RATING REPORT

At-Tahur Limited

REPORT DATE:
June 01, 2021

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	A-	A-2
Rating Outlook	*Stable*	
Rating Action	Initial	
Rating Date	*June 01, 2021*	

COMPANY INFORMATION	
Incorporated in 2007	External auditors: Riaz Ahmad & Co. Chartered Accountants.
Public Listed Company	Chairman: Mr. Ijaz Nisar Chief Executive Officer: Mr. Rasikh Elahi
Key Shareholders (with stake 5% or more):	
Mr. Rasikh Elahi – 45.6% Mrs. Zahra Ali Elahi – 26.5%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (May 2019) ***https://www.vis.com.pk/kc-meth.aspx***

At-Tahur Limited

OVERVIEW OF THE INSTITUTION

At-Tahur Limited (ATL) was incorporated in 2007 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017) as a private limited company. ATL was listed on Pakistan Stock Exchange (PSX) in July 2018. The principal business activity of the company is to run dairy farm for the production and processing of milk and dairy products.

Profile of CEO

Mr. Rasikh Elahi established ATL in 2007 and has been its CEO since inception. He is a law graduate from University of Buckingham, U.K.

Financial Snapshot

Tier-1 Equity: end-9MFY21: Rs. 2.6b; end-FY20: Rs. 2.4b; end-FY19: Rs. 2.4b.

Assets: end-9MFY21: Rs. 3.7b; end-FY20: Rs. 3.2b; end-FY19: Rs 2.9b.

Profit After Tax: 9MFY21: Rs. 181m; FY20: Rs. 55m; FY19: Rs. 270m.

RATING RATIONALE

Company Overview

ATL commenced its dairy farming operations in 2008 by importing 770 heifers from Australia and commissioning of milk production operations, and introduced its premium quality pasteurized milk in the market under the brand name Prema in 2009, followed by Prema yogurt in 2010. Product portfolio of the company comprises pasteurized milk, plain and sweet yogurt, chunky fruit yogurt, flavored milk, Laban lassi, butter and cheese cream. The company also increased its herd size over the years, which stood at 2,175 (FY20: 1,822) mature milk producing cows and 1,749 (FY20: 1,765) immature cows that are being raised to produce milk at end-9MFY21. Going forward, the company plans to procure 100 cows after every six months, while birth rate from existing cows is estimated at 200 calves per annum. Milk processing capacity of the company remains stable at 22m liters per annum.

Major shareholding of the company is still vested with Mr. Rasikh Elahi & family, who owns 72.1% equity stake in the company. The Board of Directors at ATL (BoD) comprises 7 members, including the CEO, 5 independent directors and 1 non-executive director. The BoD is chaired by Mr. Ijaz Nisar and meetings are convened on quarterly basis. Three members of the BoD have completed Directors' Training Program. The BoD has formed two committees for effectively oversight, namely Audit Committee and HR & Remuneration Committee. The company has engaged Riaz Ahmad & Co. Chattered Accountants for the statutory external audit.

Dairy farm operations and production capabilities

ATL's business model primarily revolves around operating dairy farm for the production and pasteurization of milk, manufacturing of dairy products, and managing cold chain and its logistics. The dairy farm spanning 85 acres of land is located at Kotli Rai Abubakar, District Kasur and is of free stall layout with dirt lots that is comfortable for the cows. Separate areas have been designed and designated for different categories of cows and heifers. It comprises multiple sheds for the milking cows, a shed for dry cows, a shed for young animals, a fully automated milking parlor, sheds for storage of cow feed, staff residential areas, and other allied facilities. At end-9MFY21, herd size of the company stood at 2,175 (FY20: 1,822) mature milk producing cows and 1,749 (FY20: 1,765) immature cows that are being raised to produce milk. Around 95% cows are Australian and remaining 5% are Dutch. Going forward, the company plans to procure 100 cows after every six months, while birth rate from existing cows is estimated at 200 calves per annum.

