RATING REPORT

Shakarganj Food Products Limited

REPORT DATE:
January 04, 2021

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	BBB+	A-3	BBB+	A-3
Rating Outlook	Stable		*Negative*	
Rating Date	*04 Jan'22*		*23 Nov'20*	
Sukuk	BBB+		BBB+	
Rating Outlook	Stable		*Negative*	
Rating Date	*04 Jan'22*		*23 Nov'20*	

COMPANY INFORMATION

Incorporated in 2001	**External auditors:** EY Ford Rhodes, Chartered Accountants
	Chairman of the Board: Mr. Anjum M. Saleem **Chief Executive Officer:** Mr. Anjum M. Saleem
Public Limited (Unlisted) Company	
Key Shareholders (with stake 5% or more):	
Shakarganj Limited- 52.4%	
Bank Islami Pakistan Limited- 36.4%	
Crescent Steel and Allied Products Limited – 8.4%	

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (August 2021) & Rating The Issue (November 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf
https://docs.vis.com.pk/docs/Notchingtheissue202007nov.pdf

Shakarganj Food Products Limited

OVERVIEW OF THE INSTITUTIO N

Shakarganj Food Products Limited is an unlisted public limited company setup by initially acquiring a fruit juice concentrate plant from A.M. Fruits in 2005 and later acquiring a dairy facility from Dairy Crest Limited in 2006. Principal activity of SFPL involves manufacturing, processing and sale of food products including dairy, fruit pulps, and concentrate juices.

Profile of Chairman/CEO:

Mr. Anjum A. Saleem is the Chairman/CEO of SFPL and carries over 30 years of international and local corporate management experience. Mr. Anjum is a qualified Chartered Accountant from ICAEW (Institute of Chartered Accountants, England & Wales) and also serves as CEO of Shakarganj Limited.

RATING RATIONALE

The ratings assigned to Shakarganj Food Products Limited (SFPL) take into account strong sponsor profile, comprising renowned business concerns including Sharkarganj Limited, Bank-Islami Pakistan Limited and Crescent Steel & Allied Products Limited. The ratings incorporate moderate business risk environment underpinned by presence of the company in fast moving consumer goods segment coupled with positive demand prospects of dairy products in line with population growth & higher per capita consumption. On the other hand, heightened competition in value-added dairy and challenging operating environment of the organized segment leaves limited room for price maneuvering leading to pressure on margins. In addition, owing to presence of two strong market players, constituting around 90% market share of the documented dairy segment, reaping incremental share of the pie is considered an uphill task. Moreover, the industry margins remain sensitive to exchange rate risk and price risk pertaining to imported skimmed milk powder and edible oils.

The ratings incorporate recovery of financial indicators; growth in revenues was manifested in line with improved market penetration and reception of company's products resulting from segmentation of business areas where distributors were given targets for separate business segments as opposed to aggregate sale target for the company itself. The margins also exhibited positive trajectory owing to increase in retail prices of entire product portfolio, shift in revenue mix and reduction in skimmed milk price (SMP) during the rating review period. However, the ratings remain sensitive to SFPL's nominal net margins on account of significant promotional expenses; the same remains an integral part of company's presence in fast moving consumer goods (FMCG) sector. Moreover, the ratings reflect improvement in liquidity profile with adequate debt service coverage coupled with healthy funds flow from operations (FFO); the latter is considered adequate in terms outstanding obligations. Further with the company's bottom reverting back to positive, gearing and leverage indicators improved slightly given there was no noticeable increase in debt utilization. However, debt leverage still remains on a higher side on account of sizable trade payables. Further, current ratio also continues to remain low on account of high trade payables. Going forward, the ratings are dependent on improvement of market penetration and new market development leading to revenue growth, mitigation of margin volatility, maintenance of leverage indicators at around current levels and materialization of projected targets.

