RATING REPORT

At-Tahur Limited

REPORT DATE:
April 20, 2022

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Latest Rating**	**Previous Rating**
Entity	A-/A-2	A-/A-2
Rating Date (Entity)	April 20, 2022	June-01-2021
Rating Outlook	Stable	Stable

COMPANY INFORMATION	
Incorporated in 2007	External auditors: Riaz Ahmad & Co. Chartered Accountants.
Public Listed Company	Chairman: Mr. Ijaz Nisar Justice (Rtd) 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: *Industrial Corporates (AUGUST 2021)* https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

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At-Tahur Limited (ATL) was incorporated in 2007 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017) as a private limited company.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.

RATING RATIONALE

Company Overview

ATL commenced its dairy farming operations in 2008 by importing 770 heifers from Australia, 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 5,500 (FY20: 3,587) at end-Feb'22. Going forward, the company plans to add around 600 animals every year. With better yields and growing herd size, milk processing capacity has increased to 75 MT/day as compared to 45 MT/day last year.

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. Major proportion of the cattle comprises American cows. In the ongoing year, the company plans to add 300 more cows which takes around a month to arrive. These new additions in the cattle base take around 3-4 months to start producing milk, till then they consume feed.

Milk processing capacity of the company stood at 19.2m liters per annum at end- FY21 (FY20: 19.2m 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 FY21, milk production increased to 11.25m liters (FY20: 10.6m liters) on account of growth in herd size, resulting in capacity utilization of 59% (FY20: 56%). Going forward, management plans to procure 1000 animals; total cost of the enhancement is projected at around Rs. 1.3b which shall be financed through debt. The debt is expected to be drawn by end-ongoing year with the plan expected to be completed by end-FY23. Consequently, post expansion total milk processing yield will increase to 110 MT/day. The company consistently updates its facilities through balancing, modernization, and replacement (BMR) of its milking and milk processing machines.

Business risk is characterized by significant competition in the packaged milk industry, which comprises only one-tenth of the overall milk consumption in Pakistan. Loose milk constitutes around 91% of the total milk consumption in the country. Untapped loose milk market represents significant growth opportunity for the packaged milk industry players. Business risk profile of ATL is supported by strong brand equity and diversification into other dairy variants among which butter and yoghurt has gained significant growth over the past few years

Milk industry in Pakistan can be broadly segregated into two segments: loose milk and processed milk. Loose milk constitutes around 91% of the overall market while penetration of processed milk is only 9%. 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%). Due to increase in awareness on importance of greater food quality, there is a huge potential for packaged milk in the industry. However, the main challenges faced by the packaged milk players include consumer's favorable perception towards loose milk and additional costs (transportation, processing and distributor margin) added to packaged milk operations.

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 non-cyclical. 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.

Growing asset base

Total assets of the company amounted to Rs. 4.5b at end-Dec'21 (FY21: Rs. 3.9b, FY20: Rs. 3.2b), with non-current assets accounting for four-fifth of overall asset mix. Property, plant & equipment increased to Rs. 1.4b (FY20: Rs. 1.0b) as the company made capex for enhancing machinery efficiencies. Biological assets increased to Rs. 2b (FY20: Rs. 1.5b) at end-Dec'21 owing to addition of cattle in the farm. Given the nature of business model, the company has relatively moderate working capital requirements. Although increasing in line with growing business operations, trade receivables as a proportion of sales remain on the lower side at 4.4%

(FY20: 4.7%) at end-Dec'21 as majority sales are made on cash basis. ATL allows an average credit period of 10 – 15 days to some major institutional customers.

