

# RATING REPORT

## Dairyland (Private) Limited

**REPORT DATE:**

January 17, 2025

**RATING ANALYSTS:**

M. Amin Hamdani

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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Medium to Long-term	Short-term	Medium to Long-term	Short-term
Entity	A-	A2	A-	A2
Rating Outlook/Rating Watch	Positive		Positive	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	January 17, 2025		November 17, 2023	

### COMPANY INFORMATION

Incorporated in February 2009

External auditors: Ibrahim Shaikh & 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(IES)

VIS Entity Rating Criteria: Corporates

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

VIS Rating Scale

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

**Dairyland (Private) Limited**

OVERVIEW OF THE INSTITUTION	RATING RATIONALE																								
<p><i>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.</i></p> <p><b>Group profile</b> <i>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.</i></p> <p><b>Profile of the CEO</b> <i>Mr. Sulaiman Monnoo has an MBA from IBA Karachi. He has over two decades of work experience. He has been associated with Dairyland since 2009. He was promoted to the position of CEO in 2012. Mr. Monnoo is the Senior Vice Chairman of Pakistan Dairy Association.</i></p>	<p>Dairyland (Private) Limited ('Dairyland' or 'the Company'), established in February 2009, is involved in the manufacturing and distribution of dairy products, with a significant emphasis on processed milk. Dairyland operates within the Akhtar Group of Companies, with majority shares (49%) held by Akhtar Textile (Pvt.) Limited. The Company's value chain encompasses its own cattle farm, where the entire production process takes place, including the care and management of livestock.</p> <p><b>Operational update</b> The Company's facilities are situated at Gharo, District Thatta and Dhabeji, near Karachi. Milk producing animals are 5,429 (Jun'23: 4,641) and immature animals being raised for producing milk are 642 (Jun'23: 840) as of Jun'24. Total herd size is 6,071 (Jun'23: 5,481) as of Jun'24. Dairyland operates under the 'Dayfresh' brand and offers a diverse product range of processed milk, flavored milk, raw milk, yogurt, eggs, butter and other related dairy products. Furthermore, the management plans to include tomato ketchup and mayonnaise into the product portfolio.</p> <p>During FY24, utilization levels increased due to strong marketing initiatives leading to rebound in demand. Production levels of dairy and beverages products increased by 20% while the number of eggs produced rose by 57% in FY24 YoY.</p> <p style="text-align: center;">Table: Operating Metrics</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th></th> <th style="text-align: center;">2023</th> <th style="text-align: center;">2024</th> </tr> </thead> <tbody> <tr> <td rowspan="3" style="background-color: #D9EAD3;"><b>Dairy and beverages</b> <i>(Litres)</i></td> <td>Capacity</td> <td style="text-align: right;">56,400,000</td> <td style="text-align: right;">56,400,000</td> </tr> <tr> <td>Production</td> <td style="text-align: right;">22,376,312</td> <td style="text-align: right;">26,851,574</td> </tr> <tr> <td><b>Utilization</b></td> <td style="text-align: right;"><b>39.7%</b></td> <td style="text-align: right;"><b>47.6%</b></td> </tr> <tr> <td rowspan="3" style="background-color: #D9EAD3;"><b>Poultry</b> <i>(no. of eggs)</i></td> <td>Capacity</td> <td style="text-align: right;">30,076,000</td> <td style="text-align: right;">30,076,000</td> </tr> <tr> <td>Production</td> <td style="text-align: right;">15,107,985</td> <td style="text-align: right;">23,668,890</td> </tr> <tr> <td><b>Utilization</b></td> <td style="text-align: right;"><b>50.2%</b></td> <td style="text-align: right;"><b>78.7%</b></td> </tr> </tbody> </table> <p>Dairyland currently operates seven outlets and has established presence over 4,000 retail establishments across five major cities throughout the country. While the Company previously collaborated with nine primary distributors, it has now expanded its distribution network to include 68 individuals or entities, strategically located in various regions. Dairyland is actively pursuing expansion of its export operations and has significant orders in the pipeline.</p> <p><b>Sector update</b> VIS considers the business risk profile of the packaged milk industry in Pakistan to be medium. The industry faces intense competition, albeit a significant growth opportunity exists due to the untapped loose milk market. During FY22 to FY24, milk production in Pakistan increased from approximately 65.7m MT to 70.1m MT, reflecting a CAGR of about 7.8%, with 80.5% deemed fit for human consumption in FY24. Fresh milk prices rose significantly, averaging PKR 185.0/liter in FY24, a 21.6% YoY increase, while powdered milk prices jumped to PKR 820.2 for 390g, up 28.0% YoY. As per SBP trade data, dairy imports surged to PKR 31.6b (FY23: PKR 27.3b) in FY24, a 15.7% increase, as local production continued to rely on imported skimmed milk in the formal sector. In FY23, Pakistan's dairy exports, including milk, cream, butter, and curd, were approximately PKR</p>			2023	2024	<b>Dairy and beverages</b> <i>(Litres)</i>	Capacity	56,400,000	56,400,000	Production	22,376,312	26,851,574	<b>Utilization</b>	<b>39.7%</b>	<b>47.6%</b>	<b>Poultry</b> <i>(no. of eggs)</i>	Capacity	30,076,000	30,076,000	Production	15,107,985	23,668,890	<b>Utilization</b>	<b>50.2%</b>	<b>78.7%</b>
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1.9 billion (FY23: PKR 2.3 billion) reflecting an increase of 76.9%. In FY24, dairy exports increased to PKR 2.3 billion. The sector is largely informal, with smallholder farms lacking modern technology, impacting both domestic supply and export capacity.

