

RATING REPORT

Golden Harvest Foods (Private) Limited

REPORT DATE:

December 08, 2023

RATING ANALYSTS:

Abdul Kadir

kadir@vis.com.pk

RATING DETAILS				
	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-2	BBB+	A-2
Rating Outlook	Stable		Stable	
Rating Date	December 08, 2023		November 28, 2022	
Rating Action	Reaffirmed		Reaffirmed	

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

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>

Golden Harvest Foods (Private) Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

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.

In 1990, Dawn Bread developed a relationship with Campden & Chorlywood Food Research Association, which allowed the Company to achieve ISO 9001:1994 compliance.

The Company has a longstanding history of exports and meets all relevant food safety guidelines as per international standards.

Profile of Chairman & CEO

Mr. Ghulam Hussain started his career 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.

Golden Harvest Foods (Private) Limited (‘GHFL’ or ‘the Company’) was established in the year 2000 as a privately held corporation. The ownership of the Company is exclusively held by the Ghulam Hussain Family. GHFL primarily operates in the realm of manufacturing and trading bakery products and frozen ready-to-eat meals. Under a familial agreement, GHFL is duly authorized to produce and distribute a comprehensive range of bakery products and ready-to-eat frozen meals, all under the renowned franchise 'Dawn Bread,' within the geographical boundaries of Sindh and Baluchistan for the domestic market.

GHFL operates two production facilities located in Karachi. Furthermore, the Company maintains an in-house distribution network that comprises over 200 company-owned vehicles, facilitating access to an extensive network of more than 20,000 retail outlets. Currently, GHFL extends its market presence to international destinations, including the USA, Canada, UK, Norway, Netherlands, Germany, Switzerland, Japan, UAE, South Africa, and Saudi Arabia. In the United States, the Company's exported products bear the distinct brand name 'Mezban,' while in other global regions, products are exported under both the 'Mezban' and 'Dawn Bread' brand names. Within the domestic market, GHFL markets its products under the brand names 'Dawn Bread' and 'Mezban,' as well as under additional brands, namely ‘Cake Shake’ and ‘Bake My Day’.

Market leader in Pakistan's bread market, facing competition from major brands and numerous smaller producers in the local market, while focusing on export activities. The company is seeking to capitalize on rising local demand and diversifying its B2B offerings with new products.

The assigned rating reflects the market position of Dawn Bread's established franchise in the Pakistani market, where it secures an estimated market share of 35% in bread and related products. The brand's competitive landscape encompasses major entities like Bake Parlor and Breadys, as well as over twenty smaller-scale producers. The brand benefits from a comprehensive product line and a history of long-term operations, alongside a substantial distribution network underscored by a fleet of over 200 vehicles in Karachi. Local market demand for bread products is experiencing an upward trajectory, influenced by increasing population and the inherent convenience of these products, particularly during gas loadshedding and when time-saving solutions are required. Export activities, representing a significant revenue portion, are robust, particularly in Saudi Arabia and the USA, which make-up more than two third of export sales. The company has embarked upon expanding its paratha export sales particularly in the UK market. In the near future, the company is exploring new B2B market segments by developing and testing products such as bread crumbs, dry seasoning, and cake premixes.

Navigating risks and seizing opportunities in Pakistan's bread industry

The bread industry in Pakistan faces a complex environment, notably from a strong consumer preference for fresher, unpackaged bread often sold in independent bakeries, which challenges packaged bread manufacturers. The industry grapples with infrastructural inadequacies, including insufficient transportation, storage, and processing capabilities, leading to spoilage and inefficiencies in the supply chain. Financial constraints further exacerbate the situation, as limited access to financing hinders expansion and operational capabilities. Quality control issues pose significant health risks and threaten brand reputations.

While the bread industry in Pakistan contends with challenges, it also enjoys a robust demand driven by a cultural preference for bread as a staple food. The industry's agility in responding to consumer preferences for unpackaged, artisanal bread showcases its potential to innovate. There's also an increasing demand for convenience and a wider variety of packaged bread options among consumers with busy lifestyles. Positive trends in health and wellness present opportunities for diversification into healthier, reduced-sugar options, tapping into a more health-conscious consumer base. Growing population also shows an ever-increasing demand for the industry. With these factors, the industry holds the potential for growth and resilience, provided businesses leverage these opportunities effectively at the same time the bread industry businesses must adapt strategically to thrive in this complex environment.

Revenue increased considerably emanating majorly from export sales. Margins improved, driven by higher exchange impact and cost rationalization.

The sales increased by 43% (FY22: 23%) reaching a total of Rs. 4.7b (FY22: Rs. 3.3b; FY21: Rs. 2.7b) in FY23. Export sales increased considerably on the back of both volumes and price; the impact of local currency devaluation was more pronounced. Thereby, contribution of export sales in the overall revenue mix stood higher at 52% (FY22: 42%) during FY23. Paratha sales in the export segment increased to Rs. 1.8b (FY22: Rs. 959m). Local sales increased mainly on account of price escalation while growth in volumes remained largely muted. Sales of bread products increased to Rs. 1.4b (FY22: Rs. 812m) in the local market.

