# RATING REPORT

## Shakarganj Food Products Limited

**REPORT DATE:**
March 02, 2023

**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-2 | BBB+ | A-3 |
| **Rating Outlook** | Positive | | Stable | |
| ***Rating Date*** | *02 March'23* | | *04 Jan'22* | |
| | | | | |
| **Sukuk** | BBB+ | | BBB+ | |
| **Rating Outlook** | Positive | | Stable | |
| ***Rating Date*** | *02 March'23* | | *04 Jan'22* | |

| COMPANY INFORMATION | |
|---|---|
| **Incorporated in 2001** | **External auditors:** EY Ford Rhodes, Chartered Accountants |
| | **Chairman of the Board:** Mr. Anjum M. Saleem<br>**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)**<br>*https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf*<br>*https://docs.vis.com.pk/docs/Notchingtheissue202007nov.pdf* |

# Shakarganj Food Products Limited

## OVERVIEW OF THE INSTITUTION

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 SFPL take into account strong sponsor profile, comprising renowned business concerns including Shakarganj Limited, Bank-Islami Pakistan Limited, and Crescent Steel & Allied Products Limited. The ratings incorporate moderate business risk environment underpinned by in-elastic demand of milk coupled with positive demand prospects of dairy products in line with population growth & higher per capita consumption. Moreover, the ratings reflect largely sustained market share despite high competition in value-added dairy and challenging operating environment of the organized segment. However, 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.

Assessment of financial risk profile factors in maintained topline and improvement in gross margin despite economic slowdown and pressure on consumers disposable income; the gross margin was recorded higher in line with increase in retail prices of the entire product portfolio. However, SFPL's pre-tax margins dipped during the outgoing year on account of significant promotional expenses incurred to maintain market share coupled with increased financial expense borne by the company. Incurrence of high promotional expense remains a function of the Company operating in fast moving consumer goods sector. Further, the ratings incorporate weakening in liquidity position evidenced from reduced cash flow generation and debt service coverage reported lower than 1.0x. On the flip side, CCC is quite low and the short-term borrowing coverage is healthy at over 2x; however, the policy of using payables as a zero-cost financing source is putting stress on the current ratio. Owing to decline in overall debt utilization, gearing and leverage improved during the rating review period. Given no new debt drawdown is expected as all capex plans have been shelved, the gearing indicators are expected to improve during the rating horizon. Going forward, the ratings are dependent on consolidation of current market share, upward trajectory of revenue, mitigation of margin volatility, and improvement of debt service coverage while surviving through the present challenging economic situation.

### 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. As per the estimates of Pakistan Institute of Development Economics, the total annual milk production is expected to reach 63m tonnes in FY22. Unfortunately, the sector has not developed to its maximum potential as currently livestock and dairy constitute only a miniscule proportion of total exports of the country. 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 through rectification of animal rearing practices and infrastructure issues, the dairy sector can contribute around USD $30b to economy through exports.

Milk industry in Pakistan can be broadly segregated into two segments: loose milk and processed milk with loose milk constituting 92% of the market share while penetration of processed milk is only 8%. Processed milk penetration in Pakistan is considered to be on the lower side compared to the regional peers such as India (14%), and Bangladesh (20%). Demand for milk is seasonal, with the flush and the lean period, which occur in the first and second half of the year, respectively. However, due to low elasticity demand for milk is noncyclical. Increasing urbanization, under-penetrated milk market with great upside potential, favorable laws introduced by regulatory authorities and rising middle class contribute to the uprising aggregate demand for packaged milk. However, the key business risks include regulatory risk and the challenge of changing perceptions. VIS believes that benefits of marketing campaigns will be reflected in the medium to long term and there is no quick solution for changing perception in the short run unless significant regulatory changes such as minimum pasteurization law are enforced.