Milk processing capacity of the company stood at 22m liters per annum at end- 9MFY21 (FY20: 22m liters), out of which major capacity of utilized for the production of pasteurized packed milk and yogurt while quantum of butter, cream cheese, and lassi is also growing. During 9MFY21, milk production increased to 14.2m liters (FY20: 12.7m liters) on account of growth in herd size, resulting in capacity utilization of 64.5% (FY20: 57.7%). Given sufficient capacity available, no capacity enhancement is expected over the ratings horizon; however, the company has recently embarked upon the balancing, modernization, and replacement (BMR) of its milking and milk processing machines.

Asset Mix

Total assets of the company amounted to Rs. 3.7b at end-9MFY21 (FY20: Rs. 3.2b), with non-current assets accounting for four-fifth of overall asset mix. Property, plant & equipment increased to Rs. 1.3b (FY20: Rs. 1.0b) as the company made capex of Rs. 361m during the period. Biological assets increased to Rs. 1.6b (FY20: Rs. 1.5b). Given the nature of business model, the company has relatively moderate working capital requirements. In line with the growing scale of milking operations, stock in trade increased to Rs. 204m (FY20: Rs. 188m) which mainly comprised forge & consumables, packing materials, flavors, raw milk and finished dairy products. Trade receivables remained low at Rs. 86m (FY20: Rs. 84m) as majority sales are made on cash basis. ATL allows an average credit period of 10 –

15 days to some major institutional customers. Short-term advances and prepayments amounted higher at Rs. 115m (FY20: Rs. 68m) at end-9MFY21 on account of advances to suppliers and letter of credits. Cash and bank balances amounted to Rs. 125m (FY20: Rs. 73m).

Revenue and profitability

Net revenue from sale of dairy products increased to Rs. 1.8b (FY20: Rs. 1.8b) during 9MFY21 mainly on account of increase in prices and higher volumetric sales underpinned by growing herd size of milk producing animals. Prema milk remained the leading revenue contributor, followed by yogurt. Geographic sales were concentrated in Lahore from, followed by Islamabad and Rawalpindi. The company has expanded its footprints in new cities to increase the overall revenue turnover. Going forward, revenue is projected to increase to Rs. 2.5b in FY21 and Rs. 3.31b in FY22 mainly due to volumetric growth of milk and yogurt with increasing contribution from new products, underpinned by increase in milk production from import of cows and indigenous growth in milk producing animals. Operating costs (excluding net gain arising at the time of milking) remained largely stable at Rs. 1.4b (FY20: Rs. 1.4b), resulting in improved gross margins of 26.0% (FY20: 22.5%) during 9MFY21. The company is expecting its gross margins to steadily improve on the back of economics of scale and increase in sales contribution from high margin products.

Administrative expenses amounted to Rs. 137m (FY20: Rs. 165m) while selling and marketing expenses were recorded at Rs. 200m (FY20: Rs. 265m) during 9MFY21. Other expenses (excluding non-cash losses due to death/sale of dairy livestock) amounted to Rs. 16m (FY20: Rs. 16m) which mainly comprised workers' profit participation fund during the period. Finance cost incurred amounted to Rs. 35m (FY20: Rs. 54m) as the impact of increase in debt utilization was offset by lower interest rates. Accounting for the taxation, the adjusted net profit of the company amounted to Rs. 65m during 9MFY21 vis-à-vis an adjusted net loss of Rs. 148m during FY20 due to additional operating costs of 600 newly imported cows and lack of corresponding revenues. Going forward, bottom line of the company is projected to improve with the growing milk production and economies of scale.

Liquidity and Capitalization

In line with the higher profits, the company generated improved funds from operations (FFO) of Rs. 155m (FY20: Rs. 5m) during 9MFY21. Cash flows in the previous year were impacted by incurrence of additional operating expenses related to 600 new cows and lack of corresponding revenues from those animals during the year. Subsequently, the cash flows have improved during the ongoing year with the passage of dry lactation period of imported cows. Resultantly, the annualized FFO-to-total debt and debt service coverage ratios have improved to 0.19x (FY20: 0.01x) and 2.64x (FY20: 0.76x) by end-9MFY21. Going forward, the debt service coverage ratio is projected at 1.5x in FY21 and FY22. The current ratio, however, has room for improvement.

