

RATING REPORT

Haleeb Foods Limited (HFL)

REPORT DATE:

January 23, 2024

RATING ANALYSTS:

Abdul Kadir

kadir@vis.com.pk

RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-1	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	23 January' 2024		23 September' 2022	
Rating Action	Upgrade		Maintained	

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 (May 2023)

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

VIS Rating Scale

<https://docs.vis.com.pk/docs/ratingscale.pdf>

Haleeb Foods Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

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 facilities are situated at Bhai Peru and Rahim Yar Khan, Punjab.

Profile of the Chairman

Mr. Aly Khan is an Honors M.Sc. Graduate from Boston College and an Undergraduate B.S. from Northeastern University. He has cultivated his professional career working in London, Singapore and New York for various global institutions including Citi Group and Yang Ming Marine Transport Corporation in several management and training capacities.

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 the Hub Power Company Limited, Qasim International Container Terminal and a SECP certified director in corporate governance.

Profile of the CEO

Mr. Syed Mazher Iqbal is currently serving as the CEO of Haleeb Foods Ltd. Mr. Iqbal is a certified director and a fellow member of the Institute of Chartered Accountants of Pakistan. With over 3 decades of senior management experience, he has previously served as the MD/CEO of Pioneer Cement Limited and deputy MD of General Tyre & Rubber Company of Pakistan Limited.

Haleeb Foods Limited (HFL) established in 1984, is one of the pioneers of packaged milk in the local dairy sector. The company operates as a subsidiary of Mega Foods (Pvt.) Limited, with its shareholding of 56% in the company. HFL offers a diverse product portfolio, including UHT milk, tea whitener, fruit juices, a variety of fat-based products, and related dairy items.

The packaged milk industry in Pakistan faces intense competition, even though it accounts for around 10% of the overall milk consumption. Untapped loose milk market represents significant growth opportunity for the packaged milk industry players.

The milk industry in Pakistan can be divided into two main segments: loose milk and processed milk. Loose milk accounts for approximately 90% of the market, while processed milk has a relatively low penetration rate of only 10%. In comparison to neighboring countries like India (14%) and Bangladesh (20%), the adoption of processed milk in Pakistan is relatively lower. However, there has been a gradual shift towards packaged milk in recent years, indicating a changing trend. The untapped market for loose milk presents a significant growth opportunity for companies operating in the packaged milk industry. There is considerable potential for growth in the packaged milk industry, driven by increasing consumer awareness regarding food quality. However, packaged milk companies face challenges, including consumer preference for loose milk and the additional costs associated with processing, transportation, and distributor margins. The demand for milk follows a seasonal pattern, with flush and lean periods occurring in the first and second halves of the year respectively. Despite this, the demand for milk shows low elasticity and remains relatively stable. Factors such as urbanization, an untapped market with significant growth prospects, favorable regulatory policies, and a rising middle class contribute to the increasing demand for packaged milk. Enforcing significant regulatory changes, such as implementing minimum pasteurization laws, could potentially address industry challenges more effectively. VIS is of the opinion that the advantages stemming from marketing initiatives will become evident over the medium to long duration.

Revenue increased on account of both higher selling prices and increased volumetric sales. Improvement in margins and profitability

The company's revenues increased considerably in FY23 to Rs. 20.1b (FY22: Rs. 12.4b). The growth in sales was primarily driven by increased demand for products like Asli Milk, Haleeb Milk, and Cream. Meanwhile, the Tea whitener (All Max), which still contributes toward the largest share in revenue at 26.9% (FY22: 31.3%), witnessed a decrease in volumetric sales in FY23, as part of the company's strategic shift away from low-margin products. Despite drop in volume sales, revenue generated by the tea whitener increased in value terms to Rs. 5.8b (FY22: Rs. 4.5b). This strategic shift also aligns with the growing concerns about tea whiteners among the general population and its impact on the demand dynamics. HFL's expansion plans for the juice segment got impacted due to introduction of a federal excise duty (FED) initially at 10%, later increased to 20%, in addition to the 18% general sales tax (GST).

Product Description	FY2022			FY2023		
	Ltr Volume	Sales	% of Sales	Ltr Volume	Sales	% of Sales
All Max	39.7	4,551.00	31.30%	37.2	5,834.50	26.90%
Asli Milk	7.1	870.7	6.00%	14.4	2,399.30	11.10%
Bulk Powder	0.3	244.8	1.70%	0.3	302.5	1.40%
Butter	0	42.1	0.30%	0.2	216.9	1.00%

Cream	3.2	1,313.20	9.00%	4.9	2,664.20	12.30%
Dairy Queen	8	918.3	6.30%	8	1,340.30	6.20%
Ghee	0.2	211	1.50%	0.3	429.2	2.00%
Haleeb Milk	13.5	1,871.70	12.90%	18.8	3,583.00	16.50%
Juices	25	2,040.40	14.10%	18.6	1,843.10	8.50%
Tea Max	21	2,454.70	16.90%	19.2	3,081.90	14.20%
Grand Total	118	14,518.00	100.00%	122	21,695.00	100.00%

The sales remained concentrated in the North and Central regions and are more popular in urban areas, as opposed to rural areas where loose milk sales remain significant.

Region	FY2022		FY2023	
	Sales	% of Sales	Sales	% of Sales
Central	4,986.84	34.30%	6,433.04	29.70%
Export	20.26	0.10%	52.72	0.20%
Food Services	1,469.91	10.10%	2,927.90	13.50%
Key Account	755.79	5.20%	1,289.31	5.90%
Modern Trade	606.38	4.20%	1,022.17	4.70%
North	5,236.82	36.10%	7,922.83	36.50%
South	1,441.99	9.90%	2,046.99	9.40%
Grand Total	14,517.99	100.00%	21,694.96	100.00%

Import constraints and currency devaluation prompted the company to produce and utilize skimmed milk powder (SMP) locally. The company has also signed agreements with some other companies for the supply of powdered milk. HFL, in line with other market players, were able to pass on the impact of rise in input cost on to the consumers. Thereby, gross margins improved to 15% (FY22: 12%) during FY23.