Rating Drivers

Dairy Industry Dynamics: Pakistan is the fourth largest milk producing country in the world with estimated gross milk production of 61.7m tonnes, approximately 62b liters, during FY20. Cows and buffalos produced the major chunk with 22.5m tonnes and 37.3m tonnes respectively while the remaining was produced by sheep, goats and camels. However, milk available for human consumption was recorded lower around 50.0m tonnes; the 20% haircut applied pertained to subtraction of 15% for faulty transportation and a lack of chilling facilities and 5% for suckling calf nourishment. Unfortunately, the sector has not developed to its maximum potential as currently livestock and dairy constitute around 3.1% country's total exports amounting to mere USD $0.7m in FY20. The underutilization of the sector is attributable to multiple reasons including low productivity, seasonality in milk supply, patchy distribution system, absence of cold chains

and unhygienic handling at farm and middleman level leading to poor milk quality and the inability to meet international standards. Another major barrier is that most farmers in the country have low yielding animals; even though Pakistan has more milk-producing animals than the US, its milk production is far lower. If the untapped potential is utilized trough rectification of animal rearing practices and infrastructure issues, the dairy sector can contribute around USD $30b to economy through exports.

The country's milk sector is categorized into two distinct value chains for the post-farmgate supply of milk to consumers; fresh loose milk and packaged milk & dairy products. Loose milk is the raw milk collected from the animals without any further processing and accounts for 90% of total milk available for human consumption. Organized sector processes remaining 10% milk by employing Ultra-High Temperature (UHT) where milk is heated above 135°C for 2 to 5 seconds and High-Temperature/Short-Time (HTST) pasteurization where milk is heated to 72°C for at least 15 seconds. In the packaged milk business, tea whitener is considered the leading category in terms of retail volumes, followed by UHT milk, and pasteurized milk. Consistently growing population and prevalence of high malnutrition rate indicate that there is significant growth potential in Pakistan's milk industry. As per the Food and Agriculture Organization's (FAO) agricultural outlook 2020-2029, fresh dairy consumption in Pakistan is projected to increase by 5kg/capita to 40kg/capita by FY29. Moreover, as per the same source it is expected that India and Pakistan will contribute more than half of the growth in world milk production over the next decade, and will account for more than 30% of world's production in FY29. Penetration of packaged milk in Pakistan is low vis-à-vis regional peers and its growth potential is hindered mainly by considerable price premium over loose milk due to additional cost of transportation, processing and distributor margin.

According to statistics of Dun and Bradstreet, Nestle Pakistan and FrieslandCampina Engro have the largest presence in the UHT-treated milk segment with a collective market share of 90%. Remaining market share is divided among SFPL, Haleeb Foods Limited, Dairyland (Pvt) Limited and Fauji Foods Limited. Growth potential of packaged milk is restricted on account of national regulations which mandate different requirements of Milk Fat and Non-Fat Milk Solids for different types of liquid packaged milk. The demand of tea whiteners has declined considerably in the last three years due to enforcement of tighter quality regulations on the dairy industry by Pakistan Standards and Quality Control Authority (PSQCA) and labeling of the same as non-dairy product by Punjab Food Authority (PFA).

Quantum of loss declined during the ongoing year owing to change in product mix entailing higher margins: SPFL's net revenue took a plunge during FY20 declining to Rs. 15.4b in comparison to Rs. 16.6b in the preceding year primarily as a continued impact of classification of tea whiteners, constituting 54% of the revenue mix, as non-dairy products by FDA. The remaining product mix includes milk, flavored milk, fruit juices, pulp and fat products (butter, cream & desi ghee). Tea whiteners in respect to other product lines are the lowest grossing product in terms of margins therefore, on account of revenue mix being dominated by the same historically, margins shrunk to 8.0% (FY19: 12.5%) during FY20. Further, despite increase in cost of production, the management was unable to exercise transfer pricing strategy for tea-whiteners for most part of the previous year owing to negative connotation attached with the product in terms of its categorization. Subsequently on account stunted margins, SPFL recorded sizable negative bottom line of Rs. 885.6m during FY20 as opposed to profit of Rs. 105.1m in the preceding year.

