RATING REPORT

At-Tahur Limited

REPORT DATE:
June 12, 2023

RATING ANALYSTS:
Abdul Kadir
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RATING DETAILS		
Rating Category	**Latest Rating**	**Previous Rating**
Entity	A-/A-2	A-/A-2
Rating Date (Entity)	June 12, 2023	April 20, 2022
Rating Outlook	Negative	Stable

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 2023)*
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

VIS Rating Scale
https://docs.vis.com.pk/docs/ratingscale.pdf

At-Tahur Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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At-Tahur Limited (ATL) was incorporated in 2007 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017) as a private limited company.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

The company commenced its dairy farming operations in 2008 and introduced its premium quality pasteurized milk in the market under the brand name Prema in 2009 and launched multiple products subsequently. Currently, the product portfolio of the company comprises whole milk and low-fat pasteurized milk, range of yogurt, range of laban, flavored milk, lactose free milk, butter and cheese. The herd size has increased over the years, which stood at ~5,600 (FY22: 5,063) at end-April'23. Relatively slow increase in herd size is expected going forward as the company intends not to import heifers for the time being and would rely only on internal generation.

Mr. Rasikh Elahi & family owns 72.1% equity stake in the company. The Board of Directors (BoD) comprised 7 members, including the CEO, 5 independent directors and 1 non-executive director. A female member is also present on the board as an independent director. The BoD is chaired by Mr. Ijaz Nisar and meetings are convened on a quarterly basis. The Board was elected in Oct'22 and out of the 7 directors, 2 have already completed the Director's training program. The company has planned to arrange training program for the remaining Directors. For effective oversight, the board has formed two committees namely Audit Committee and HR & Remuneration Committee with three members each. The company continues to engage Riaz Ahmad & Co. Chartered Accountants as external auditors.

Dairy farm operations and production capabilities

The company operates 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 for the comfort of cows. With the capacity of support 10,000 cattle, the company has an ample space for future additions. 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-9MFY23, herd size of the company stood at 2,936 (FY22: 2,874) mature milk producing cows, 2,406 (FY22: 2,178) immature cows that are being raised to produce milk and 11 (FY22: 11) immature male calves. Major proportion of the cattle comprises Australian cows.

Milk processing capacity of the company stood at 21.1m liters per annum at end-FY22 (FY21: 19.2m liters), out of which major capacity was utilized for the production of pasteurized packed milk and yogurt while quantum of some other products is also increasing. During FY22, pasteurized milk production increased to 13.2m liters (FY21: 11.3m liters) on account of growth in herd size, resulting in capacity utilization of 62.3% (FY21: 58.6%). The company's expansion plans including import of cows have been shelved. The management plans to diversify operations and has embarked upon production of non-dairy products. In this context, the company has recently introduced Mango nectar and Peach ice-tea in the local market. The management also plans to introduce juices with 10% fruit concentration for exports primarily to the European market.

The packaged milk industry in Pakistan faces intense competition, even though it accounts for only a small portion, approximately 10%, of the overall milk consumption

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.

Despite the challenges, ATL benefits from a strong brand equity, which contributes to its business risk profile. Furthermore, ATL has diversified its product offerings into other dairy variants such as yogurt and cheese, experiencing notable growth in these segments. ATL plans to expand further by introducing desi ghee to its dairy products range and add juices and ice-tea to the non-dairy product line. In this context, the company has recently introduced a couple of products in the local market. These strategic initiatives would enable the company to cater to a broader consumer base and potentially mitigate business risk to a certain extent.

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. Enforcing significant regulatory changes, such as implementing minimum pasteurization laws, could potentially address industry challenges more effectively.