The company also reported other income of Rs. 277m (FY22: Rs. 169m) in FY23, primarily owing to higher dividend income emanating from investment in mutual fund and gain on sale of fixed asset. The management introduced cost-saving initiatives, including the use of gas for electricity generation and the installation of industrial UPS systems as alternatives to generators for continuous power supply. The company managed to restrict administration expenses despite inflationary pressure at Rs. 135m (FY22: Rs. 138m). Increase in selling and distribution expenses to Rs. 1.1b (FY22: Rs. 876m) in line with increase in sales. Other expenses also increased to Rs. 397m (FY22: Rs. 236m) mainly due to higher provision for sales tax and increase in worker's profit participation fund. Meanwhile, finance cost increased considerably to Rs. 300m (FY22: Rs. 125m) due to increase in short-term borrowings and higher interest rates during FY23. Given higher sales and net margins of 5.4% (FY22: 0.3%), net profit increased significantly to Rs. 1.1b (FY22: Rs. 34m) in FY23.

Coverages improved further; overall liquidity profile is adequate.

The company's ongoing recovery from the losses incurred during FY20 has continued. There has been a noticeable improvement in the company's liquidity profile, mainly due to a significantly higher net profit in FY23. Funds from Operations (FFO) stood higher at Rs. 1.6b in FY23 (FY22: Rs. 622m; FY21: Rs. 64.3m). FFO to total debt improved to 0.8x (FY22: 0.4x). The company's ability to meet its financial obligations remains strong, as indicated by a debt servicing coverage ratio of 7.1x (FY22: 5.0x) in FY23. The current ratio also improved to 1.6x (FY22: 1.4x; FY21:

1.3x) by end-FY23. The ratio of stock in trade and trade debts to short-term borrowings increased to 1.8x (FY22: 1.2x). The cash conversion cycle increased on a timeline basis to 20 days (FY22: 10 days).

Strengthened equity base: reliance on short-term borrowings.

The equity base (excluding surplus on revaluation) enhanced to Rs. 4.5b (FY22: Rs. 3.3b; FY21: Rs. 3.2b) on the back of higher profit retention. The company's debt structure is skewed towards short-term credit, with no reliance on long-term borrowings. Short-term borrowings increased to Rs. 2.0b (FY22: Rs. 1.6b) by end FY23 to meet higher milk and powder requirement during the flush season. While debt leverage increased slightly to 1.2x (FY22: 1.1x) on account of higher trade payables and bank borrowings, gearing stood slightly lower at 0.4x (FY22: 0.5x) at end-FY23.

Haleeb Foods Limited
Appendix I

<u>BALANCE SHEET</u>	FY21	FY22	FY23
Non-Current Assets	3,280.5	3,141.9	3,861.3
Stock-In-Trade	1,378.6	1,786.9	3,501.7
Trade Debts	107.3	125.4	184.8
Tax Refunds Due from Government	980.7	1,285.3	2,132.4
Financial Assets at Fair Value Through Profit & Loss	927.7	929.6	932.1
Cash & Bank Balances	113.4	88.4	82.1
Other Assets	478.2	508.4	585.1
Total Assets	7,266.3	7,866.0	11,279.6
Trade and Other Payables	1,308.1	1,434.4	2,277.7
Short Term Debt	1,228.8	1,556.9	2,004.1
Long Term Debt	192.6	64.2	0.0
Total Debt	1,421.4	1,621.1	2,004.1
Other Liabilities	537.2	709.5	1,210.7
Total Liabilities	3,266.6	3,765.0	5,492.5
Paid-Up Capital	278.6	278.6	278.6
Tier-1 Equity	3,220.6	3,324.5	4,457.5
Total Equity	3,999.7	4,100.9	5,787.0
<u>INCOME STATEMENT</u>	FY21	FY22	FY23
Net Sales	10,167.4	12,426.0	20,055.8
Gross Profit	739.3	1,496.8	3,007.4
Profit Before Tax	-254.1	291.5	1,332.3
Profit After Tax	-371.1	34.1	1,081.3
FFO	-64.3	622.3	1,556.4
<u>RATIO ANALYSIS</u>	FY21	FY22	FY23
Gross Margin (%)	7.3	12.0	15.0
Net Margin (%)	-3.7	0.3	5.4
Net Working Capital	917.0	1,320.8	2,703.0
Current Ratio	1.3	1.4	1.6
FFO to Total Debt (x)	0.0	0.4	0.8
FFO to Long Term Debt (x)	-	9.7	-
Debt Servicing Coverage Ratio (x)	0.1	5.0	7.1
ROAA (%)	-	0.5	11.3
ROAE (%)	-	1.0	27.8
Gearing (x)	0.4	0.5	0.4
Leverage (x)	1.0	1.1	1.2
Stock + Trade debts/ Short-term Borrowings (x)	1.2	1.2	1.8
Cash Conversion Cycle	0	10	20

REGULATORY DISCLOSURES		Appendix II			
Name of Rated Entity	Haleeb Foods Limited				
Sector	Consumer Goods				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	23-01-2024	A-	A-1	Stable	Upgrade
	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
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 2023 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meetings Conducted	Name	Designation	Date		
	Mr. Ahmad Umair	CFO	5 th October 2023		