**Heightened Business Risk Profile amid Current Economic Situation**

Pakistan nowadays faces mountainous issues: spiraling inflation, massive devaluation of the Pakistani rupee against major world currencies, increasing fuel prices, and the drying-up of foreign currency reserves. The inflation is in the double digits while the consumer price index (CPI) is currently hovering around 25%. Moreover, State Bank of Pakistan (SBP) on January 23, 2023 raised the interest rate by one percent to 17% to curb inflation. However, with all time high policy rate, the credit risk faced by the financial sector is elevated. In the first five months of FY 2023, the average Sensitive Price Index (SPI) is expected to stand at around 28%. Business community has warned that high cost of production amid a volatile rupee-dollar parity, uncertainty in the political and economic environment and high-interest rate would further dampen overall business activities and crush small and medium enterprises. If timely government intervention is not made, sizable export orders would not be serviced resulting in lay-offs, reduction in tax revenue collection and halt of industrial development.

Due to unavailability of dollars with banks, imports and thousands of containers are awaiting clearance on the port due to the foreign exchange crisis. Moreover, the suspension of opening of letters of credit (LCs) has caused supply chain disruptions in the country. The businesses are facing issues in procurement of imported raw materials due to which shortage of essential goods is expected in the near future. Moreover, Russia's invasion of Ukraine has also resulted in a record surge in fuel prices; the same has in turn led to global supply chain being also marked with disruptions. Stemming from global aspects, the availability and prices of fossil fuel – oil, LNG and coal – have been adversely impacted. Future fuel price hikes would be detrimental to Pakistan as the forex reserves would deplete further. In addition, national exports to Ukraine have also ceased, impacting local industries and overall economy.

**Profitability**

SPFL was able to maintain its net revenue at Rs. 18.0b (FY21: 18.0b) despite all the challenges faced emanating from macro-economic factors on account of increase in prices of the entire product range along with curtailment of discounts offered to distributors, deducted from gross sales, amounting to Rs. 1.7b (FY21: Rs. 2.9b) during the outgoing year. The ongoing double-digit inflation leading to reduction of disposable income of masses along with management's decision of passing on the incremental cost to end-consumers resulted in drop in total sales volume by 17%. The increase in retail prices was a combined function of multiple factors including higher procurement cost of major imported raw material, skimmed milk increasing to Rs. 17,032/bag (FY21: Rs. 970/bag) on account of appreciation of dollar and global supply chain disruptions coupled with higher local fuel and utilities expense incurred. In terms of product volumes an increase was manifested in quantum sales of Thanda, Shakeup and Cooler, all pertaining to juices category, along with slight increase of products categorized as fat category, Good Milk Cream and Loose Cream. Meanwhile, all other product categories were marked by a decrease in the volumetric sales mainly triggered by the increase in retail prices. Similarly, annualized volumetric sales of largest revenue contributor, tea whitener Qudrat, were also recorded considerably lower than the prior year's level. Volumetric sales of major products are tabulated below:

| Product Categories | FY 2020-2021 | | 9MFY22 | |
|---|---|---|---|---|
| | Litres (000s) | Average Selling Price per Litre | Litres (000s) | Average Selling Price per Litre |
| **Anytime** | 1,127 | 103.69 | 964 | 105.80 |
| **Chaika** | 16,472 | 95.62 | 8,020 | 119.92 |
| **Dairy Pure** | 15,640 | 101.98 | 8,648 | 114.14 |
| **Good Milk** | 35,780 | 138.41 | 26,165 | 143.71 |
| **Milk Well** | - | - | 553 | 120.72 |
| **GM Cream** | 161 | 390.99 | 208 | 393.67 |
| **GM Ghee** | 32 | 835.26 | 27 | 1,016.77 |
| **Gulpy** | 515 | 88.51 | 358 | 94.98 |
| **Joose** | 22,834 | 56.98 | 16,196 | 59.99 |
| **Loose Cream** | 242 | 329.28 | 478 | 324.08 |
| **Loose Ghee** | 142 | 753.60 | 49 | 719.87 |
| **Oolala** | 2,601 | 137.72 | 1,925 | 158.48 |
| **Pulp & Concentrates** | 4,313 | 175.22 | 1,738 | 91.42 |
| **Qudrat** | 88,962 | 86.46 | 42,015 | 110.79 |
| **Refresh** | 18,488 | 67.12 | 15,639 | 72.03 |
| **Thanda** | 1,173 | 54.30 | 2,517 | 51.68 |
| **Shakeup** | 1,025 | 102.11 | 2,478 | 110.23 |
| **Cooler** | - | - | 4,621 | 63.65 |
| **Grand Total** | **209,505** | | **132,600** | |