The company was able to partly recoup gross margins to 14.9% (FY22: 13.5%; FY21: 18.1%) during FY23 and further to 16.1% in 1QFY24. Despite the impact of high inflation on the cost of raw material, the pressure on gross margins were alleviated by cost-cutting measures and higher prices. To mitigate rising energy costs, the company installed solar panels on the roof of the production facility. Furthermore, in an effort to eliminate operational delays and enhance efficiency in the B2B sector, the company developed an Android-based app that allows customers to place orders, thereby reducing the need for extensive human involvement. Simultaneously, the company increased selling prices by 6-7% in the export segment, resulting in higher exports gross margins of 15.2% (FY22: 14.3%). Meanwhile, about 21% of the cost of goods sold was related to imported items, particularly soybeans. Despite considerably higher finance cost of Rs. 223m (FY22: Rs. 85m), net profit increased to Rs. 126m (FY22: Rs. 52m) on account of higher sales, increased margins, rationalized cost and lower incidence of taxation. The profitability indicators would primarily be dependent on stabilization of market indicators.

Coverages remained adequate.

During FY23, Funds from Operations (FFO) increased to Rs. 161m (FY22: Rs. 127m; FY21: Rs. 248m), exhibiting partial recovery from the previous year's decline. FFO to total debt improved slightly to 0.11x (FY22: 0.09x) in FY23, and FFO to long-term debt improved considerably to 0.87x (FY22: 0.57x) on account of lower long-term borrowing. Debt servicing coverage ratio of 1.3x (FY22: 1.4x; FY21: 2.7x) is considered adequate, though it is decreasing trend on a timeline basis that needs to be arrested. Cash conversion cycle (CCC) remained relatively stable at 89 days (FY22: 92 days) in FY23. Current ratio and coverage of short-term borrowings through trade debts and inventory remained above the minimum threshold.

Trade debts as a percentage of total sales stood at 12.0% (FY22: 14.2%; FY21: 9.8%). Credit terms are contingent upon prevailing market conditions; some flexibility is shown when dealing with small-scale vendors, while corporations are typically granted a credit period of up to one month.

Receivables Position (Rs. In m)	0-30 Days	31-60 Days	61-90 Days	91-120 Days	121+ Days	Total
	260	130	109	51	10	559
	47%	23%	19%	9%	2%	100%

Gearing remained moderately high.

The equity base increased slightly to Rs. 1.2b (FY22: Rs. 1.1b; FY21: Rs. 1.0b) on account of profit retention. The borrowings are primarily short-term in nature. Gearing and leverage ratios stood at 1.3x (FY22: 1.3x; FY21: 0.8x) and 1.7x (FY22: 1.5x FY21: 1.1x) respectively at end-FY23. As the company has no plans to mobilize long-term financing in the medium term, the management is projecting gradual decrease in leverage indicators, going forward.

Golden Harvest Foods (Private) Limited		Annexure I		
Financial Statement		<i>(Amount in Million)</i>		
BALANCE SHEET	FY21	FY22	FY23	1QFY24
Property, Plant & Equipment	934	1,045	1,051	1,060
Long-term deposits	4	4	5	5
Stock in Trade	415	639	926	934
Trade Debts	261	463	560	623
Cash & Bank Balances	64	58	46	39
Other Assets	400	463	574	514
Total Assets	2,077	2,672	3,161	3,175
Trade and Other Payables	110	148	342	248
Short Term Borrowings	649	1,121	1,289	1,341
Long-Term Borrowings	128	213	184	159
Deferred Liabilities	55	64	55	56
Other Liabilities	46	59	107	62
Total Liabilities	1,065	1,621	1,978	1,933
Issued, Subs, and Paid-Up Capital	9	9	9	9
Equity	1,012	1,051	1,184	1,242
INCOME STATEMENT				
Net Sales	2,663	3,266	4,674	1,425
Gross Profit	482	440	699	229
Operating Profit	169	89	139	71
Profit Before Tax	169	95	176	74
Profit After Tax	125	52	126	58
FFO	248	127	161	43
RATIO ANALYSIS				
Gross Margin (%)	18.1%	13.5%	14.9%	16.1%
Net Margin (%)	4.7%	1.6%	2.7%	4.1%
FFO to Long-Term Debt (x)*	1.70	0.57	0.87	1.05
FFO to Total Debt (x)*	0.31	0.09	0.11	0.11
Debt Servicing Coverage Ratio (x)	2.67	1.44	1.31	1.58
ROAA (%) *	7.2%	2.2%	4.3%	7.3%
ROAE (%) *	15.4%	5.0%	11.3%	19.2%
Gearing (x)	0.78	1.28	1.25	1.21
Debt Leverage (x)	1.05	1.54	1.67	1.56
Current Ratio (x)	1.00	1.00	1.05	1.07
Inventory + Receivables/Short-term Borrowings (x)	1.04	0.98	1.15	1.16
CCC	87	92	89	-

*Annualized

REGULATORY DISCLOSURES		Appendix II			
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
	<u>RATING TYPE: ENTITY</u>				
	08-Dec-23	BBB+	A-2	Stable	Reaffirmed
	28-Nov-22	BBB+	A-2	Stable	Reaffirmed
	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.				
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Due Diligence Meetings Conducted	Name	Designation	Date		
	Mr. Hatim Rangwala	Group Financial Controller	November 06, 2023		