RATING REPORT

Haleeb Foods Limited (HFL)

REPORT DATE:
September 23, 2022

RATING ANALYSTS:
Syeda Batool Zehra Zaidi
batool.zaidi@vis.com.pk

RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Negative	
Rating Date	*23 September' 2022*		*29th Jul' 2021*	
Rating Action	*Maintain*		*Reaffirmed*	

COMPANY INFORMATION

Incorporated in 1984	External auditors: *KPMG Taseer Hadi & Company, Chartered Accountants
Public Limited (Unlisted) Company	Chairperson: Mr. Aly Khan
Key Shareholders (More than 5%):	CEO: Mr. Syed Mazher Iqbal
Mega Foods (Pvt.) Limited – 56.0% Mr. Ilyas Muhammad Chaudhry – 27.6% Ms. Nasrin Ilyas Chaudhry – 6.0%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Haleeb Foods Limited

OVERVIEW OF THE INSTITUTION

Haleeb Food Limited (HFL) was established in 1984 as a public (unlisted) limited company. The registered office of the Company is located in Lahore. While production facilitates are situated at Bhai Peru and Rahim Yar Khan, Punjab.

Profile of the Chairperson

Mr. Aly Khan is the chairperson of HFL. He graduated with M.Sc. Honors from Northeastern University. He has extensive experience in dairy sector that includes setting up one of the largest dairy businesses producing 600,000 liters per day. He also serves as a director of Hub Power Company Limited and Qasim International Container Terminal.

Profile of the CEO

Mr. Syed Mazher Iqbal is the CEO of HFL and took the charge in April 2020. He has previously served as the CEO from Oct'15 to Sep'17. He is a fellow member of the Institute of Chartered Accountants of Pakistan and has over three decades of experience. He has previously served as the MD/CEO of Pioneer Cement Limited and deputy MD of General Tyre & Rubber Company of Pakistan Limited.

RATING RATIONALE

Haleeb Foods Limited (HFL) is engaged in processing and sale of toned milk, milk powder, fruit juices and allied dairy and food products. HFL is a subsidiary of Mega Foods (Pvt.) Limited, which holds 56% stake in the company. The product portfolio of the Company comprises UHT milk, tea whitener, fruit juices, fat products and allied dairy products.

Despite competitive forces, untapped market potential provides opportunity for topline growth and supports the business risk profile of the Company.

The industry can be divided into two main segments: loose and packaged milk. Loose milk is produced and delivered by local producers, distributing only in a small area which is easy and cost effective to cover. On the other hand, the packaged milk is a more organized business with large production and distribution setups, covering multiple geographical regions. Milk industry in Pakistan exhibits significant competition, where the proportion of packaged milk comprises only around 10% (India: 14%, Bangladesh: 20%) of total milk sold around the country. Hence, a large untapped market offers significant opportunity for the packaged milk industry, which is supported by increasing awareness amongst people regarding milk hygiene and other factors such as increasing urbanization. Demand for milk is low in elasticity since milk is considered an essential in Pakistan, coupled with its use in tea preparation.

Revenue growth supported by increase in both; selling price and volumetric increase. Shift in product mix and reduced reliance on imported raw material led to improved gross margins.

Topline of the Company continued to register growth recording an increase of 22.2% in FY22 and stood at Rs. 12.4b (FY21: Rs. 10.1b a growth of 38% over 2020). Growth in sales mainly emanated from higher sales of plain milk (Haleeb Milk, Asli Milk) and Fruit Juices. Tea whiteners, while still constituting a major proportion of the revenue (50%), registered volume decline as part of Company's strategy to gradually reduce reliance on this low margin and declining lifecycle product. Concerns around use of tea whiteners has affected overall demand growth. Sales of the Company remain concentrated in the North and Central region and are more popular in urban areas as compared rural ones where loose milk commands significant sales.

In addition, the Company optimized its Rahim Yar Khan powder plant by diversifying its revenue stream through tolling, conversion of milk to powder for various industry players. Import constraints and currency devaluation has led the Company and other industry players to switch to local manufacturing of powder milk for utilization during lean periods which has resulted in margin improvement for the Company. Going forward, as the market penetration increases, management expects an upward trend in topline to persist coupled with healthy revenue stream from powder plant.

Positive trajectory was witnessed in margins not only due to change in product mix but also due to increase in the price of milk to Rs. 190.0/pack (FY21: Rs. 160.0/pack) during FY22. Fat products have the highest margins at 20% followed by juices and milk with 18% and 7% respectively. Management introduced new product line in juices named as "Grape Grape" under the brand name of Tropico during FY22. In line with strategic vision, despite highest gross margins reaped under fat product category, the company would continue to keep its prime focus on improving distribution of milk as element of brand identity is present with brand 'Haleeb' being synonymous with 'Haleeb Milk'. During FY-22 company has initiated exports of its products. Further, tolling service has healthy margins of around 20% so the same has reflected positively on company's margins in FY22. We expect margins to increase, going forward.