Major players include:

**Public listed companies:** Friesland Campina Engro Pakistan (Olper's), Nestle Pakistan (Milkpak), Fauji Foods Limited (Nurpur), At-Tahur Limited (PREMA)

**Private limited or public unlisted companies:** Haleeb Foods Limited (Haleeb), Adams Milk Foods (Adams), Dairyland (Private) Limited (Dayfresh), Millac Foods (Private) Limited, Shakarganj Foods (Private) Limited

### Rating Drivers

#### **Healthy increase in sales volumes in FY24 driven by sound growth in processed milk and raw milk.**

The Company's topline has increased on a timeline basis due to favorable pricing revisions and stable local demand combined with growing export volumes. Net sales surged to PKR 6.7b (FY23: PKR 4.9b) in FY24, driven by 25.9% increase in sales volumes.

Segment-wise, liquid product volumes surged by 33.0% YoY, non-liquid product volumes demonstrated a 9.5% increase, and egg sales volumes exhibited a 32.2% increase during FY24.

In addition, Dairyland generated some revenue from exports to Maldives, Comoros and Ghana for the first time and increased export turnover from Afghanistan in the outgoing year. Total exports comprised 4.7% (FY23: 1.4%) of total sales in FY24.

The sales mix generally skewed towards liquid products with total contribution of 87.2% in revenues. During FY24, the contribution of raw milk increased significantly on account of concentrated customer acquisition. Flavored milk sales dipped, which was attributed to higher prices.

	FY23	% total sales	FY24	% total sales	YoY
Processed Milk	2,248.8	46.1%	2,847.8	42.3%	26.6%
Flavored Milk	1,902.0	39.0%	1,808.1	26.9%	-4.9%
Raw milk	187.9	3.8%	1,209.6	18.0%	543.9%
Eggs	270.8	5.6%	450.1	6.7%	66.2%
Cheese	167.7	3.4%	218.5	3.2%	30.3%
Yogurt & Raita	102.8	2.1%	109.4	1.6%	6.4%
Butter	-	0.0%	50.2	0.7%	-
UHT Cream	-	0.0%	33.1	0.5%	-
Laban	-	0.0%	4.3	0.1%	-
Meat	-	0.0%	-	0.0%	-
<b>Total</b>	<b>4,880.1</b>	<b>100.0%</b>	<b>6,731.0</b>	<b>100.0%</b>	<b>37.9%</b>

Dairyland anticipates an increase of ~10-15% in net sales during FY25 owing to established market presence, decline in inflationary pressure and growing exports portfolio.

