RATING REPORT

Dairyland (Private) Limited (DPL)

REPORT DATE:
November 17, 2023

RATING ANALYSTS:

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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		Positive	
Rating Date	*November 17, 2023*		*June 10, 2022*	

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**: Mr. Sulaiman Monnoo
Akhtar Textile (Pvt.) Limited	
Mr. Sulaiman Monnoo	
Mr. Abdullah Akhtar	
Mr. Nadeem Monnoo	

APPLICABLE METHODOLOGY

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

Dairyland (Private) Limited (DPL)

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 Akhtar Textile Industries (Pvt) Limited, Dairyland (Pvt) Limited, ACT Wind (Pvt) Limited, Indigo Textile (Pvt) Limited, and Dairyland (Pvt) Limited – Poultry Division.

Profile of the CEO
Mr. Sulaiman Monnoo has an MBA from IBA Karachi. He has over two decades of work experience. He has been associated with DPL since 2009. He was promoted to the position of CEO in 2012. Mr. Monnoo is also an Executive Committee Member/Director of Pakistan Dairy Association.

RATING RATIONALE

Dairyland (Private) Limited (DPL) is actively involved in the manufacturing and distribution of dairy products, with a significant emphasis on processed milk. DPL operates within the Akhtar Group of Companies, with the majority of its shares held by Akhtar Textile (Pvt.) Limited at 49%. The company's value chain encompasses its own farm, where the entire production process takes place, including the care and management of livestock. According to the management, the milk collection and processing procedures are fully automated, minimizing human involvement. The company's facility is situated in Dhabeji, Karachi. At present, DPL maintains a herd size of about 5,490 Australian cows and calves, of which 3,213 are currently milk producing. DPL operates under the 'Dayfresh' brand and offers a diverse product range, which includes Lactose-free milk, Homogenized & Pasteurized milk, UHT milk, Flavored Milk, Tea Whitener, Yogurt, Cheese, and ~~Salted~~ Butter. Furthermore, the management plans to include cream, tomato ketchup and mayonnaise into the product portfolio.

DPL currently operates six outlets and has established a presence in over 4,000 retail establishments across five major cities throughout the nation. The company has undergone a strategic shift, transitioning from reliance on a limited number of large distributors to a more extensive network of smaller distributors, thereby enhancing the accessibility of its products. While the company formerly collaborated with nine primary distributors, it has now expanded its distributor network to include 68 individuals or entities, strategically located in various regions. DPL is actively pursuing an expansion of its export operations and has two significant bulk orders in the pipeline, from Afghanistan and Somalia, supplementing its existing export destinations, including the United States.

Rating Drivers

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. VIS is of the opinion that the advantages stemming from marketing initiatives will become evident over the medium to long duration.

DPL experienced a 32% rise in net revenue during FY23, driven by higher volumetric sales and rise in prices.

Net revenue increased to Rs. 4.9b (FY22: Rs. 3.7b; FY21: Rs. 3.1b) in FY23. The growth is attributed to heightened volumetric sales across various product categories, alongside price increases during the financial year. DPL's ability to continually expand the milking herd size enabled it to effectively meet the evolving market demand. Sales composition remained largely consistent, with flavored milk accounting for 38% of total sales, and UHT milk contributing around 32%. Furthermore, the product portfolio encompassed pasteurized milk, yogurt, eggs, raw milk, cheese, and export sales. Sales of tea whitener, which were already modest previously, were discontinued in FY23.

	FY22	% Sales	FY23	% Sales	YoY	%YoY
Pasteurized Milk	502.8	13.6%	700.5	14.4%	197.7	39.3%
UHT Milk	1,126.8	30.5%	1,539.5	31.5%	412.7	36.6%
Tea Whitener	6.8	0.2%	0.0	0.0%	-6.8	-100.0%
Flavored Milk	1,523.9	41.3%	1,842.4	37.8%	318.5	20.9%
Yogurt	69.7	1.9%	102.8	2.1%	33.2	47.6%
Eggs	255.6	6.9%	270.8	5.6%	15.2	6.0%
Raw Milk	79.2	2.1%	187.9	3.8%	108.6	137.1%
Cheese	92.6	2.5%	167.7	3.4%	75.0	81.0%
Export	36.7	1.0%	68.5	1.4%	31.8	86.6%
Total Sales	**3,694.2**	**100.0%**	**4,880.1**	**100.0%**	**1,185.9**	**32.1%**

Gross margins have remained stable through preceding years at 27.4% (FY22: 27.8%) as the burden of the increase in prices was shifted to the consumer. According to the management, the company may not be able to fully pass on the burden of any sudden increase in raw materials due to increasing competition within the industry. The finance cost increased significantly during FY23 mainly due to the rise in the policy rates. The company utilized tax credit and paid zero tax in FY22 that resulted in higher net margin of 10.6%. Net margins reverted back to its historical range during FY23 and was recorded at 4.8%.

In the outgoing year, the company did not import cows; rather organic increase was witnessed within the existing herd. The management's primary strategic objective revolves around augmenting the population of milking cows within the overall herd. Sales figures have exhibited a consistent upward trend in recent years, and as market penetration continues to expand, management anticipates that this positive trajectory in topline performance will persist.

Cash flows and coverages exhibited some improvement

Funds from Operations (FFO) increased (FY23: Rs. 506.8m; FY22: Rs. 428.8m; FY21: Rs. 522.7m) on account of higher non-cash adjustments mainly an outcome of higher difference between financial charges incurred and paid along with higher depreciation charge for FY23.

