RATING REPORT

Haleeb Foods Limited

REPORT DATE:
December 08, 2017

RATING ANALYSTS:
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RATING DETAILS		
	Entity Ratings	
Rating Category	Long-term	Short – term
Entity	A	A-2
Rating Outlook	Stable	
Rating Date	*31 October '17*	

COMPANY INFORMATION	
Incorporated in 1984	**External auditors:** EY Ford Rhodes, Chartered Accountants
Public Limited Company	**Chairman of the Board:** Syed Mazher Iqbal
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Muhammad Memosh Khawaja
VMFG (Pvt) Limited : 56.0%	
Mr. Ilyas M. Chaudhry : 27.6%	
Ms. Nasrin Ilyas Chaudhry : 6.0%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria: Industrial Corporates (May 2016)
http://www.jcrvis.com.pk/kc-meth.aspx

Haleeb Food Limited

OVERVIEW OF THE INSTITUTION

Haleeb Food Limited (HFL) was established in 1984 under the name of Chaudhary Dairies Limited. The company started its operations in 1985-86 by launching Haleeb UHT milk.

Profile of the Chairman

Syed Mazhar Iqbal is a Chartered accountant by profession and brings with him over 30 years of experience from various reputed companies.

Profile of the CEO

Mr. Muhammad Memosh Asghar was appointed CEO of HFL in 2017. Mr. Asghar is a MBA from LUMS and has done several executive courses from leading educational institutions.

Financial Snapshot

Core Equity: 3QFY17: 4.2b; FY16: 3.5b; FY15: 2.1b

Assets: 3QFY17: 8.7b; FY16: 8.1b; FY15: 8.8b

Sales: 3QFY17: 10.0b; FY16: 15.5b; FY15: 16.3b

Profit After Tax: 3QFY17: 662m; FY16: 1.5b ; FY15: 0.9m

RATING RATIONALE

Haleeb Foods Limited (HFL) is a subsidiary of VMFG (Pvt) Limited while residual ownership resides with the Chaudhry family. The rating takes into account moderate business risk profile; the company has been able to sustain gross margins despite increasing competitive operating environment on the back of established market niche of its low end products. The ratings also incorporate low financial risk appetite emanating from its low leveraged capital structure and adequate debt service coverage. The company's moderately strong sponsor profile is also a key rating factor. The company has high concentration in product sales with limited market share in packaged milk segment.

Rating Drivers

Profitability:

Sales have witnessed a decline in FY16 and 9MFY17 on account of product price reduction and PFA awareness campaign against the tea whiteners being branded as Non-Dairy item. The company however has been able to sustain healthy margins on the back of competitive procurement of major raw materials. Profits have decreased in comparison to last years; HFL has registered a profit after tax of Rs. 622m (FY16: Rs. 1.5b; FY15: Rs.915m) in 9MFY17. Tea whiteners and Tea creamers constitute a major portion of the sales and market share while Haleeb milk contributes only 1.5% to the total market share of packed milk. HFL has an efficient and effective strategy on cost control as it uses forward locking of raw materials on best possible price available to reduce risk and volatility in prices. The management expects growth in packed milk sales given price reduction vis-à-vis peers.

Capitalization Structure:

Total equity of the company increased on account of internal capital generation. HFL has faced with financial constraints in the past which led to rescheduling of long term loans. During FY16, the company managed to retire its long term loan and do not plan to raise long term borrowings in the foreseeable future. For working capital requirements, the company retains short term borrowings which amounted to Rs. 1.3b at end-9MFY17 (FY16: Rs. 799m). Gearing was largely maintained at 0.3x at end-9MFY17 (FY16: 0.2x; FY15: 1.3x). As per projections, overall capital structure of HFL is expected to improve further.

Liquidity and Cash flows:

Overall the company maintains liquidity at comfortable levels with current ratio reported at 1.5x at end-3QFY17 (FY16: 1.3x). Excess liquidity is placed in money market mutual funds. Given that most of the sales are done against cash payments, trade debts of the company remain low. HFL follows the policy to provide provision for any doubtful debts that may arise in the financial period.

Funds from Operations (FFO) remain sufficient on a timeline basis. While FFO to total debt (annualized) decreased during 9MFY17, though remained adequate at 1.04x (FY16: 2.6x). With virtually no long-term debt, debt coverage has remained robust.

Corporate Governance and Control Infrastructure:

Senior management team of the company comprises experienced resources and relevant experience in the industry. New Management and Board Members were introduced after takeover by VMFG. The appointment of top tier audit firm mirrors a positive feature in control infrastructure.

Haleeb Food Limited — Annexure I

Financial Statement

Amount in Million (Rs.)

BALANCE SHEET	3QFY17	Jun-16	Jun-15
Non-Current Assets	4,074	4,005	4,427
Stock In trade	1,576	1,060	1,688
Trade Debts	30	24	71
Cash & Bank Balances	189	212	613
Total Assets	8,733	8,081	8,822
Trade and Other Payables	1,447	2,010	2,085
Short Term Borrowings	1,275	799	-
Long Term Finances	-	-	1,334
Core Equity	4,215	3,488	2,065
INCOME STATEMENT	**3QFY17**	**Jun-16**	**Jun-15**
Net Sales	10,011	15,470	16,266
Gross Profit	2,176	3,770	3,335
Operating Profit	1,051	2,209	1,850
Profit After Tax	622	1,469	915
FFO	1,019	2,198	1,730
RATIO ANALYSIS	**3QFY17**	**Jun-16**	**Jun-15**
Gross Margin (%)	21.7	24.4	20.5
Net Working Capital	1,589	1,004	1,603
Debt Servicing Coverage Ratio (x)	26.5	1.0	3.4
ROAA (%)	9.9	17.4	10.4
ROAE (%)	21.5	52.9	44.3
Gearing (x)	0.3	0.2	1.3
Debt Leverage (x)	0.8	1.0	2.7

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES	Annexure III
Name of Rated Entity	Haleeb Food Limited
Sector	Consumer Goods
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	(see table below)
Instrument Structure	N/A
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
31/10/2017	A	A-2	Stable	Initial