RATING REPORT

At-Tahur Limited

REPORT DATE:
June 10, 2024

RATING ANALYST:
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RATING DETAILS				
	Latest Ratings		Previous Ratings	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	A-	A-2
Rating Date	*June 10, 2024*		*June 12, 2023*	
Rating Action	Maintained		Maintained	
Rating Outlook	Stable		Negative	

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
VIS Entity Rating Criteria: *Corporates* **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

ATL was incorporated in 2007 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017) as a private limited company.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. Mr. Rasikh Elahi & family owns 72.1% equity stake in the company.

RATING RATIONALE

At-Tahur Limited ('ATL' or 'the Company') commenced its farming operations in 2008. The Company introduced its brand 'Prema' in the market in 2009, launching premium quality pasteurized milk, and subsequently launched other products such as whole milk, low-fat milk, ranges of yogurt, laban & flavoured milk, butter and cheese, etc. The management introduced new products, including desi ghee in the dairy-products range and ice tea (Peach) & mango nectar in the non-dairy range. The management plans to initiate exports of premium quality products primarily to the European market. These strategic initiatives would enable the company to cater to a broader consumer base.

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, 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. Enforcing significant regulatory changes, such as implementing minimum pasteurization laws, could potentially address industry challenges more effectively. VIS is of the opinion that the advantages stemming from marketing initiatives will become evident over the medium to long duration.

At-Tahur's dairy farm operations and production outlook

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, milking parlour & plant is located at Kotli Rai Abubakar, District Kasur, spanning 85 acres of land. It is of free stall layout with dirt lots for the comfort of cows. With the capacity to 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-9MFY24, herd size stood at 3,049 (FY23: 3,050; FY22: 2,874) mature milk producing cows, 2,750 (FY23: 2,319; FY22: 2,178) immature cows that are being raised to produce milk and 05 (FY23: 22; FY22: 11) immature male calves. Major proportion of the cattle comprises Australian cows. The total herd size stood at 5,804 (FY23: 5,391; FY22: 5,063) at end-March'24. A steady increase of 400-500 in herd size is expected on an annual basis going forward as the company intends not to import heifers for the time being and continue to rely only on internal growth. ATL's dairy operations are currently 2nd largest in the organized sector.

Milk pasteurization capacity of the company remained at 21.15m liters per annum at end-9MFY24. The capacity utilization has been increasing steadily on a timeline basis (FY23: 63.7%; FY22: 62.3%; FY21: 55.5%). During 9MFY24, the annual capacity utilization stood lower at 59.7% as typically more milk and related products are utilized in summers including the fourth quarter of the year. The capacity of 3.67m liters of yogurt was also underutilized at a 48.4% (FY23: 50.1%). The capacity utilization of chunky yogurt stood higher at 79.7% and 86.1% in 9MFY24 and FY23 respectively (FY22: 38.7%) while capacity utilization of butter and cream cheese segments remained low at 5.2% & 42.9% (FY23: 4.6% & 40.3%) respectively, at end-9MFY24.

During 9MFY23, milk production stood at 19.26m liters (25.68 liters – annualized) (FY23: 25.67m liters; FY22: 22.91m liters). The growth in annual production in FY23 was on account of growth in herd size as well as increase in milk yield to 27.7 liters per cow per day (FY22: 26.2 liters) while it remained largely stable in 9MFY24. Milk production and yield is tabulated below:

Milk Yield	FY21	FY22	FY23	9MFY24
Production (per 10 months on average)	19,105,000	22,911,000	25,674,000	19,258,000
Herd size (mature females)	2,282	2,874	3,050	3,049
Yield (liters per day per animal)	27.5	26.2	27.7	27.7

Initiatives regarding vertical integration.

ATL is vertically integrated in terms of fodder as well as energy requirements. The total power requirement of the company is around 1.6-1.8 MW. With an existing 1.2 MW solar system in place, the Company intends to add about 600 kW by end-Dec'24, at farm, plant & head office combined, following which ATL will be self-sufficient in its energy requirements.

Increase in sales was witnessed while margins and profitability declined in 9MFY24 mainly due to lower non-cash adjustments regarding fair value of dairy stock and higher operating expenses

The net revenue from sale of dairy products increased by 49% to Rs. 4.9b (FY22: Rs. 3.3b) during FY23 on the back of higher volumetric sales and increase in product prices and continued its momentum, though at lower rate, during 9MFY24. PREMA milk remained the leading revenue contributor, followed by raw milk, yogurt, cream-cheese, flavoured yogurt, laban, etc. Proportion of raw milk in total sales mix was lower in 1HY24 at 17% (FY23: 20%) as the seasonal demand increases in the third quarter on account of the holy month of Ramazan.

