RATING REPORT

Dairyland (Private) Limited (DPL)

REPORT DATE:
June 10, 2022

RATING ANALYSTS:

Muzammil Noor Sultan
muzammil.noor@vis.com.pk

RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	A-	A-2
Rating Outlook	Positive		Stable	
Rating Date	*June 10, 2022*		*February 19, 2021*	

COMPANY INFORMATION	
Incorporated in February 2009	**External auditors:** Ibrahim Sheikh & Co
Private Limited Company	**Chairman of the Board:** Mr. Javed Akhtar
Key Shareholders (with stake 5% or more):	**Chief Executive Officer**: Farooq Javed
Akhtar Textile (Pvt.) Limited	
Mr. Nadeem Monnoo	
Mr. Sulaiman Monnoo	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria - Industrial Corporates (Aug 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Dairyland (Private) Limited (DPL)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

OVERVIEW OF THE INSTITUTION

Dairyland (Pvt.) Limited was incorporated in February 2009 as a Private Limited Company. The registered office of the company is located in Karachi. The company is a part of Akhtar Group of Companies

Akhtar Group of companies includes Dairyland Private Limited, ACT Wind Private Limited, Indigo Textile Private Limited, and Akhtar & Sons.

RATING RATIONALE

Dairyland (Private) Limited (DPL) is engaged in manufacturing and sales of dairy products, focusing processed milk. The company is a part of Akhtar Group of Companies with majority shareholding vested with Akhtar Textile (Pvt.) Limited 49%. The value chain includes the company's own farm which accommodates the entire production procedure as well as the housing of the livestock. As per management, the entire process is automated and no human interaction is involved during the milk collection and processing. The facility is located in Dhabeji, Karachi. Currently, the company has a herd of more than 5578 Australian cows for milk production. DPL is present under the brand name of 'Dayfresh' with a product portfolio encompassing Homogenized & Pasteurized milk, UHT Milk, Flavored Milk, Tea Whitener, Yogurt Raita, and Cheese & Eggs. Further additions include a line of flavored drinking yoghurt. The company also plans to add butter and cream in its product portfolio; currently, both the products are in testing phase.

DPL seven outlets and four franchise locations in Karachi. The Company also has distribution arrangements with nine other major distributors through which its products are supplied to more than 4,000 shops in five major cities in the country. The third distribution channel encompasses B2B sales with the last channel being exports. The Company exported a limited quantity to USA and Afghanistan in the outgoing year.

Rating Drivers

Untapped market potential provides opportunity for topline growth, however strong competitive forces adds to the business risk profile of the sector.

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 about 10% (India: 14%, Bangladesh: 20%) of total milk sold around the country. Hence, a huge untapped market poses a 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, particularly because of its use in tea preparation.

Revenue growth supported by increasing prices

Revenues continue to register growth with topline recording an increase of 20% in FY21. Revenues of Rs. 3b consisted majorly of flavored milk (42%) and processed UHT milk (34%), with flavored milk registering a relatively stronger growth. Cheese and Eggs both contributed 10% and 9% respectively in the sales mix while raw milk, tea whitener, yogurt, and exports made almost 1% each. The market share is concentrated

Higher sales of processed milk and eggs also added to topline growth. Overall, revenue growth was primarily price led. At end-Feb'22, the Y-o-Y increase in the price of milk was Rs. 30 per litre while yogurt price increased by Rs. 60 per kg. No import of additional animals was recorded during the year; other than organic increase within the existing herd.

Sales in 1HFY22 were recorded at Rs. 1.6b. As per the management, the second half of FY22 is going strong and revenue at year end is expected to surpass that of FY21. Going forward, as the market penetration increases, management expects the upward trend in topline to persist.

	Jun-20	% Sales	Jun-21	% Sales	YoY	%YoY
Processed Milk	818.7	31%	1070.4	34%	251.8	31%
Raw Milk	147.6	6%	41.5	1%	-106.2	-72%
Yogurt	50.7	2%	52.7	2%	2.0	4%
Flavored Milk	962.1	36%	1352.8	42%	390.7	41%
Cheese	288.7	11%	318.5	10%	29.9	10%
Tea Whitener	198.7	7%	46.8	1%	-151.9	-76%
Eggs	172.3	6%	274.8	9%	102.5	59%
Export	31.6	1%	32.8	1%	1.2	4%
Total Sales	2670.3	100%	3190.3	100%	520.0	19%
Sales Tax	111.9		132.8			
Net Sales	2558.4		3057.5			

Stable Margins

Gross margins have been relatively stable on timeline basis, remaining range-bound between 27.5% and 29.5%, as the increase in the raw material prices is passed on directly to the consumers. The slight decrease in gross margins (FY21: 27.6%, FY20: 28.2%) is attributed to higher wages and utilities expense as well as higher depreciation expense on revaluation of assets. Operating margins reduced to 8% (FY20: 9.6%) primarily on account of higher distribution expenses, salaries, sales and promotion expenses. Net margins however, exhibited an upward movement (FY21: 4.3%, FY20: 4%). Interest bill reduced as the long term debt worth around Rs. 200m was retired during the year. Net margins increased to 6.2% during 1HFY22, primarily as impact of gross (28.4%) and operating margins (8% to 9%) trickled down. We expect margins to remain fairly stable over the rating horizon.