However, the downward trend in revenues was rescued with significant increase to Rs. 13.3b during 9MFY21 in line with improved market penetration through segmentation of

business areas where retailers/distributors were given targets for separate business divisions like milk, tea whitener, juices, etc. as compared to holistic sale target for the company itself. The change in the aforementioned strategy has primarily resulted in uptick of juices sales therefore slight change in the product revenue mix was witnessed during the ongoing year with increased contribution of 12% (FY20: 10%) from the juices sub-segment during 9MFY21. In addition, the company has also set up a small pulp processing unit to build in end-to end synergies in the business processes; the results of the same on cost efficiencies will be ascertained over time. The breakdown of revenue mix in terms of product categories is presented in the table below:

	FY20		**9MFY21**	
Category	***Gross Revenue (Rs. in m)***	***Share Mix***	***Gross Revenue (Rs. in m)***	***Share Mix***
Juices	1,777	10%	1,828	12%
Milk	6,305	36%	5,428	35%
Pulp	99	<1%	154	1%
Tea Creamer	9,506	54%	7,999	52%
Gross Revenue	17,687	100%	15,409	100%

In terms of product volumes an increase was manifested in quantum sales of Joose, Refresh, Thanda and Gulpy, all pertaining to juices category, along with flavored milk, Oolala. On the other hand, annualized volumetric sales of largest revenue contributor, tea whitener Qudrat, were recorded largely at prior year's level. Along with management's increased focus towards juices and milk categories, volumetric sales of tea whiteners were also impacted by the supply chain disruption and closure of offices, schools, colleges, tourist spots, and dhabas owing to the outbreak of COVID-19. Volumetric sales of major products are tabulated below:

	FY20		9MFY21	
Product Name	**Volume (in liters)**	**Avg Selling Price/ liter**	**Volume (in liters)**	**Avg Selling Price/ liter**
Anytime	1,279,740	101	828,454	108
Chaika	16,043,419	90	12,250,180	95
Dairy Pure	14,905,040	94	11,327,092	101
Good Milk	36,145,119	124	25,561,688	139
Joose	15,735,306	55	12,893,484	56
Gulpy	-	-	305,424	86
Oolala	1,306,386	137	2,127,893	132
Qudrat	89,277,898	90	66,228,938	95
Refresh	11,940,293	65	12,216,334	66
Thanda	140,700	51	622,628	53
Goodmilk Cream	77,362	385	105,019	385

Moreover, positive trajectory was also witnessed in margins with noteworthy increase to 13.2% (FY20: 8.0%) during the period under review owing to slight intentional structural shift in the revenue mix along with increase in retail price of the entire product range. As per the management, the contribution margin of tea whiteners increased to Rs. 3-4/pack (FY20: Rs. 1-2/pack) due to relatively reduced reliance of the company on imported powder at 60% (FY20: 70%) with increased focus on local milk procurement during abundance season starting from January to April for drying during 9MFY21. As per the management, SFPL is making continuous investment into research & development (R&D) to improvise on recipes in order to reap better margins; the same was implemented for using easily available and less costly loose liquid milk for production of tea-creamers,

Qudrat and Chaika. In addition, the reduction in average procurement price of skimmed milk powder (SMP) to Rs. 13,087/bag (FY20: Rs. 15,343/bag) on account of locking in orders while the pricing was favorable in the international market has also resulted in improved contribution margin of tea creamers during 9MFY21. Going forward, the company plans on tapering off proportion of tea whiteners to 45% against increase in contribution of milk to 40% followed by juices at 15% by end-FY22. In line with strategic vision, despite highest gross margins reaped under juices category, the company would continue to keep its prime focus on improving distribution of milk as element of brand equity is vested with 'Good Milk'. The contribution margin of main products is tabularized below:

Average Contribution per pack in Rs.		
Product Name	**FY20**	**9MFY21**
Anytime	7.60	12.84
Chaika	2.08	4.08
Dairy Pure	9.08	7.48
Good Milk	8.10	13.62
Joose	0.56	0.15
Gulpy	-	6.18
Oolala	3.82	5.11
Qudrat	1.34	3.78
Refresh	1.90	2.90