Going forward, revenue from sale of dairy products is projected to increase further on account of volumetric growth based on increasing brand recognition due to organic growth of milk and yogurt with increasing contribution from value-added products, and some contribution from non-dairy products. The top-10 client concentration has decreased to 24% (FY23: 28%) in 1HY24. These are primarily commercial customers of raw milk and some renowned chain of super markets/grocery stores. The management is confident of creating a latent demand in the market while penetrating untapped areas, thereby increasing clientele. Product wise sales is tabulated below:

Sales Mix	FY22		FY23		1HY24	
Packed Milk	1,931,355,766	59%	2,773,295,989	57%	1,628,642,339	59%
Raw Milk	623,226,209	19%	958,961,556	20%	471,252,821	17%
Yogurt	372,126,832	11%	637,819,503	13%	322,215,904	12%
Raita	20,201,746	1%	30,540,836	1%	13,101,931	0%
Flavored Milk	35,013,710	1%	47,202,770	1%	25,022,033	1%
Flavored Yogurt	110,605,282	3%	147,782,268	3%	80,146,080	3%
Cheese	128,785,589	4%	185,436,791	4%	133,396,451	5%
Laban	41,507,559	1%	67,993,247	1%	41,488,081	2%
Butter	22,298,071	1%	41,677,943	1%	28,084,258	1%
Others	782,230	0%	8,981,094	0%	16,814,103	1%
Total Sales	**3,285,902,994**	**100%**	**4,899,692,000**	**100%**	**2,760,164,000**	**100%**

Despite higher net gain arising from change in fair value of dairy stock, gross margins decreased slightly to 28% (FY22: 30%) in FY23 mainly owing to considerable increase in the cost of fodder. The operating expenses increased to Rs. 1.4b (FY22: Rs. 0.95b) in FY23 due to higher transportation expense of Rs. 313m (FY22: Rs. 184m), an outcome of higher fuel prices. Moreover, expense related to loss due to death of dairy stock amounting Rs. 286m (FY22: Rs. 136m) and loss on sale of dairy stock amounting Rs. 287m (FY22: Rs. 182m) also contributed to higher operating expenses during FY23. The finance costs stood higher at Rs. 226m (FY23: Rs. 115m) due to higher average borrowings and increase in interest rates. Net profit for FY23 was reported higher at Rs. 1.25b (FY22: Rs. 0.86b), driven mainly by unprecedented gains arising from changes in fair value of dairy stock due to devaluation of local currency.

With largely stabilized local currency, the impact of change in fair value of dairy stock and its impact on gross margins have normalized to 22.8% during 9MFY24. Given higher operating expenses and financial charges, net profit was recorded lower at Rs. 236m and net margins declined to 3% (FY23: 12%; FY22: 13%) in 9MFY24. Going forward, the company projects improvement in margins on the back of economics of scale, focus on high margin products including non-dairy segment while exploring export initiatives for the company.

Cash flows and debt service coverages improved in the ongoing year

Liquidity indicators witnessed improvements in the ongoing year. Funds from operations (FFO) increased to Rs. 350m (FY23: Rs. 9m) in 9MFY24 and is projected to reach Rs. 483m during FY24, mainly on account of favorable noncash adjustments despite lower net profit. Coverages in terms of FFO to long-term debt and FFO to total debt have also improved significantly to 67% (FY23: 1%; FY22: 26%) and 40% (FY23: 1%; FY22: 17%) in 9MFY24. Debt service coverage ratio (DSCR) also increased to 1.90x (FY23: 0.58x, FY22: 1.76x) in 9MFY24.

Current ratio, though increased slightly, to 0.86x (FY23: 0.77x; FY22: 0.84x), remained below the minimum benchmark of 1x. Coverage of short-term borrowings via stock-in-trade and receivables also improved to 1.41x (FY22: 1.29x), though decreased slightly to 1.33x by end-9MFY24. Furthermore, the company has been able to maintain sound cash conversion cycle on account of favorable business dynamics.

