a market share of ~3.7% in terms of revenue and ~4.4% in terms of production in the poultry feeds sector.

Revenues The Company mainly generates revenue by manufacturing and selling variants of poultry feed (~55%), cattle feed (~4%) broiler meat (~7%), and eggs (~9%). Around 25% of the Company's revenue is generated by selling to the associated company, Islamabad Farms. The Company's topline posted a significant decline of ~59% and reported at ~PKR 6bln during 9MFY24 (9MFY23: ~PKR 20bln) owing to a significant volumetric decrease in feed and poultry product.

Margins During 9MFY24, the Company’s gross margins increased, and came out to be ~14% (9MFY23: ~5.7%), resulting from low manufacturing cost. On operational level, the management kept production and overhead expenses in check resulting in an increased operating margin of ~12% (9MFY23: ~4.3%). On the net level, net profit declined and stood at ~PKR 25mln (9MFY23: PKR 162mln) leading to a net profit margin of ~0.4% (9MFY23: ~0.8%). Going forward, margins are expected to shrink resulting from high input costs.

Sustainability Sustaining operations and generating sufficient cash flows are expected to improve as the prices of day-old chicks, broiler chicken and eggs have risen

Financial Risk

Working Capital Inventory days deteriorated (9MFY24: 318 days, 9MFY23: 111 days) due to excessive procurement of stock and less quantum of finished stock sold. Receivable days increased (9MFY24: 110 days, 9MFY23: 34 days) indicating delay in payments received against receipts. Payable days stood at ~94 days in 9MFY24 (9MFY23: ~45 days). As a result, net working capital days deteriorated (9MFY24: 334 days, 9MFY23: 99 days). The Company has limited room to borrow against trade assets. Going forward, the networking cycle is expected to remain stable.

Coverages The free cash flows of the Company decreased and stood at ~PKR 823mln in 9MFY24 (9MFY23: ~PKR 991mln) resulting from reduced profits. The Company finance cost stood at ~PKR 751mln in 9MFY23 (9MFY23: ~PKR 661mln). The increase in finance cost was due to increased short-term borrowings leading interest coverage ratio to shrink, which came out to be 1.1x (9MFY23: 1.5x). Core and total interest cover stood at 1.1x each in 9MFY24. Moreover, debt payback increased to 1.3x owing to increase in finance cost. Going forward, coverages are expected to be stable considering lower interest rates.

Capitalization The total debt of the Company stood at ~PKR 5.7bln as of 9MFY24 (9MFY23: ~PKR 6bln) due to lowered long-term borrowings. Short term borrowing stood at PKR 5.5bln (9MFY23: PKR 6bln) to fund the working capital requirement and constitutes ~97% of the total debt in 9MFY24. The equity base stood strong at ~PKR 4.5bln (9MFY23: ~PKR 4.2bln) supported by equity injection. Thus, the leverage ratio is considered adequate (9MFY24:~55.8%, 9MFY23: ~59%).

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Financial Summary
PKR mln

Islamabad Feeds (Pvt) Ltd.	Mar-24	Jun-23	Jun-22	Jun-21
Poultry feed	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	2,966	2,958	3,175	2,383
2 Investments	-	-	-	-
3 Related Party Exposure	231	231	186	-
4 Current Assets	10,792	10,648	11,158	9,398
a Inventories	*7,677*	*7,432*	*7,940*	*6,658*
b Trade Receivables	*2,553*	*2,678*	*2,749*	*2,096*
5 Total Assets	13,988	13,837	14,519	11,781
6 Current Liabilities	3,668	3,347	3,853	3,457
a Trade Payables	*2,346*	*2,115*	*3,390*	*3,314*
7 Borrowings	5,713	5,998	6,496	5,235
8 Related Party Exposure	-	-	194	-
9 Non-Current Liabilities	76	76	204	121
10 Net Assets	4,531	4,416	3,771	2,968
11 Shareholders' Equity	4,531	4,416	3,771	2,968
B INCOME STATEMENT				
1 Sales	6,498	21,234	20,181	16,496
a Cost of Good Sold	*(5,589)*	*(19,906)*	*(19,074)*	*(15,462)*
2 Gross Profit	909	1,328	1,106	1,034
a Operating Expenses	(127)	(361)	(263)	(279)
3 Operating Profit	782	967	843	755
a Non Operating Income or (Expense)	*0*	*16*	*(20)*	*(14)*
4 Profit or (Loss) before Interest and Tax	783	984	823	742
a Total Finance Cost	*(751)*	*(814)*	*(611)*	*(600)*
b Taxation	*(6)*	*(31)*	*(77)*	*(68)*
6 Net Income Or (Loss)	25	138	135	74
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*823*	*900*	*1,182*	*296*
b Net Cash from Operating Activities before Working Capital Changes	*77*	*306*	*616*	*(382)*
c Changes in Working Capital	*273*	*149*	*(1,786)*	*2,484*
1 Net Cash provided by Operating Activities	350	456	(1,170)	2,102
2 Net Cash (Used in) or Available From Investing Activities	(76)	9	(350)	(238)
3 Net Cash (Used in) or Available From Financing Activities	(284)	(499)	1,218	(1,515)
4 Net Cash generated or (Used) during the period	(11)	(34)	(301)	349
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-59.2%	5.2%	22.3%	0.0%
b Gross Profit Margin	14.0%	6.3%	5.5%	6.3%
c Net Profit Margin	0.4%	0.6%	0.7%	0.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	16.9%	4.9%	-3.0%	16.9%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	0.8%	3.4%	4.0%	2.5%
2 Working Capital Management				
a Gross Working Capital (Average Days)	428	179	176	194
b Net Working Capital (Average Days)	334	131	115	120
c Current Ratio (Current Assets / Current Liabilities)	2.9	3.2	2.9	2.7
3 Coverages				
a EBITDA / Finance Cost	1.2	1.2	2.0	0.6
b FCFO / Finance Cost+CMLTB+Excess STB	1.1	1.1	1.8	0.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.3	1.9	0.7	-1.4
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	55.8%	57.6%	64.0%	63.8%
b Interest or Markup Payable (Days)	127.1	154.0	70.2	43.8
c Entity Average Borrowing Rate	16.6%	12.9%	10.4%	9.1%

Credit Rating

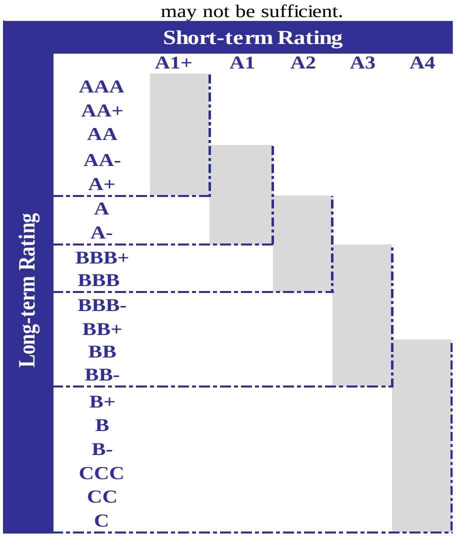
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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 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.
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.
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.
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+ 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.
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.

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
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 surveill 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):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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 | 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)
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
Proprietary Information