On the flip side, despite all challenges faced SFPL's gross margin slightly improved to 13.6% (FY21: 13.1%) during FY22 on the back of efficient decision making by the management to increase the prices of all product categories by 30-40% resulting in avoiding of time-lag between transfer pricing adjustments. As per the management, the contribution margin of its premium product, Good Milk, reduced due to higher procurement price of raw milk to Rs. 140/liter during FY22 as opposed to Rs. 95/liter in the preceding year. Owing to shrinkage of the disposable income of the target market, the management has decided to focus more on its low-priced products in both beverage and dairy categories. As per the management, SFPL is making continuous investment into research & development (R&D) to improvise on recipes in order to reap better margins. In addition, the company is working on introduction of new small stock keeping units (SKUs) to battle the repercussions of increasing inflation. The contribution margin of main products is tabularized below:

| Average Contribution per pack in Rs. | | |
|---|---|---|
| **Product Name** | **FY21** | **9MFY22** |
| Good Milk | 6.27 | 5.66 |
| Dairy Pure | 5.80 | 6.13 |
| Oolala | 3.39 | 6.93 |
| ShakeUp | 1.67 | 1.67 |
| Qudrat | 2.28 | 1.47 |
| Chaika | 2.41 | 1.32 |
| Anytime | 4.95 | 6.24 |
| Refresh | 1.85 | 2.41 |
| Joose | 0.74 | 0.44 |
| Thanda | 1.24 | 1.02 |
| Gulpy | 5.58 | 5.12 |
| Cooler | - | 1.41 |
| MilkWell | - | 3.65 |

The selling and distribution expenses were recorded higher at Rs. 1.9b during FY22 in comparison to Rs. 1.6b in the preceding year primarily owing to increased sales promotions and advertisements carried out to maintain market share of tea creamers despite increase in prices. On the other hand, administrative expenses were maintained at Rs. 148.5m (FY21: Rs. 149.2m) despite increase in fuel cost mainly owing to decrease in fees and subscription during the rating review period. Further, other expenses also stood lower at Rs. 8.9m (FY21: Rs. 20.8m) during FY22 on account of decreased contribution to workers' participation fund and elimination of cold storage rent previously paid for storing fruit pulp. The company booked other income amounting to Rs. 41.2m (FY21: Rs. 30.1m) in line with recovery of insurance claim and gain on sale of scrap and operating fixed assets booked. Subsequently, despite gross margins remaining intact, the profit from operations of the Company dipped to Rs. 470.1m (FY21: Rs. 619.4m) on account of higher selling & distribution expenses incurred; the same is an impact of company's presence in FMCG sector where heavy promotional expense has to be incurred to keep brand loyalty intact along with maintenance of market share due to increasing product prices. Further, despite decline in quantum of borrowings, SFPL's finance cost was recorded higher at Rs. 398.2m (FY21: 318.9m) owing to a sharp rise in the benchmark rates along with loss booked on derecognition of Musharaka financing during the review period. As a result of higher promotional and financial expenses borne by the company, the profit before tax dipped to Rs. 71.9m (FY21: Rs. 300.4m) during FY22. However, on account of one-off adjustment related to timing differential in recording of taxation expense resulting in recording of tax asset of Rs. 50.6m during FY22 in comparison to tax expense booked amounting to 176.1m in the preceding year, the bottom line of the company was reported at FY21's level at Rs. 122.5 (FY21: Rs. 124.3m) during FY22. The net margin also remained thin at 0.7% (FY21: 0.7%) during FY22.