Aging of trade receivables deteriorated on a timeline basis, as the company extended relaxed credit terms to regular clients in the challenging macroeconomic environment. The management expects full recoveries in this context. Aging of receivables is tabulated below:

	Receivables aging (in millions)							
	Current	01-30 Days	31-60 Days	61-90 Days	91-180 Days	181-360 Days	More Than 360 Days	Total
HY24	4.0	151.9	59.2	29.7	44.4	19.2	37.1	345.7
%	1%	44%	17%	9%	13%	6%	11%	100%
FY23	4.9	133.8	49.1	23.9	24.9	18.0	25.7	280.2
%	2%	48%	18%	9%	9%	6%	9%	100%

Maintenance of a low leveraged capital structure

Equity base improved to Rs. 5.04b (FY23: Rs. 4.8b) by end-9MFY24 on the back of profit retention. The paid-up capital has been increasing on a timeline basis as the company has been paying bonus shares on an annual basis. The company has been using supplier credit effectively to manage its working capital requirements. Debt profile of the company comprises a mix of short-term and long-term borrowings. Gearing and debt leverage, though consistently low, improved slightly further on a timeline basis to 0.23x (FY23: 0.26x; FY22: 0.35x) and 0.47x (FY23: 0.52x; FY22: 0.55x) respectively by end-9MFY24. The leverage indicators are projected to improve further as no major capex is projected in foreseeable future.

The Company has an adequate corporate governance framework

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 while the CEO is Mr. Rasikh Elahi. Meetings are convened on a quarterly basis. The Board was elected in Oct'23 and out of the 7 directors, 3 have completed the Director's training program. The company plans to arrange training program for the remaining Directors within a year. 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 which belong to category 'A' on the approved list of auditors published by the State Bank of Pakistan (SBP).

At-Tahur Limited Annexure I

BALANCE SHEET	FY21	FY22	FY23	9MFY24
Non-Current Assets (Net of Biological Assets)	1,533	1,789	1,993	1,917
Stock-in-Trade	343	404	412	270
Trade Debts	98	161	239	337
Biological assets	1,660	2,671	3,995	4,091
Cash & Bank Balances	114	27	107	74
Other Assets	190	383	543	702
Total Assets	**3,940**	**5,436**	**7,290**	**7,392**
Trade and Other Payables	396	523	944	847
Short Term Debt	275	440	460	457
Long Term Debt	495	776	768	698
Total Debt	771	1,216	1,228	1,156
Other Liabilities	113	182	314	351
Total Liabilities	**1,279**	**1,921**	**2,487**	**2,353**
Total Equity	**2,660**	**3,515**	**4,803**	**5,039**
Paid-up Capital	1,775	1,988	2,186	2,186
INCOME STATEMENT	**FY21**	**FY22**	**FY23**	**9MFY24**
Net Sales	2,558	3,286	4,900	4,290
Net Gain Arising at the time of Milking	1,542	2,115	3,342	2,796
Net Gain Arising from Change in Fair Value of Dairy Stock	361	1,165	1,949	683
Cost of Sales	3,347	4,592	7,339	6,001
Gross Profit	1,115	1,974	2,852	1,768
Selling and Distribution Expenses	280	361	556	439
Administrative Expenses	179	237	286	240
Other Expenses	234	349	559	520
Operating Profit	**422**	**1,027**	**1,450**	**569**
Finance Cost	58	115	226	217
Profit before Tax	363	912	1,224	352
Profit After Tax	**262**	**861**	**1,248**	**236**
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**9MFY24**
Gross Margin (%)	25.0	30.1	28.0	22.8
Net Margin (%)	5.9	13.1	12.2	3.0
Net Working Capital	(13)	(185)	(389)	(218)
Trade debts/Sales (%)	3.8	4.9	4.9	5.9
FFO	359	204	9	350

FFO to Total Debt (%)	46.6	16.8	0.8	40.3
FFO to Long Term Debt (%)	72.5	26.3	1.2	66.7
Current Ratio (x)	0.98	0.84	0.77	0.86
Debt Servicing Coverage Ratio (x)	5.59	1.76	0.58	1.90
Gearing (x)	0.29	0.35	0.26	0.23
Leverage (x)	0.48	0.55	0.52	0.47
(Stock in Trade+Trade Debts)/STD	1.60	1.29	1.41	1.33
ROAA (%)	7.3	18.4	19.6	4.3
ROAE (%)	10.4	27.9	30.0	6.4
CCC	(0)	0	(10)	(18)

REGULATORY DISCLOSURES	Annexure II				
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				
	10-06-2024	A-	A-2	Stable	Maintained
	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.				
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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Due Diligence Meeting Conducted	Name	Designation	Date		
	Mr. Hamza Chaudhry	CFO	May 20, 2024		
	Mr. Hamesh Khan	Board Advisor			