Liquidity profile is adequate and working capital management is satisfactory

Funds from Operations (FFO) registered an increase on account of higher profitability. Higher FFO coupled with nominal increase in debt resulted in improved cash flow coverages, FFO to long term debt increased to 59.1% (FY20: 47.8%) while FFO to total debt improved to 34.3% (27%). DSCR also increased to 2.3x (FY20: 1.5x).
Overall liquidity of the Company remains adequate with current ratio consistently at 1.0x and stock-in-trade and trade debts covering the short term debt by 1.7x (FY20: 1.6x). Working capital cycle shrank to 141 days, albeit exhibiting room for further improvement. .

Low debt profile provides support to the capitalization indicators

Short term debt at end-FY21 was consistent at Rs. 639m (FY20: Rs. 648m); however, by end-1HFY22 additional short term borrowing of Rs. 203m was done to support the working capital requirements. Long term debt increased slightly, albeit remaining on the lower side. On a timeline basis, the company has maintained a low-debt capital structure.

Increase equity base of the company (FY21: Rs. 6,302m, FY20: Rs. 5,731m) is supported transfer of sponsor loan into equity, consistent sponsor support as well as profit retention. Strengthening equity base and a low debt profile provide support to the capitalization indicators of the company. Gearing (FY21: 0.24x, FY20: 0.26x) and leverage (FY21: 0.49x, FY20: 0.52x) indicators have remained consistently LOW on YOY basis.

FINANCIAL SUMMARY			(Amounts in PKR millions)		
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**	**1HFY22**
Non-Current Assets	5,379.0	6,519.1	8,636.3	8,888.8	9,266.0
Stock-in-Trade	680.8	878.1	885.2	902.9	875.8
Trade Debts	78.6	128.6	143.7	193.0	93.6
Biological assets held for sale	28.0	33.7	40.5	43.9	81.6
Cash & Bank Balances	4.4	4.6	8.2	14.8	17.9
Total Assets	6,523.0	8,038.4	10,349.5	10,919.8	11,360.1
Trade and Other Payables	371.6	691.7	597.2	670.8	683.3
Short Term Debt	400.7	449.3	648.8	639.3	843.2
Long Term Debt	810.7	592.4	844.5	884.5	887.7
Total Debt	1,211.4	1,041.7	1,493.3	1,523.8	1,730.8
Total Equity (excluding revaluation surplus)	3,889.5	5,197.0	5,730.9	6,302.1	6,482.1
Total Equity (including revaluation surplus)	4,763.1	5,977.5	7,387.3	7,859.2	7,993.9
Paid-up Capital	436.0	436.0	436.0	800.0	800.0
INCOME STATEMENT					
Net Sales	1,517.4	2,106.4	2,558.4	3,057.5	1,661.4
Cost of Sales	1,075.4	1,491.3	1,837.5	2,213.9	1,188.8
Gross Profit	442.1	615.1	720.9	843.6	472.6
Finance Cost	(78.4)	(90.8)	(140.7)	(93.4)	(51.8)
Profit before Tax	29.6	57.5	83.7	142.6	83.0
Profit After Tax	29.6	36.1	63.4	121.9	83.0
Net Profit	73.1	83.4	101.4	132.7	102.5
RATIO ANALYSIS					
Gross Margin (%)	29.1%	29.2%	28.2%	27.6%	28.4%
Net Margin	4.8%	4.0%	4.0%	4.3%	6.2%
Net Working Capital	44.4	124.4	0.4	22.1	109.1
Trade debts/Sales	5.2%	6.1%	5.6%	6.3%	5.6%
FFO	259.0	294.1	403.7	522.7	
FFO to Total Debt (%)	21.4%	28.2%	27.0%	34.3%	
FFO to Long Term Debt (%)	32.0%	49.6%	47.8%	59.1%	
Current Ratio (x)	1.04	1.09	1.00	1.01	1.05
Debt Servicing Coverage Ratio (x)	1.25	0.96	1.46	2.28	
Gearing (x)	0.31	0.20	0.26	0.24	0.27
Leverage (x)	0.45	0.40	0.52	0.49	0.52
(Stock in Trade+Trade Debts)/STD	190%	224%	159%	171%	
ROAA (%)	1.2%	1.1%	1.1%	1.2%	0.9%
ROAE (%)	2%	2%	2%	2%	2%

ISSUE/ISSUER RATING SCALE &DEFINITIONS — Appendix II

Medium to Long-Term

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

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

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

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

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

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

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

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

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

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

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

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

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

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: 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	Dairyland (Private) Limited
Sector	Dairy
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.
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Due Diligence Meetings	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
June 10, 2022	A-	A-2	Positive	Maintained
Feb-19-2021	A-	A-2	Stable	Reaffirmed
Oct-15-2019	A-	A-2	Stable	Initial

Due Diligence Meetings

Name	Designation	Date
Nadeem Ul Haq	Director	April 14, 2022
Shoaib-ur-Rehman	Deputy Manager	April 14, 2022