The selling and distribution expenses were recorded lower at Rs. 1.2b during 9MFY21 in comparison to Rs. 1.4b in the corresponding period last year owing to reduced road shows and promotions carried out due to covid-19 related lockdowns. Moreover, administrative expenses were also curtailed at Rs. 110.7m (9MFY20: Rs. 113.5m) owing to decrease in employee related expenses as the average number of employees were reported lower during the rating review period. Further, other expenses stood higher at Rs. 11.3m (9MFY20: Rs. 0.4m) during 9MFY21 on account of increased contribution to workers' participation fund. The company booked other income amounting to Rs. 17.3m (9MFY20: Rs. 26.3m) given reduced profit on bank placements owing to low policy rate scenario prevalent during 9MFY21. SFPL's finance cost was rationalized and recorded lower at Rs. 244.0m (9MFY20: 340.4m) owing to a sharp dip in the benchmark rates during the review period. As a combined impact of positive trajectory of revenues, notable recovery of margins and rationalized finance cost, the company recorded profit after tax of Rs. 94.2m during 9MFY21 as compared to a loss of Rs. 666.7m in the corresponding period last year. Despite recovery from FY20's indicators, net margin of the company remained low at 0.7% during the review period owing sizable distribution & selling expenses; the same is in impact of company's presence in FMCG sector where heavy promotional expense has to keep brand loyalty intact. As per the management, the company has closed FY21 at a net revenue of Rs. 18.0b.

Revenue is projected to increase by 43% to Rs. 23.4b during FY22 with increased focus on juices and milk sub-segments coupled with new market development through export of juices to Africa, UAE and Central Asia. The company has already obtained certifications in that regard; moreover, the management is well versed with operations of the aforementioned export markets as SFPL's fruit concentrates are already exported to them. Specifically, the revenue growth is projected to be driven by volumetric increase of 25% in Refresh & Minis Joose, 20% in Good Milk Cream and Good Milk Ghee, 15% increase in Dairy Pure, Good Milk, Oolala and loose cream and 7% increase in Chaika and Qudrat product lines. Volumetric sale of its Refresh juice brand is projected to grow to 25m liters in FY22 (FY21: 16m liters; FY20: 12m liters) and Joose volumes to 28m liters (FY21: 17m liters; FY20: 16m liters). The restoration of pulp orders from Nestle and PepsiCo, which

were cancelled during the COVID-19, is also expected to positively impact the top-line during FY22. In addition, the setup of additional pulp production line during the outgoing year will also provide impetus to revenues. The projected growth of revenues also takes into account increase in price of the entire product portfolio ranging between 5-9% during FY22. From FY22 onwards, the price increase is estimated around 3-5% for the next two fiscal years.

Gross profit is estimated to improve and range between 15.4-16% during the next three fiscal years; the increase is projected on the back of shift in revenue mix, continued execution of economical buying of SMP and increased reliance on local loose milk for drying. Despite slight increase in debt utilization, financial charges are largely projected at FY21's level of Rs. 325.6m; however, the same might require upward adjustment in line with increasing trend witnessed in the market benchmark rates from Sep'21 onwards. SPFL as a result of improved scale of operations and margins has projected a bottom line of Rs. 457.4m for FY22.

Liquidity position slightly improved during the rating review period; the same has been a function of profitability indicators: Liquidity profile of the company could not present a stable position during FY20 on account of incurrence of net loss resulting in negative funds flow from operations (FFO). Subsequently, FFO to total debt was also reported negative. The trend in liquidity indicators is a replication of profitability metrics. Therefore, with the enhancement in scale of operations and improvement in margins, SFPL's reported healthy FFO amounting to Rs. 466.2m during 9MFY21. As a result, the company's FFO to outstanding debt obligations reverted back to positive; FFO to total debt and FFO to long-term debt were recorded at 0.33x and 0.41x respectively at end-9MFY21. In addition, debt service coverage ratio (DSCR) was also recorded adequate at 1.74x at end-9MFY21; the same indicates that the company is comfortably placed in meeting the obligations falling due. Going forward, cash flow generation is expected to improve on account of higher business volumes.