Increase in asset base was mainly manifested in biological assets

The total assets stood higher at Rs. 6.8b (FY22: Rs. 5.4b, FY21: Rs. 3.9b) at end-Mar'23; the proportion of non-current assets accounted for 86% of total asset mix. The increase was mainly manifested in biological assets which amounted to Rs. 3.9b (FY22: Rs. 2.7b). As there were no purchases during the period, gain arising from change in fair value amounting Rs. 1.7b (FY22: Rs. 1.1b) was added to the value of biological assets. Property, plant & equipment increased to Rs. 1.7b by end Mar'23 (FY21: Rs. 1.4b) as the company acquired land and purchased machinery. Given the nature of business model, the company has relatively moderate working capital requirements. The trade receivables as a proportion of annualized sales remained on the lower side at 3.9% (FY22: 4.9%) at end-Mar'23 as majority sales are made on a cash basis.

Increase in sales, margins and profitability on a timeline basis

The net revenue from sale of dairy products increased by 28% to Rs. 3.3b (FY21: Rs. 2.6b) during FY22 on the back of higher volumetric sales and increase in product prices. Growth in revenue base continued to follow a similar momentum in 9MFY22. PREMA milk remained the leading revenue contributor, followed by raw milk, yogurt, cheese and flavored milk. Proportion of raw milk in total sales mix, though remained low, 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, followed by Islamabad and Rawalpindi. Going forward, revenue from sale of dairy products is projected to increase further on account of expected increase in product prices, volumetric growth of milk and yogurt with increasing contribution from value-added products, and some contribution from non-dairy products.

Sales Mix	FY21		FY22		9MFY23	
Packed Milk	1,547,228,534	60%	1,931,355,766	59%	2,028,524,460	57%
Raw Milk	449,101,309	18%	623,226,209	19%	838,684,160	23%
Yogurt	303,125,529	12%	372,126,832	11%	378,754,062	11%
Raita	9,362,718	0%	20,201,746	1%	18,762,545	1%
Flavored Milk	26,589,044	1%	35,013,710	1%	29,608,093	1%
Flavored Yogurt	85,558,444	3%	110,605,282	3%	88,461,536	2%
Cheese	82,257,617	3%	128,785,589	4%	119,829,154	3%
Laban	24,912,687	1%	41,507,559	1%	39,145,651	1%
Butter	29,576,695	1%	22,298,071	1%	26,550,168	1%
Others	647,423	0%	782,230	0%	839,360	0%
Total Sales	2,558,360,000	100%	3,285,902,994	100%	3,569,159,189	100%

The gross margins excluding net gain arising at time of milking improved to 44.3% (FY21: 38.2%) in FY22 owing to higher sales of raw milk and yoghurt while the company also managed to earn good margins on the sale of raw milk during the demand season. Going forward, the company plans to further improve its gross margins on the back of economics of scale, increase in sales contribution from high margin products and by adding a non-dairy segment to their product portfolio that may enable export incentives for the company.

The company registered significant net gain arising from change in fair value of dairy stock at Rs. 1.16b (FY21: Rs. 0.36b) in FY22. This is an estimation of the value of dairy stock that the farm holds. Operating expenses stood higher at Rs. 968m (FY21: Rs. 702m) in FY22 and the finance cost also doubled to Rs. 115m (FY21: Rs. 58m) in FY22. Nevertheless, net margins stood higher at 13.1% (FY21: 5.9%) in FY22. The company was able to maintain a similar trend in 9MFY23 in terms of revenues, margins and profitability.

In spite of favorable cash conversion cycle, stress was lately witnessed on FFO and coverages

Liquidity indicators witnessed some deterioration lately. Funds from operations (FFO) declined to Rs. 46m (FY22: Rs. 204m, FY21: 349m) in 9MFY23 mainly on account of lower operating cash before working capital changes and higher finance cost paid. According to the management, new financing lines to support inflationary working capital needs are expected to be finalized soon. Coverages in terms of FFO to long-term debt and FFO to total debt have declined on a timeline basis to 7.9% (FY22: 26.3%; FY21: 70.5%) and 5.0% (FY22: 16.8%; FY21: 45.3%) in 9MFY23. Similar trend has been witnessed in the case of debt service coverage ratio (DSCR) which has decreased to 0.71x (FY22: 1.76x, FY21: 5.46x) in 9MFY23, leaving the company vulnerable in terms of its liquidity position.