#### **Profit margins contracted due to cost overruns and higher finance costs.**

Escalating packaging costs, driven by currency depreciation, led to higher input costs. The Company was unable to fully transfer the input costs to consumers, facing a contraction in gross margin to 22.2% (FY23: 27.4%) in FY24. Operating expenses increased to PKR 1.1b

(FY23: PKR 950.0m) in FY24 on account of higher selling and distribution costs. Other income surged to PKR 262.6m (FY23: PKR 6.0m) in FY24 as a result of an increase in gains from compost sales and reversal of interest expense. During the outgoing year, Dairyland also recorded income from changes in value of biological assets to the tune of PKR 159.6m (FY23: PKR 157.3m).

Net profit contracted to PKR 202.5m (FY23: PKR 232.5m) in the preceding year, attributable to deterioration in gross margin and escalation in financial charges (FY24: PKR 413.2m, FY23: PKR 262.0m). Consequently, net margin contracted to 3.0% (FY23: 4.8%) in FY24. Profit margins reverted to historical levels in 1QFY25 on the back of stable demand, a decrease in financial charges and lower taxation. According to management, bottom-line will improve by 5% in FY25.

**Debt coverage adequate while liquidity risk is moderate.**

Funds from operations (FFO) decreased slightly to PKR 440.5m (FY23: PKR 506.8m) in FY24 owing to an increase in finance cost. Nevertheless, DCSR (debt servicing coverage ratio) increased to 1.50x (FY23: 1.07x) in FY24 on account of lower repayment of long-term borrowings. Short-term debt coverage weakened to 0.87x (FY23: 1.07x) at end-FY24.

Cash conversion cycle (FY24: 31 days, FY23: 44 days) depicted improvement during the review period. Current ratio was intact at 1.03x (end-FY23: 1.05x) at end-FY24. Though trade debts increased to PKR 312.7m (end-FY23: PKR 210.7m) at end-FY24, aging profile was manageable as well as trade debt-to-sales ratio was low (FY24: 4.6%, FY23: 4.3%). Improvement in debt coverage and liquidity metrics will be important for assigned ratings, moving forward.

**Conservative capital structure with sufficient working capital lines.**

Equity base incorporates an unsecured sponsor loan, payable at the Company's discretion, that was enhanced to PKR 6.2b (end-FY23: PKR 5.9b) at end-FY24. This along with profit retention pushed the equity base to PKR 9.0b (end-FY23: PKR 8.4b) at end-FY24.

Short-term debt, mobilized for working capital, increased to PKR 2.1b (end-FY23: PKR 1.5b) at end-FY24. Despite higher borrowings, capitalization metrics were intact with gearing ratio (end-FY24: 0.27x, end-FY23: 0.24x) and debt leverage (end-FY24: 0.54x, end-FY23: 0.51x) around historical levels. Funding for import of machinery may impact capitalization metrics by end-FY25.