Despite increase in scale of operations, stock in trade was maintained at prior's year's level at Rs. 1.2b (end-FY20: Rs. 1.2b) at end-9MFY21; the same is an outcome of better turnaround time of finished goods as per company's plan for reducing unnecessary carrying costs materialized. The slight increase in trade debts to Rs. 123.9m (end-FY20: Rs. 119.9m) was in sync with growth in scale of operations. The aging of receivables is satisfactory as only less than 10% of the receivables pertained to more than four-months overdue bracket. As per the management, the milk sales payment is made within two weeks therefore the company does not face any cash-flow stress; the company operates under fast-moving consumer goods segment which is a cash rich sector therefore hardly any liquidity crunch is faced. These along with high quantum of payables are the reason for the company's low reliance on short-term funding. Loans and advances were recorded higher at Rs. 230.4m (end-FY20: 142.0m) at end-9MFY21 on account of higher advance payments for imported raw material; the same is an outcome of increase in scale of operations. Further, liquidity of the company is slightly impacted due to sizable sales tax refunds amounting to Rs. 676.0m (end-FY20: Rs. 745.3m) due from government during the rating review period; the company is unable to rectify the situation given it is an exogenous factor and inbuilt in the operating business dynamics.

Trade and other payables were recorded lower at Rs. 3.9b (end-FY20: Rs. 4.1b) on account of reduced inventory levels. Payable to gratuity was recorded higher at Rs. 195.6m (end-FY20: Rs. 175.6m) at end-9MFY21 on account of higher contribution payable based on actuarial assumptions. Current ratio also remained low at 0.5x at end-9MFY21 (FY20: 0.5x) on account of continued delayed payments to Tetra Pak as agreed by both parties. Inventory plus trade receivables to short-term borrowings remained unchanged at 3.9x

(FY20: 3.9x) as trade payables are being used to finance working capital. Breakdown of trade and other payables is tabulated below:

Rs. Million	9MFY21
Tetrapak Pakistan Limited	1,560
Ingredients & Chemicals	913
Creditors for Raw Material	347
Packing Material	139
Carriage Contractor	94
Diesel & Oil	67
Advertisement	41
Miscellaneous	726
Total Trade Creditors	**3,887**

Capitalization and Funding: The debt matrix of the company is heavily tilted towards long-term credit owing to limited reliance of the company on short-term borrowings. The utilization of short-term borrowings largely remained at prior year's level of Rs. 349.2m; the same pertains to running finance facilities secured against first charge over all present and future current assets with margin of 25% coupled with first charge over fixed assets (land, building, plant & machinery) amounting to Rs. 286m with 30% safety margin. The effective markup charged on the facilities ranges between 9.0% to 15.9% per annum; the company has availed the entire short-term credit facility with no outstanding unutilized financing available during the rating review period. On the other hand, the company procured long-term lease amounting to Rs. 179m (end-FY20: Rs. 35m) during the rating review period owing to capex for purchase of new bottling machine for 235ml SKU. However, owing to regular repayments of obligations due, total debt levels of the company remained at prior year's level of Rs. 1.9b (FY20: Rs. 1.9b) at end-9MFY21. Subsequently, with debt levels remaining unchanged coupled with augmentation of equity base gearing and leverage improved to 0.79x (FY20: 0.83x) and 3.06x (FY20: 3.30x) respectively at end-9MFY21.