Increasing profitability profile supported by accounting gains at the time of milking and change in fair value of stock

Net revenue from sale of dairy products increased by 41% to Rs. 2.6b (FY20: Rs. 1.8b) during FY21 largely contributed by higher volumetric sales underpinned by growing herd size of milk producing animals. Growth in revenue base continued to follow a similar momentum in 1HFY22. PREMA milk remained the leading revenue contributor, followed by raw milk and yogurt. Proportion of raw milk in total sales mix witnessed an uptick in the outgoing and ongoing year due to better margins coupled with the seasonal demand of the same. Geographic sales were concentrated in Lahore from, followed by Islamabad and Rawalpindi. The company has expanded its footprints in new cities such as Malam Jabba and Kalam in Swat to increase the overall revenue turnover. Going forward, revenue is projected to increase to Rs. 3.41b in FY22 and Rs. 4.1b in FY23 mainly due to volumetric growth of milk and yogurt with increasing contribution from value-added products, underpinned by increase in milk production from import of cows and indigenous growth in milk producing animals.

Sales Mix	FY20		FY21		1HFY22	
Packed Milk	1,332,974,777	74%	1,547,228,534	60%	919,101,914	62%
Yoghurt	280,663,954	15%	303,125,529	12%	154,485,086	10%
Raita	6,494,988	0%	9,362,718	0%	6,377,500	0%
Falvoured Yoghurt	70,889,886	4%	85,558,444	3%	50,500,729	3%
Falvoured Milk	26,673,302	1%	26,589,044	1%	16,919,461	1%
Raw Milk	63,927,059	4%	449,101,309	18%	252,214,100	17%
Cheese	3,999,231	0%	82,257,617	3%	49,587,619	3%
Labban	0	0%	24,912,687	1%	19,276,666	1%
Butter	25,262,839	1%	29,576,695	1%	11,628,599	1%
Others	650,964	0%	647,423	0%	294,380	0%
Total Sales	**1,811,537,000**		**2,558,360,000**		**1,480,386,054**	

Gross Margins after adjusting for gain arising at the time of milking improved to 29% (FY20: 22%) in FY21 owing to higher sales of raw milk and yoghurt with the company managing to earn good margins on sale of raw milk in the demand season. Going forward, the company plans to further improve its gross margins on the back of economics of scale and increase in sales contribution from high margin products.

Higher other expenses mainly comprised workers' profit participation fund during the period. Finance cost incurred amounted to Rs. 58m (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. 119m during FY21 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. Albeit supported by higher revenues, profitability during 1HFY22 was impacted due to decreasing margins owing to higher cost of feed and higher administrative and selling expenses due to feeding time of new cattle added in the outgoing year. With addition of 1000 cows in FY23, feeding expenses are expected to be a drag on the company's profitability.

However, post capacity enhancement 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 adjusted funds from operations (FFO) in FY21 to the tune of Rs. 191m. Cash flows in 2020 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 completion of dry lactation period of imported cows. Resultantly, the annualized FFO-to-total debt and debt service coverage ratios have improved to 25% and 2.19x by end-FY21. With subdued profitability in the ongoing year, cash flow coverages have weakened in comparison to FY21 with DSCR reported at 1.85x at end-Dec'21. Projected improvement in liquidity indicators is considered important from a ratings perspective.

Paid up capital of the company stood at Rs. 1.99b at end-Dec'21 (FY20: Rs. 1.6b) on account of issuance of bonus shares as dividends. Adjusted equity base (excluding accounting gains and losses) augmented to Rs. 2.05 b (FY20: Rs. 1.9b) with the retention of profits. Total liabilities increased to Rs. 1.4b (FY20: Rs. 841m) at end-HY22 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. 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 capacity enhancement plan. Thereby, total long-term debt is projected to increase to Rs. 1.8b (FY20: Rs. 189m) by end-FY22, resulting in gearing and leverage (on reported basis) of 0.75x (Dec'21: 0.30x, FY20: 0.20x) and 0.91x (Dec'21: 0.47x, FY20: 0.35x) respectively by end-FY22. Gearing and leverage (on adjusted basis) is projected to increase to 0.96x (Dec'21: 0.31x, FY20: 0.26x) and 1.17x (Dec'21: 0.49x, FY20: 0.44x) respectively by end-FY22.