Revenue is expected to increase by 39% to Rs. 25.1b during FY23, primarily underpinned by maintenance of market share in juices and milk segments as business consolidation is the management's main strategic objective for the medium term; all expansion projects have also been shelved for the foreseeable future. Specifically, the revenue growth is projected to be driven by volumetric increase of 100% in Cooler and Gulpy, 300% in Good Milk cream and ghee, 25% in Good Milk and 18% increase in Chaika, ShakeUp and Oolala product lines. Volumetric sales of its Gulpy & Cooler juice brands are projected to grow to 16m liters (FY22: 8.0m liters) while Qudrat Tea creamer volumes are expected to increase to 62m liters (FY22: 55m liters) in FY23. The projected growth of revenues also takes into account increase in price of the entire product portfolio ranging between 5-9% during the ongoing year. From FY23 onwards, the price increase is estimated to be around 3-5% for the next two fiscal years. As a result of implementation of these strategies, the company was able to close 1QFY23 with 26% higher net revenue recorded at Rs. 5.5b as opposed to Rs. 4.4b in the corresponding quarter last year.

Furthermore, gross profit is estimated to improve and range between 14.3-15.1% during the next three fiscal years; the increase is projected on the back of shift in revenue mix with more focus on economical product categories, plans to procure cost-effective raw materials and increased reliance on local loose milk for drying. Due to decreasing debt utilization, financial charges are largely projected to decrease on a timeline basis; however, the same might require upward adjustment in line with increasing trend witnessed in the market benchmark rates. SFPL as a result of improved scale of operations and margins has projected a bottom line of Rs. 199.4m for FY23; Rs. 303.5m for FY24 and Rs. 445.8m for FY25. In line with these projections, the management expects to report higher profit before tax (PBT) of Rs. 650.4m for FY23 as opposed to meager PBT of Rs. 71.9m of FY22. To support the projections, the Company has managed to close 1QFY23 with a sizable PBT of Rs. 396.4m as compared to negative pre-tax bottom line of Rs. 42.9m in the corresponding quarter of preceding year. Subsequently, with positive momentum in revenues and gross margins, the Company's net profit margin improved to 4.7% despite higher financial and distribution expenses borne by the company.

**Liquidity position weakened during the rating review period; the same has been a function of profitability indicators:**

SPFL's liquidity profile has deteriorated during the outgoing year on account of suppressed profitability indicators as an outcome of higher selling and financial expense incurred by the company; the Funds from Operations (FFO) were recorded sizably lower at Rs. 188.6m (FY21: 653.8m) during FY22. The trend in liquidity indicators is a replication of profitability metrics. As a result, despite decrease in quantum of borrowings, FFO to total debt and FFO to long-term debt were recorded lower at 0.12x (FY21: 0.36x) and 0.17x (FY21: 0.45x) respectively at the end-FY22. In addition, the debt service coverage (DSCR) also scaled down and was recorded lower at 0.74x (FY21: 1.53x) in line with decline in FFO; the same being less than 1.0x indicates that company might face issues in repaying the long-term repayments falling due in the ongoing year. Moreover, the Company might have to obtain incremental long-term borrowings to pay the existing liabilities due. Going forward, rectification of liquidity indicators will remain imperative from ratings perspective.