The equity base of SFPL increased on a timeline basis to Rs. 3.1b by end-9MFY21 owing to recovery of financial indicators during the period under review. During FY18, the company issued 15.95m right shares, excluding BankIslami Pakistan Limited (BIPL), at a price of Rs. 15 per share. No shares were issued to BIPL as the State Bank of Pakistan restrained the bank from further taking direct equity exposure. During FY19, this amount was classified in the financial statements as interest-free musharikha financing facility amounting to Rs. 280m for a period of 5 years. Moreover, an Equity Warrant Option was also issued under which BIPL may opt for conversion into ordinary shares of the company at a fixed price of Rs. 15 per share. The facility is being treated as a compound financial instrument with the debt instrument being measured first using an effective rate of 14.1% per annum while the remainder is classified as equity portion. In subsequent years, markup expense will be recognized through statement of profit and loss by using the same rate of interest and equivalent amount will be reinstated to the loan through unwinding of discount. BIPL has not yet applied to the SBP for approval for the said transaction. In case of non-conversion, the company would have to repay the amount to BIPL, though the management is of the opinion that the bank would most probably exercise for the conversion option. It is pertinent to note that in July'2020, the company restructured its Sukuk repayment schedule whereby principal repayment amounting to Rs. 145m was deferred for one year on the back of COVID-19 relief; however, the company is now making regular payments of Sukuk with last two payments made in July'21 and Oct'21. The next sukuk installment amounting to Rs. 36.3m is due in Jan'22.

As per the management, given the current production capacities for the main product segments (milk, tea creamer & juices) are considered sufficient for meeting production

requirements, the company does not foresee procurement of additional long-term debt for capital expansion for the same in the next 3-4years. However, for value-added products involving product line extensions (biscuits) and capacity enhancement of fat products (ghee & cream), SFPL plans to procure long-term funding amounting to Rs. 300m in FY22 and around Rs. 500m in long-term lease during FY23. Meanwhile, the management plans to completely eliminate the utilization of short-term borrowings by FY24. On the other hand, equity injection of Rs. 179m is expected through right share issue during FY22. Therefore, with healthy internal capital generation, timely repayment of long-term obligations and zero reliance on short-term credit gearing and leverage indicators are projected to improve on a timeline basis during the rating horizon. However, debt leverage will still remain a higher side owing to no significant decline in trade payables.

Shakarganj Food Products Limited — Annexure I

Financial Statement (*Amount in Million)*				
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**9MFY21***
Fixed Assets	3,720	7,837	7,834	7,842
Store and Spare Parts	187	213	196	214
Stock in Trade	1,175	1,407	1,224	1,224
Trade Debts	99	120	124	142
Loans and Advances	1,059	227	142	230
Income and Sales Tax	624	691	745	676
Cash & Bank Balances	316	431	322	295
Other Assets	16	46	20	8
Total Assets	**7,196**	**10,972**	**10,607**	**10,631**
Trade and Other Payables	2,203	3,147	4,149	3,887
Short Term Borrowings	341	299	349	349
Long-Term Borrowings *(Inc. current matur)*	1,430	1,840	1,516	1,526
Total Borrowings	1,771	2,140	1,865	1,875
Retirement Benefit	174	246	280	342
Contract Liabilities	-	794	663	722
Other Liabilities	384	577	432	475
Total Liabilities	**4,532**	**6,903**	**7,389**	**7,301**
Tier-1 Equity	2,664	3,042	2,238	2,385
Total Equity	**2,664**	**4,069**	**3,217**	**3,330**
Paid-Up Capital	1,676	1,676	1,676	1,676
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**9MFY21***
Net Sales	15,776	16,588	15,383	13,306
Gross Profit	2,861	2,071	1,230	1,750
Operating Profit/(Loss)	705	192	(612)	473
Profit/(Loss) Before Tax	594	10	(1,028)	229
Profit/(Loss) After Tax	418	105	(886)	94
FFO	634	149	(709)	466
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**9MFY21***
Gross Margin (%)	18.1	12.5	8.0	13.2
Net Margin (%)	2.6	0.6	-5.8	0.7
FFO to Long-Term Debt	0.44	0.08	(0.38)	0.41
FFO to Total Debt	0.36	0.07	(0.47)	0.33
Debt Servicing Coverage Ratio (x)	1.05	0.6	(0.38)	1.74
Gearing (x)	0.66	0.70	0.83	0.79
Debt Leverage (x)	1.70	2.27	3.30	3.06
Current Ratio	1.1	0.6	0.5	0.5
Inventory + Receivables/Short-term Borrowings	3.7	5.1	3.9	3.9