Paid up capital of the company stood at Rs. 1.8b (FY20: Rs. 1.6b) and share premium at Rs. 48m (FY20: Rs. 209m) at end-9MFY21. Equity base augmented to Rs. 2.6b (FY20: Rs. 2.4b) with the retention of profits. Total liabilities increased to Rs. 1.1b (FY20: Rs. 841m) mainly on account of higher trade and payables and increased debt utilization. Debt profile of the company comprises a mix of short-term and long-term borrowings. Short-term borrowings declined to Rs. 232m (FY20: Rs. 302m) while long-term borrowings increased to Rs. 369m (FY20: Rs. 189m) due to mobilization of new debt facility for import of 200 cows. While remaining manageable, the leverage indicators have increased steadily over the past three years and expected to increase further by the end of ongoing year mainly on account of mobilization the SBP's Temporary Economic Relief Facility for the BMR of milking and milk processing machines amounting to Rs. 300m for a tenure of 10 years and markup rate of 5% per annum. Thereby, total long-term debt is projected to increase to Rs. 647m (FY20: Rs. 189m) by end-FY21, resulting in gearing and leverage (on reported basis) of 0.40x (FY20: 0.20x) and 0.53x (FY20: 0.35x) respectively by end-FY21. Gearing and leverage (on adjusted basis) is projected to increase to 0.54x (FY20: 0.26x) and 0.73x (FY20: 0.44x) respectively by end-FY21.

At-Tahur Limited Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**FY19**	**FY20**	**9MFY21**
Property, Plant & Equipment	1,045	1,090	1,372
Biological Assets	1,055	1,477	1,563
Deferred Tax	125	82	82
Stock-in-Trade	126	188	204
Trade Debts	74	84	86
Short-Term Investment	-	5	-
Short-term Advances and Prepayments	49	68	115
Short-term Deposits and Other Receivables	74	69	74
Advance Income Tax	73	79	61
Cash and bank balances	274	73	125
Other Assets	28	31	50
Total Assets	**2,923**	**3,246**	**3,732**
Trade and Other Payables	159	274	456
Short-Term Borrowings	150	302	232
Long-Term Borrowings *(Inc. current matur)*	158	189	369
Other Liabilities	52	76	89
Total Liabilities	**519**	**841**	**1,146**
Tier-1 & Total Equity	**2,404**	**2,405**	**2,586**
Paid-up Capital	1,467	1,613	1,775
INCOME STATEMENT	**FY19**	**FY20**	**9MFY21**
Net Sales	2,700	3,107	3,243
Gross Profit	791	800	740
Operating Profit	272	172	244
Profit/(Loss) Before Tax	249	119	210
Finance Cost	22	54	35
Profit After Tax	270	55	181
FFO	(29)	6	155
RATIO ANALYSIS	**FY19**	**FY20**	**9MFY21**
Gross Margin (%)	29.3	25.7	22.8
Net Margin (%)	10.0	1.8	5.6
FFO to Long-Term Debt	(0.2)	0.04	0.31*
FFO to Total Debt	(0.1)	0.01	0.19*
Debt Servicing Coverage Ratio (x)	(0.0)	0.76	2.64
Gearing (x)	0.13	0.20	0.23
Debt Leverage (x)	0.22	0.35	0.44
Current Ratio	1.8	0.91	0.88
Inventory plus Receivables/Short-term Borrowings	1.4	0.90	1.25

**Annualized*

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	At-Tahur Limited
Sector	Consumer Goods
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see below

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
01-06-2021	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 Meeting Conducted

Name	Designation	Date
Mr. Hamza Chaudhry	CFO	May 5, 2021