In line with decline in volumetric sales, stock in trade was recorded lower than prior's year's level at Rs. 1.0b (FY21: Rs. 1.6b) at FY22; mainly due to decrease in the amount of finished goods held. The slight increase in trade debts to Rs. 157.8m (FY21: Rs. 137.4m) at end-FY22 was in sync with increase in prices of all the products. As per the management, the aging of receivables is satisfactory as only 11% of the receivables pertained to more than four-month overdue bracket; the same are key accounts of renowned corporates to whom longer credit period is provided to maintain market share. Moreover, other than the aforementioned key accounts all other sales are made on cash, therefore no sizable allowance for expected credit losses is booked. Given SFPL operates under fast-moving consumer goods segment which is a cash rich sector therefore hardly any liquidity crunch is faced. Loans and advances were recorded lower at Rs. 49.1m (FY21: 79.6m) at end-FY22 on account of lower advance payments to suppliers; the same is an outcome of decrease in operating scale of the business in terms of volumes. Further, liquidity of the company is impacted due to sizable sales and income tax refunds amounting to Rs. 1.4b (FY21: Rs. 383.5m) due from the government at end of the outgoing year; 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 slightly lower at Rs. 3.9b (end-FY21: Rs. 4.1b) on account of reduced raw material inventory in transit. Current ratio also remained low at 0.52x at FY22 (FY21: 0.47x) mainly on account of continued delayed payments to Tetra Pak as agreed by both parties. On the other hand, short-term borrowing coverage has declined to 2.6x (FY21: 5.0x; FY20: 3.9x), albeit sizable owing to decline in inventory levels along with conversion of long-term Musharaka into short-term borrowings.

## Capitalization and Funding

The debt matrix of the Company is a mix of short-term and long-term credit with relatively limited reliance of the company on short-term borrowings as delayed payments to creditors are indirectly utilized for financing of working capital requirements. Nevertheless, the utilization of short-term borrowings increased to 449.9m (FY21: Rs. 349.2m) primarily on account of conversion of long-term Musharaka amounting to Rs. 120.0m into short-term borrowings. The major running finance facility amounting to Rs. 200.0m is secured against first charge over fixed assets (land, building, plant & machinery) amounting to Rs. 286m inclusive of a 30% safety margin. The company has availed most of the short-term credit facility limits at end-FY22. On the other hand, owing to regular repayments of obligations coupled with no new procurement of long-term loans, the long-term total debt levels of the Company decreased to Rs. 1.6b (FY21: Rs. 1.8b) at end-FY22. Subsequently, with decline in borrowings along with slight increase in core equity, gearing and leverage improved to 0.62x (FY21: 0.74x) and 2.82x (FY21: 2.94x) respectively at end-FY22.

The total equity base of SFPL increased on a timeline basis to Rs. 3.6b (FY21: Rs. 3.4b) by end-FY22 owing to sustained internal capital generation and addition to revaluation surplus. In the equity portion of the Musharaka financing amounting to Rs. 138.4m at end-FY21, Rs. 59.3m was converted with Rs. 37.1m transferred to retained earnings and the remaining Rs. 22.2m booked as loss during the outgoing year. Subsequently, the equity portion shown on Company's books was recorded lower at Rs. 79.1m at end-FY22. During FY18, the company issued 15.95m right shares, excluding Bank Islami 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 Musharaka financing facility amounting to Rs. 280m for a period of 5 years. Out of the total, the Musharaka facility amounting to Rs. 120.0m has been converted into short-term running Musharaka facility.

To secure the Musharaka and Running Musharaka facilities, an Equity Warrant Option was also issued under which BIPL may opt for conversion of its facilities either wholly or partially into ordinary shares of the company at a fixed price of Rs. 15 per share, subject to necessary approval from its regulator. The facilities have been treated as a compound financial instrument with the debt instrument being measured using an effective rate of 14.1% per annum and 19.26% respectively, while the remainder is classified as equity portion. In subsequent years, markup expense will be recognized through statement of profit and loss using the same rate of interest and equivalent amount will be reinstated to the loan through unwinding of discount and accrued mark-up, respectively. Moreover, SFPL issued privately placed and secured Diminishing Musharaka Sukuk worth Rs. 725.0m in 2018. It was originally repayable in 20 equal quarterly installments commencing in Oct'19. However, due to unprecedented effects of Covid-19, 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, post one-year, SFPL made regular payment amounting to Rs. 145.0m during the outgoing year.