** 9-month numbers are for period ended-June'21*

Shakarganj Food Products Limited **Annexure II**

Financial Projections (*Amount in Million)*

BALANCE SHEET	FY22	FY23	FY24
Fixed Assets	7,484	7,557	7,646
Store and Spare Parts	236	279	329
Stock in Trade	1,710	1,885	2,200
Trade Debts	150	176	208
Loans and Advances	443	512	597
Income and Sales Tax	1,118	962	946
Cash & Bank Balances	50	50	121
Total Assets	**11,624**	**12,000**	**12,527**
Trade and Other Payables	3,937	3,827	3,754
Short Term Borrowings	285	194	-
Long-Term Borrowings *(Inc. current matur)*	1,831	1,893	1,941
Total Borrowings	2,116	2,087	1,941
Retirement Benefit	386	440	512
Contract Liabilities	693	728	808
Total Liabilities	**7,587**	**7,413**	**7,343**
Tier-1 Equity	3,146	3,736	4,373
Total Equity	**4,037**	**4,587**	**5,185**
Paid-Up Capital	1,795	1,795	1,795
INCOME STATEMENT	FY22	FY23	FY24
Net Sales	23,428	27,519	32,459
Gross Profit	3,743	4,239	5,053
Operating Profit/(Loss)	970	1,058	1,410
Profit/(Loss) Before Tax	645	728	1,103
Profit/(Loss) After Tax	457	516	580
FFO	772	740	1,177
RATIO ANALYSIS	FY22	FY23	FY24
Gross Margin (%)	16.0	15.4	15.6
Net Margin (%)	2.0	1.9	1.8
FFO to Long-Term Debt	0.42	0.39	0.61
FFO to Total Debt	0.37	0.35	0.61
Debt Servicing Coverage Ratio (x)	1.5	1.3	1.8
Gearing (x)	0.67	0.56	0.44
Debt Leverage (x)	2.41	1.98	1.68
Current Ratio	0.7	0.8	0.9
Inventory + Receivables/Short-term Borrowings	6.5	10.6	-

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure 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 — Annexure III

Name of Rated Entity	Shakarganj Food Products 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
RATING TYPE: ENTITY				
Jan 04, '20	BBB+	A-3	Stable	Maintained
Nov 23, '20	BBB+	A-3	Negative	Downgrade
July 18, '19	A-	A-2	Stable	Reaffirmed
Mar 20, '18	A-	A-2	Stable	Initial
RATING: SUKUK				
Jan 04, '20	BBB+		Stable	Maintained
Nov 23, '20	BBB+		Negative	Downgrade
July 18, '19	A		Stable	Final
Mar 20,'18	A		Stable	Preliminary

Instrument Structure

Sukuk is of amount Rs. 725m.Tenor of the Sukuk will be 6 years including 1-year grace period. Principal will be repaid in 20 quarterly installments starting from 15th month from the date of issuance.

The facility shall be secured by first pari passu charge over moveable & immoveable fixed assets of the company with 25% margin plus any other security mutually agreed or as advised by the legal counsel. Moreover, the company will maintain a Debt Service Account (DSA) with accounts bank, which will be held under exclusive lien of investment agent/trustee (for the benefit of the sukuk investors). The company shall ensure that during each month (and in any case not later than the fifteenth (15th) day of each month), it shall deposit the amount equivalent to the 1/3rd of the upcoming installment amount (principal + profit/rental) into DSA so that the aggregate amount in the DSA on the due date is equal to the installment amount of the relevant period due for payment.

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.

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Due Diligence Meetings Conducted	**Name**	**Designation**	**Date**
	Mr. Naguib Saigal	CFO	December 9, 2021
	Mr. Nasir Ismail	Senior Financial Analyst	December 9, 2021