**Dairyland (Private) Limited**
**Annexure I**

<b>FINANCIAL SUMMARY</b>					
<i>(PKR in millions)</i>					
<b>BALANCE SHEET</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>1QFY25</b>
Property, Plant & Equipment	5,262.0	7,312.2	6,977.0	6,614.5	6,545.0
Biological Assets	3,609.6	4,344.4	5,787.8	6,294.7	6,372.8
Stock-in-Trade	902.9	1,063.3	1,343.4	1,547.2	1,837.7
Trade Debts	193.0	220.1	210.7	312.7	422.5
Loans, Advances & Prepayments	497.9	658.3	787.3	883.3	705.2
Cash & Bank Balances	14.8	7.3	21.6	92.8	44.7
<b>Total Assets</b>	<b>10,919.8</b>	<b>14,126.1</b>	<b>15,692.6</b>	<b>16,693.0</b>	<b>16,708.2</b>
Short Term Debt	639.3	913.6	1,453.1	2,132.5	2,000.7
Long Term Debt	884.5	864.4	578.1	311.4	286.2
<b>Total Debt</b>	<b>1,523.8</b>	<b>1,778.0</b>	<b>2,031.2</b>	<b>2,443.9</b>	<b>2,286.8</b>
Trade and Other Payables	670.8	768.5	1,095.2	1,307.4	1,449.9
<b>Total Liabilities</b>	<b>3,060.6</b>	<b>3,617.2</b>	<b>4,279.7</b>	<b>4,838.9</b>	<b>4,829.0</b>
Paid-up Capital	800.0	800.0	1,000.0	1,000.0	1,000.0
<b>Sponsor's Loan</b>	<b>4,728.7</b>	<b>5,262.2</b>	<b>5,929.5</b>	<b>6,153.9</b>	<b>6,126.5</b>
<b>Total Equity</b>	<b>6,302.1</b>	<b>7,326.7</b>	<b>8,378.4</b>	<b>8,959.5</b>	<b>9,016.6</b>
<b>INCOME STATEMENT</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>1QFY25</b>
Net Sales	3,057.5	3,694.2	4,880.1	6,731.0	1,621.9
Gross Profit	843.6	1,026.5	1,337.3	1,494.2	467.3
Operating Expenses	(598.4)	(732.7)	(892.6)	(1,229.6)	(337.4)
Finance Cost	(93.4)	(123.2)	(262.2)	(413.2)	(103.7)
Profit before Tax	142.6	129.2	125.9	4.7	37.2
<b>Net Profit</b>	<b>132.7</b>	<b>393.3</b>	<b>232.5</b>	<b>202.5</b>	<b>52.6</b>
<b>RATIO ANALYSIS</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>1QFY25</b>
Gross Margin	27.6%	27.8%	27.4%	22.2%	28.8%
Net Margin	4.3%	10.6%	4.8%	3.0%	3.2%
FFO	518.9	428.8	506.8	440.5	134.8
FFO to Total Debt (x)*	0.34	0.24	0.25	0.18	0.06
FFO to Long Term Debt (x)*	0.59	0.50	0.88	1.41	0.47
Debt Servicing Coverage Ratio (x)*	2.28	1.04	1.07	1.50	1.79
Short Term Debt Coverage (x)	1.71	1.40	1.07	0.87	1.13
Net Working Capital	22.1	348.6	126.5	110.5	140.6
Trade Debts/Sales*	6.3%	6.0%	4.3%	4.6%	6.5%
Current Ratio (x)	1.01	1.17	1.05	1.03	1.04
Cash Conversion Cycle (days)*	63	56	44	31	45
ROAA*	1.2%	3.1%	1.6%	1.3%	1.3%
ROAE*	2.2%	5.8%	3.0%	2.3%	2.3%
Gearing (x)	0.24	0.24	0.24	0.27	0.25
Leverage (x)	0.49	0.49	0.51	0.54	0.54

\*Annualized

REGULATORY DISCLOSURES					Appendix II
<b>Name of Rated Entity</b>	Dairyland (Private) Limited				
<b>Sector</b>	Consumer Goods				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Ratings				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook/Rating Watch</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	January 17, 2025	A-	A2	Positive	Reaffirmed
	November 14, 2023	A-	A2	Positive	Reaffirmed
	June 10, 2022	A-	A2	Positive	Maintained
	February 19, 2021	A-	A2	Stable	Reaffirmed
	October 15, 2019	A-	A2	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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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<b>Due Diligence Meetings</b>	<b>Name</b>	<b>Designation</b>		<b>Date</b>	
	Mr. Nadeem Naz	Group CFO		26-Dec-2024	
	Mr. Waleed Abu Talib	CFO - Dairyland			