Higher FFO, coupled with a reduction in long-term debt, led to considerable increase in FFO to long-term debt ratio, to 94% (FY22: 50%) in FY23. Nevertheless, an increase in short-term borrowings resulted in a marginal increase in the FFO to total debt ratio, which stood at 25% (FY22: 24%) during FY23. Meanwhile, the Debt Service Coverage Ratio (DSCR) increased marginally to 1.2x in FY23. The current ratio and short-term debt coverage ratio decreased slightly to 1.0x (FY22: 1.2x) and 1.1x (FY22: 1.4x), respectively. Additionally, DPL acquired shares of Kevlar (Pvt.) Limited, amounting to Rs. 1.8m, as a long-term investment.

Enhanced equity base and slight increase in debt profile has kept the capitalization indicators at a low level

The company's equity base expanded to Rs. 8.3b (FY22: Rs. 7.3b) by end-FY23, supported by the increase in sponsor loans, which stood higher at Rs. 5.9b (FY22: Rs, 5.3b) at end-FY23, along with profit retention. The expansion in equity base, despite slight increase in the debt profile, reinforces the company's capitalization metrics. Notably, the gearing and leverage indicators have consistently remained at low levels on a year-on-year basis, at 0.2x and 0.5x respectively at end-FY23. During FY23, the company allocated bonus shares valued at Rs. 200m to its shareholders, resulting in an augmentation of the paid-up capital.

In FY23, short-term debt increased to Rs. 1.4b (FY22: Rs. 913m) to meet the company's higher working capital requirements. The company intends to reduce its reliance on short-term borrowings going forward. According to management, the sponsors may convert their loan into equity in the future. Meanwhile, long-term borrowings decreased to Rs. 539m (FY22: Rs. 864m) by end-FY23. Given the absence of any planned capital expenditures, a further decrease in long-term borrowings is projected.

FINANCIAL SUMMARY (PROJECTIONS)					(Amounts in PKR millions)
BALANCE SHEET	FY21	FY22	FY23	FY24	FY25
Non-Current Assets	8,888.8	11,673.6	12,771.5	12,187.5	12,579.3
Stock-in-Trade	902.9	1,063.3	1,343.4	1,931.3	2,237.4
Trade Debts	193.0	220.1	210.7	339.7	411.7
Biological assets held for sale	43.9	131.7	92.4	128.8	142.9
Cash & Bank Balances	14.8	7.3	21.6	12.5	14.3
Total Assets	10,919.8	14,126.1	15,640.5	15,750.1	16,753.7
Trade and Other Payables	670.8	768.5	1,088.9	1,267.7	1,649.4
Short Term Debt	639.3	913.5	1,453.1	1,378.0	1,378.0
Long Term Debt	884.5	864.4	539.1	489.0	453.1
Total Debt	1,523.8	1,778.0	1,992.2	1,867.0	1,831.1
Total Liabilities	3,060.6	3,617.1	4,231.7	4,310.1	4,692.2
Total Equity (excluding revaluation surplus)	6,302.1	7,326.7	8,374.3	8,549.4	9,298.4
Total Equity (including revaluation surplus)	7,859.2	10,509.0	11,408.8	11,440.0	12,061.6
Paid-up Capital	800.0	800.0	1,000.0	1,000.0	1,000.0
INCOME STATEMENT					
Net Sales	3,057.5	3,694.2	4,880.1	6,086.5	7,405.7
Cost of Sales	2214.3	2,667.7	3,540.9	4,491.7	5,501.2
Gross Profit	843.2	1,026.5	1,339.2	1,594.8	1,904.6
Profit before Tax	142.6	129.2	113.1	160.5	235.5
Profit After Tax	121.9	129.2	80.5	114.0	167.2
Gain on revaluation of biological assets	10.7	264.1	152.1	29.4	45.1
Net Profit	132.6	393.3	232.5	143.3	212.2
RATIO ANALYSIS					
Gross Margin (%)	27.6%	27.8%	27.4%	26.2%	25.7%
Net Margin (%)	4.3%	10.6%	4.8%	2.4%	2.9%
Net Working Capital	22.1	348.6	94.2	759.8	1,021.2
Trade debts/Sales (x)	0.1	0.1	0.0	0.1	0.1
FFO	522.7	428.8	506.8	580.6	590.9
FFO to Total Debt (%)	34.1%	24.1%	25.4%	31.1%	32.3%
FFO to Long Term Debt (%)	58.7%	49.6%	94.0%	118.7%	130.4%
Current Ratio (x)	1.0	1.2	1.0	1.3	1.3
Debt Servicing Coverage Ratio (x)	2.3	1.0	1.2	2.1	2.5
Gearing (x)	0.2	0.2	0.2	0.2	0.2
Leverage (x)	0.5	0.5	0.5	0.5	0.5
(Stock in Trade + Trade Debts)/STD (x)	1.7	1.4	1.1	1.6	1.9
ROAA (%)	1.2%	2.9%	1.7%	0.9%	1.3%
ROAE (%)	2.2%	5.4%	3.2%	1.6%	2.4%
CCC	141	134	125	138	147

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Dairyland (Private) Limited
Sector	Dairy
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				
Nov 17, 2023	A-	A-2	Positive	Reaffirmed
June 10, 2022	A-	A-2	Positive	Maintained
Feb 19, 2021	A-	A-2	Stable	Reaffirmed
Oct 15, 2019	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.
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Due Diligence Meetings	

Name	Designation	Date
Nadeem Naz	Group CFO	October 20, 2023
Shoaib-ur-Rehman	Deputy Manager	October 20, 2023