At-Tahur Limited — Annexure I

FINANCIAL SUMMARY (Amounts in PKR millions)				
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**1HFY22**
Non-Current Assets	2,235.9	2,661.6	3,191.0	3,654.1
Stock-in-Trade	126.3	188.2	343.2	275.7
Trade Debts	73.8	84.3	98.5	129.5
Biological assets	1,055.4	1,476.9	1,660.1	2,036.7
Cash & Bank Balances	274.1	73.2	114.2	166.9
Total Assets	2,923.5	3,246.3	3,939.6	4,503.6
Trade and Other Payables	159.4	274.4	396.0	364.8
Short Term Debt	150.0	301.8	275.4	392.6
Long Term Debt	157.8	189.5	495.4	525.3
Total Debt	307.8	491.3	770.8	917.8
Total Liabilities	519.4	841.4	1,279.3	1,432.8
Total Equity	2,404.0	2,405.0	2,660.4	3,070.9
Paid-up Capital	1,466.7	1,613.3	1,774.7	1,987.6
INCOME STATEMENT				
Net Sales	1,513.3	1,811.5	2,558.4	1,480.4
Net Gain Arising at the time of Milking	732.6	903.0	1,542.1	955.6
Net Gain Arising from Change in Fair Value of Dairy Stock	453.9	392.8	360.6	550.2
Cost of Sales	1,908.9	2,307.2	3,346.5	2,063.5
Gross Profit	790.9	800.1	1,114.5	922.7
Selling and Distribution Expenses	237.6	264.9	280.4	160.8
Administrative Expenses	147.8	164.9	179.0	111.3
Operating Profit	271.7	172.3	421.5	480.3
Finance Cost	22.5	53.7	58.1	46.7
Profit before Tax	249.2	118.6	363.4	433.6
Profit After Tax	270.1	54.9	262.3	410.5
RATIO ANALYSIS				
Gross Margin (%)	29.3%	25.7%	25.0%	30.9%
Net Margin	10.0%	1.8%	5.9%	13.7%
Net Working Capital	312.7	(57.7)	(13.3)	(40.8)
Trade debts/Sales	4.9%	4.7%	3.8%	4.4%
FFO	(29.3)	11.7	349.5	106.6
FFO to Total Debt (%)	-9.5%	2.4%	45.3%	23.2%
FFO to Long Term Debt (%)	-18.6%	6.2%	70.5%	40.6%
Current Ratio (x)	1.83	0.91	0.98	0.95
Debt Servicing Coverage Ratio (x)	(0.04)	0.50	3.82	1.91
Gearing (x)	0.13	0.20	0.29	0.30
Leverage (x)	0.22	0.35	0.48	0.47
(Stock in Trade+Trade Debts)/STD	1.33	90%	160%	103%
ROAA (%)	10.0%	1.8%	7.3%	19.4%
ROAE (%)	12.7%	2.3%	10.4%	28.7%
DSO	10	9	7	7
DIO	20	25	29	27
DPO	31	34	37	34
CCC	(0)	(0)	(0)	1

Adjusted	FY19	FY20	FY21	1HFY22
Revenue	1,513	1,812	2,558	1,480
Cost of Sales	1,176	1,404	1,804	1,108
Gross Profit	337	407	754	373
Net Profit	(59)	(148)	119	57
Equity	2,084	1,910	2,048	2,131
Biological Assets	735	982	1,075	1,087
Total Assets	2,603	2,752	3,355	3,554
FFO (PAT Plus Depreciation)	7	(86)	191	112
FFO/Total Debt	2%	-17%	25%	24%
DSCR	0.22	(0.27)	2.19	1.85
Gross Margins	22%	22%	29%	25%
Net Margins	-4%	-8%	5%	4%
Gearing	0.15	0.26	0.38	0.43
Leverage	0.25	0.44	0.62	0.67

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.

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

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
20-04-2022	A-	A-2	Stable	Reaffirmed
01-06-2021	A-	A-2	Stable	Initial

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Hamza Chaudhry	CFO	March 01, 2022
Mr. Usman Yousaf	Manager, Accounts	March 01, 2022