Due to the weakening in the macro-economic factors, all capacity expansion plans for portfolio diversification with addition of value-added products and enhancement of market outreach inked in FY22 for the ongoing year have been shelved in FY23. As a result of aforementioned, the Company does not foresee procurement of additional long-term debt in the medium to long-term. Moreover, the management plans to completely eliminate the utilization of short-term borrowings by end-FY24. 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.

## Shakarganj Food Products Limited — Annexure I

### Financial Statement *(Amount in Million)*

| **BALANCE SHEET** | **FY19** | **FY20** | **FY21** | **FY22** | **1QFY23** |
|---|---|---|---|---|---|
| Fixed Assets | 7,837 | 7,834 | 7,784 | 7,572 | 7,424 |
| Store and Spare Parts | 213 | 196 | 194 | 220 | 233 |
| Stock in Trade | 1,407 | 1,224 | 1,608 | 1,028 | 1,063 |
| Trade Debts | 120 | 124 | 137 | 158 | 198 |
| Loans and Advances | 227 | 142 | 80 | 49 | 63 |
| Income and Sales Tax | 691 | 745 | 384 | 0 | 0 |
| Cash & Bank Balances | 431 | 322 | 282 | 47 | 21 |
| Total Assets | **10,972** | **10,607** | **10,495** | **10,705** | **10,900** |
| Trade and Other Payables | 3,147 | 4,149 | 4,089 | 4,000 | 4,474 |
| Short Term Borrowings | 299 | 349 | 349 | 450 | 440 |
| Long-Term Borrowings *(Inc. current matur)* | 1,840 | 1,516 | 1,449 | 1,113 | 1,010 |
| Total Borrowings | 2,140 | 1,865 | 1,798 | 1,563 | 1,450 |
| Retirement Benefit | 246 | 280 | 336 | 392 | 386 |
| Contract Liabilities | 794 | 663 | 844 | 1,017 | 585 |
| Total Liabilities | **6,903** | **7,389** | **7,125** | **7,067** | **6,996** |
| Tier-1 Equity | 3,042 | 2,238 | 2,426 | 2,506 | 2,785 |
| Total Equity | **4,069** | **3,217** | **3,360** | **3,638** | **3,904** |
| Paid-Up Capital | 1,676 | 1,676 | 1,676 | 1,676 | 1,676 |
| | | | | | |
| **INCOME STATEMENT** | **FY19** | **FY20** | **FY21** | **FY22** | **1QFY23** |
| Net Sales | 16,588 | 15,383 | 18,024 | 18,027 | 5,479 |
| Gross Profit | 2,071 | 1,230 | 2,353 | 2,448 | 1,073 |
| Operating Profit/(Loss) | 192 | -612 | 619 | 470 | 491 |
| Profit/(Loss) Before Tax | 10 | -1,028 | 300 | 72 | 396 |
| Profit/(Loss) After Tax | 105 | -886 | 124 | 123 | 260 |
| FFO | 149 | -709 | 654 | 189 | 0 |
| | | | | | |
| **RATIO ANALYSIS** | **FY19** | **FY20** | **FY21** | **FY22** | **1QFY23** |
| Gross Margin (%) | 12.5 | 8 | 13.1% | 13.6% | 19.6% |
| Net Margin (%) | 0.6 | -5.8 | 0.7% | 0.7% | 4.7% |
| FFO to Long-Term Debt | 0.08 | -0.38 | 0.45 | 0.17 | - |
| FFO to Total Debt | 0.07 | -0.47 | 0.36 | 0.12 | - |
| Debt Servicing Coverage Ratio (x) | 0.6 | -0.38 | 1.53 | 0.74 | - |
| Gearing (x) | 0.7 | 0.83 | 0.74 | 0.62 | 0.52 |
| Debt Leverage (x) | 2.27 | 3.3 | 2.9 | 2.8 | 2.5 |
| Current Ratio | 0.6 | 0.5 | 0.5 | 0.5 | 0.6 |
| Inventory + Receivables/Short-term Borrowings | 5.1 | 3.9 | 5.0 | 2.6 | 2.9 |