	FY20	FY20	FY21	FY21	FY22	FY22
	Volume Ltr	Value (Rs. In M)	Volume Ltr	Value (Rs. In M)	Volume Ltr	Value (Rs. In M) without Tax
HALEEB/ ASLI MILK	7,517,648	811	13,155,667	1,672	20,605,057	2,742
TEA WHITENE RS	91,834,833	6,647	80,019,401	8,046	68,694.893	7,781
JUICES	8,426,355	515	17,907,562	1,387	24,986,699	1,714
CREAM	2,014,260	619	2,989,731	1,084	3,203,793	1,157
OTHERS	622,275	76	823,309	364	528,435	471
TOTAL	**110,415,371**	**8,668**	**114,895,670**	**12,553**	**118,018,876**	**13,865**

Higher operating profitability

As a result of topline growth of 22% in FY22, operating profile of the Company improved to Rs. 416m from a loss in the last two years, despite operating expenses increasing by 12% mainly on account of sales tax provisions. Operating margins increased to 3.3%

The Company booked other income of Rs. 169m (FY21: Rs. 89m) on account of higher dividend income earned on financial assets during FY22 which are pledged against the short term borrowing. As Company is producing in house skimmed milk powder which will be used in production over the period., borrowing on Short Term Finance has increased due to which HFL's finance cost jumped and recorded higher at Rs. 125m (FY21: 83m) owing to a sharp rise in the benchmark rates during the review period.

Despite growth in revenues and higher other income, the Company made a marginal net profit of Rs. 34m in FY22 (FY21: - Rs. 371m) mainly due to higher taxation provisions booked in the year.

Improved Debt coverage

Post recovery of losses in FY22, liquidity profile of the Company improved after the Company posted higher operating profits in FY22 as compared to losses incurred during the past three years. Funds from Operations turned positive during the review period, thereby improving debt servicing coverage. Going forward, cash flow generation is expected to further improve on account of higher business volumes coupled with shift in revenue mix entailing higher margins.

Current ratio was recorded at comfortable level during the rating review period, however, liquidity of the Company remains impacted due to sizable sales tax refunds amounting to Rs. 1,285m (FY21: Rs. 980.7m) due from government at end Jun-22. The Company is continuously pursing the concerned authorities to rectify the situation. Short-term investments, Stock in Trade and Trade Debts provide sufficient coverage for Short-Term Borrowings.

The declining trend in equity base (excluding surplus on revaluation) reversed in FY22 and stood at Rs. 3.3b (FY21: Rs. 3.2b; FY20: Rs. 3.5b), with positive profitability. The debt matrix of the Company is heavily tilted towards short-term credit with no reliance of the Company on long-term borrowings. HFL paid off it long term loan attained during FY21 under SBP's temporary refinance scheme for payment of wages and salaries during FY22, leading to nil long term loan on its balance sheet. Whereas, short-term borrowings increased to Rs. 1.6b (FY21: Rs. 1.3b) in FY22 to meet working capital requirements. Subsequently, increase in short term loan resulted in slight increase in gearing and leverage indicators to 0.49x (FY21: 0.44x) and 1.1x (FY21: 1.0x) respectively at end Jun-22, although remaining within manageable levels

Haleeb Foods Limited — Appendix I

FINANCIAL SUMMARY					*(amounts in PKR millions)*
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**
Non-Current Assets	4,070	3,982	3,624	3,280	3,137
Stock-In-Trade	897	1,530	938	1,379	1,787
Trade Debts	60	112	83	107.3	125.4
Tax Refunds Due from Government	981	981	981	980.7	1285.3
Financial Assets at Fair Value Through Profit & Loss	1,409	1,070	1,086	927.7	930
Cash & Bank Balances	92	80	96	113	88
Total Assets	7,921	8,123	7,144	7,266	7,866
Trade and Other Payables	1,095	1,198	1,209	1,308	1,434
Short Term Borrowings	675	1,162	1,011	1,229	1,557
Long Term Borrowings	0	0	0	192.6	64.2
Total Debt	675	1,162	1,011	1,421	1,621
Total Liabilities	2,332	2,964	2,764	3,267	3,765
Paid-Up Capital	279	279	279	278.6	278.6
Tier-1 Equity	4,601	4,260	3,543	3,221	3,325
Total Equity	5,589	5,158	4,380	4,000	4,101
INCOME STATEMENT					
Net Sales	9,456	9,789	7,382	10,167	12,426
Gross Profit	1,506	149.5	266	739	1,497
Operating Profit	184	-247	-581	-171	416
Profit Before Tax	124	-328	-752	-254.1	292
Profit After Tax	169	-410	-792	-371	34
FFO	301	-186	-616	-64.29	513
RATIO ANALYSIS					
Gross Margin (%)	15.9%	8.6%	3.6%	7.3%	12.0%
Net Margin (%)	1.8%	-5.1%	-10.7%	-3.7%	0.3%
Current Ratio	1.91	1.56	1.38	1.30	1.39
FFO to Total Debt (x)	45%	-16%	-61%	-5%	32%
FFO to Long Term Debt (x)				-33%	798%
Debt Servicing Coverage Ratio (x)	5.48	-1.91	-2.92	0.15	2.72
ROAA (%)	2	-5.1	-10.4	-5.2%	0.4%
ROAE (%)	3.1	-7.6	-16.6	-11.0%	1.0%
Gearing (x)	0.15	0.27	0.29	0.44	0.49
Leverage (x)	0.51	0.7	0.78	1.0	1.1
Stock+ Trade debts/ Short-term Borrowings	142%	141%	101%	121%	123%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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 — Appendix III

Name of Rated Entity	Haleeb Foods 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	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.
Probability of Default	VIS ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2022 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
23-09-2022	A-	A-2	Stable	Maintained
29-07-2021	A-	A-2	Negative	Reaffirmed
24-06-2020	A-	A-2	Negative	Downgrade
11-01-2019	A	A-2	Stable	Reaffirmed
31-10-2017	A	A-2	Stable	Initial

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Ghulam Abbas	CFO	25-July-2022
2	Mr. Qasim Raza	Senior Executive Treasury	