

RATING REPORT

Golden Harvest Foods (Private) Limited

REPORT DATE:

October 25, 2021

RATING ANALYSTS:

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Rating Category	Initial Rating	
	Long-term	Short-term
Entity	BBB+	A-2
Rating Outlook	Stable	
Rating Date	October 25, 2021	

COMPANY INFORMATION

Incorporated in 2000

External Auditors: Crowe Hussain Chaudhury & Co.

Private Limited Company

Chairman & Chief Executive Officer: Mr. Ghulam Hussain

Key Shareholders (with stake 5% or more):

Mr. Ghulam Hussain & Family – 100%

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporate Rating Methodology (August 2021)

<https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf>

Golden Harvest Foods (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>Golden Harvest Foods (Private) Limited (Dawn Bread) emerged as a small venture in 1981. The registered office of the company is situated at Plot No. 33, Sector 24, Korangi Industrial Area, Karachi, Pakistan.</p> <p>Profile of Chairman & CEO Mr. Ghulam Hussain started his carrier in sales and worked for travel industry with domestic and international airlines; thereafter Mr. Hussain formed his own travel agency from 1980-1984, simultaneously under his leadership the Dawn Bread first manufacturing plant was launched in Karachi, in year 1981, which today is the market leader in Bread Industry and bakery products in Pakistan and largest exporter of frozen ready to eat meals.</p>	<p>Golden Harvest Foods (Private) Limited (“GHFL” or ‘the Company’) was incorporated in 2000, as a private limited company. The Company is principally involved in the business of manufacturing and trading bakery products and ready to eat frozen meals. GHFL is authorized to produce and distribute product suite of bakery products and ready to eat frozen meals under the brand name of ‘Dawn Bread’, in the jurisdiction of Karachi and Baluchistan (domestically) as per family settlement agreement, while the company also sells other brands nationwide including Mezban, Cake Shake and Artisian bakery products with the name of Bake my Day. Company also sells internationally under brands of Dawn bread, Mezban and Cake Shake.</p> <p>Market Leader in the Domestic Bread Industry with a Geographically Diversified Export Base</p> <p>The assigned rating incorporates the market positioning of the ‘Dawn Bread’ brand, which holds approximately 35% of the consolidated market share of all bread products in Pakistan. The brand’s long operational history and broad product suite are viewed as rating strengths. Furthermore, the Company has a sizable export clientele, which contribute about half of the Company’s topline. Country-wise concentration is manageable, and improving on a timeline.</p> <p>Rating incorporates business risk of Consumer - FMCG</p> <p>The Company operates in the Consumer – FMCG segment, which VIS classifies as a Medium risk, being characterized by low cyclicalities, high to medium competition, capital intensity & technology risk, medium regulatory risk and low energy sensitivity.</p> <p>Rating incorporates consistent growth in topline and stickiness of gross margins.</p> <p>A review of Company’s historical performance is indicative of consistent growth in topline and gross margins, which have steadily inched up. Going forward, as product suite broadens and as Company’s sales mix shifts from its main product to newly launched dry products, gross margins will increase further as the latter feature relatively better margins. Furthermore, risk exposures are minimal, with 70% sales in the general trade category and a manageable cash conversion cycle. Exposure to credit risk is also minimal, as indicated by the absence of any doubtful debt provisions historically.</p> <p>Adequate cash flow coverage; Gearing has trended up on a timeline, albeit is projected to maintained during the rating horizon</p> <p>The Company’s cashflows as of FY21, provided 31% coverage of total debt, which means that the Company can pay off the entire debt with a little over 3 years cash flows. Given expansion of operations, with the investment in LFIL, gearing has increased in recent years. However, given history of full profit retention and projected additional revenues from the new plant, gearing is likely to sustain at similar level during the rating horizon.</p> <p>Corporate Governance reflective of Company’s operational status as a family-owned unlisted entity</p> <p>Corporate Governance infrastructure in place is reflective of GHFLs operational status as a family-owned unlisted entity. At present, the Board Chairman and CEO position is held by the same individual. Furthermore, there is an audit committee in place and an audit function, which routinely carries internal audits of all functional areas.</p>

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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		Appendix III			
Name of Rated Entity	Golden Harvest Foods (Private) Limited				
Sector	Food				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	25-Oct-21	BBB+	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 Meetings Conducted	Name	Designation	Date		
	Mr. Hatim Rangwala	Group Financial Controller	September 29, 2021		
	Mr. Amir Sohail	Head of Sales			