## Shakarganj Food Products Limited — Annexure II

| Financial Projections *(Amount in Million)* | | | |
|---|---|---|---|
| **BALANCE SHEET** | **PFY23** | **PFY24** | **PFY25** |
| Fixed Assets | 7,192 | 7,034 | 6,869 |
| Store and Spare Parts | 255 | 326 | 389 |
| Stock in Trade | 1,310 | 1,551 | 1,775 |
| Trade Debts | 159 | 201 | 241 |
| Loans and Advances | 65 | 75 | 88 |
| Income and Sales Tax | 0 | 0 | 0 |
| Cash & Bank Balances | 70 | 86 | 408 |
| Total Assets | **10,557** | **10,502** | **10,334** |
| Trade and Other Payables | 3,912 | 3,730 | 3,111 |
| Short Term Borrowings | 292 | 0 | 0 |
| Long-Term Borrowings *(Inc. current matur)* | 1,054 | 953 | 885 |
| Total Borrowings | 1,346 | 953 | 885 |
| Retirement Benefit | 408 | 465 | 541 |
| Contract Liabilities | 924 | 1,075 | 946 |
| Total Liabilities | **6,609** | **6,241** | **5,629** |
| Tier-1 Equity | 2,831 | 3,194 | 3,686 |
| Total Equity | **3,947** | **4,260** | **4,705** |
| Paid-Up Capital | 1,676 | 1,676 | 1,676 |
| | | | |
| **INCOME STATEMENT** | **PFY23** | **PFY24** | **PFY25** |
| Net Sales | 25,107 | 31,755 | 38,078 |
| Gross Profit | 3,801 | 4,541 | 5,656 |
| Operating Profit/(Loss) | 956 | 1,089 | 1,454 |
| Profit/(Loss) Before Tax | 650 | 857 | 1,311 |
| Profit/(Loss) After Tax | 199 | 304 | 446 |
| FFO | 555 | 871 | 1,482 |
| | | | |
| **RATIO ANALYSIS** | **PFY23** | **PFY24** | **PFY25** |
| Gross Margin (%) | 15.1% | 14.3% | 14.9% |
| Net Margin (%) | 0.8% | 1.0% | 1.2% |
| FFO to Long-Term Debt | 0.53 | 0.91 | 1.67 |
| FFO to Total Debt | 0.41 | 0.91 | 1.67 |
| Debt Servicing Coverage Ratio (x) | 1.84 | 2.79 | 5.40 |
| Gearing (x) | 0.48 | 0.30 | 0.24 |
| Debt Leverage (x) | 2.3 | 2.0 | 1.5 |
| Current Ratio | 0.6 | 0.7 | 0.8 |
| Inventory + Receivables/Short-term Borrowings | 5.0 | - | - |

## ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure III

**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.

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**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 IV

| | |
|---|---|
| **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** | | | | |
| Mar 02, '23 | BBB+ | A-2 | Positive | Upgrade |
| Jan 04, '22 | 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** | | | | |
| Mar 02, '23 | BBB+ | | Positive | Maintained |
| Jan 04, '22 | 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.

**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. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. 

**Due Diligence Meetings Conducted**

| Name | Designation | Date |
|---|---|---|
| Mr. Naguib Saigal | CFO | 23rd January 2023 |
| Mr. Nasir Ismail | Senior Financial Analyst | 23rd January 2023 |