Current ratio also decreased to 0.7x (FY22: 0.8x; FY21: 1.0x) meaning that the company was not covered in terms of its short-term obligations. Coverage of short-term borrowings via stock-in-trade and receivables also stood lower at 0.8x (FY22: 1.3x) by end-Mar'23. However, the company has been able to maintain good cash conversion cycle on account of its favorable business dynamics.

Paid-up capital of the company stood higher at Rs. 2.19b (FY22: Rs. 1.99b; FY21: Rs. 1.77b) at end-Mar'23 on account of bonus issue. Adjusted equity base (excluding accounting gains and losses) augmented to Rs. 4.7b (FY22: Rs. 3.5b) with the retention of profits. Total liabilities increased to Rs. 2.1b (FY22: Rs. 1.9b) at end Mar'23 mainly on account of higher trade and payables and debt utilization. Debt profile of the company comprises a mix of short-term and long-term borrowings. Gearing and debt leverage stood manageable at 0.26x (FY22: 0.34x; FY21: 0.29x) and 045x (FY22: 0.54x; FY21: 0.48x) respectively. The leverage indicators are projected to decrease further as no major capex projected in foreseeable future.

At-Tahur Limited Annexure I

FINANCIAL SUMMARY (Amounts in PKR millions)				
BALANCE SHEET	FY20	FY21	FY22	9MFY23
Non-Current Assets (Net of Biological Assets)	1,187	1,533	1,789	1,944
Stock-in-Trade	188	343	404	192
Trade Debts	84	98	161	184
Biological assets	1,477	1,660	2,671	3,939
Cash & Bank Balances	73	114	27	81
Other Assets	236	190	383	496
Total Assets	3,246	3,940	5,436	6,836
Trade and Other Payables	274	396	523	692
Short Term Debt	302	275	440	456
Long Term Debt	189	495	776	780
Total Debt	491	771	1,216	1,236
Other Liabilities	76	113	182	198
Total Liabilities	841	1,279	1,921	2,127
Total Equity	2,405	2,660	3,515	4,709
Paid-up Capital	1,613	1,775	1,988	2,186
INCOME STATEMENT				
Net Sales	1,812	2,558	3,286	3,569
Net Gain Arising at the time of Milking	903	1,542	2,115	2,441
Net Gain Arising from Change in Fair Value of Dairy Stock	393	361	1,165	1,769
Cost of Sales	2,307	3,347	4,592	5,319
Gross Profit	800	1,115	1,974	2,460
Selling and Distribution Expenses	265	280	361	404
Administrative Expenses	165	179	237	204
Other Expenses	198	234	349	520
Operating Profit	172	422	1,027	1,332
Finance Cost	54	58	115	150
Profit before Tax	119	363	912	1,182
Profit After Tax	55	262	861	1,151
RATIO ANALYSIS				
Gross Margin (%)	25.7%	25.0%	30.1%	31.6%
Net Margin	1.8%	5.9%	13.1%	14.8%
Net Working Capital	(58)	(13)	(185)	(442)
Trade debts/Sales	4.7%	3.8%	4.9%	3.9%
FFO	12	359	204	46
FFO to Total Debt (%)	2.4%	45.3%	16.8%	5.0%
FFO to Long Term Debt (%)	6.2%	70.5%	26.3%	7.9%
Current Ratio (x)	0.9	1.0	0.8	0.7
Debt Servicing Coverage Ratio (x)	0.9	5.5	1.8	0.7
Gearing (x)	0.20	0.29	0.35	0.26
Leverage (x)	0.35	0.48	0.55	0.45
(Stock in Trade + Trade Debts)/STD	0.90	1.60	1.29	0.82
ROAA (%)	1.8%	7.3%	18.4%	25.0%
ROAE (%)	2.3%	10.4%	27.9%	37.3%
CCC	(0)	(0)	0	(13)

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	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
12-06-2023	A-	A-2	Negative	Maintained
20-04-2022	A-	A-2	Stable	Reaffirmed
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 08, 2023
	Mr. Usman Yousaf	Manager, Accounts	May 08, 2023