RATING REPORT

Golden Harvest Foods (Private) Limited

REPORT DATE:
November 14, 2024

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	BBB+	A2	BBB+	A2
Outlook/Rating Watch	Stable		Stable	
Rating Date	November 14, 2024		December 8, 2023	
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*
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

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 the travel industry with domestic and international airlines; thereafter, Mr. Hussain formed his own travel agency from 1980-1984. Simultaneously under his leadership, Dawn Bread's first manufacturing plant was launched in Karachi, in 1981, which today is the market leader in the Bread Industry and bakery products in Pakistan and is the largest exporter of frozen ready-to-eat meals.

RATING RATIONALE

Golden Harvest Foods (Private) Limited ('GHFL' or 'the Company') was established in 2000 as a private limited company, with ownership exclusively held by the Ghulam Hussain family. GHFL operates as a manufacturer and distributor of bakery products and frozen ready-to-eat meals. Under a family agreement, the Company is authorized to produce and distribute its range of bakery products and ready-to-eat frozen meals under the well-known 'Dawn Bread' brand. This is done through an Authorized User License agreement and joint ownership by the shareholders and directors of GHFL in the brand company, Ghulam & Fida Brothers (Private) Limited, which holds the rights to the 'Dawn Bread' brand for the domestic markets of Sindh and Balochistan.

GHFL operates two production facilities in Karachi and maintains an in-house distribution network, comprising over 130 company-owned vehicles. This robust infrastructure enables the Company to efficiently serve a network of more than 20,000 retail outlets.

On the international front, GHFL has established a strong presence across the Middle East, America, Asia, Europe, and Oceania. In the United States, products are marketed under the 'Mezban' brand, while in other global markets, they are distributed under both the 'Mezban' and 'Dawn Bread' brands. Domestically, the Company markets its products under the brand names 'Dawn Bread', 'Mezban', 'Cake Shake', and 'Bake My Day'.

GHFL's product range includes an assortment of breads, frozen parathas, tea-time snacks, cake premixes, and bread crumbs.

Sector Brief

The bread industry is experiencing steady growth, driven by increasing demand for packaged and branded bread. Consumers are becoming more hygiene conscious, coupled with the rapid urbanization – where the share of the urban population reached approximately 83% in 2023 as per Statista -along with busier lifestyles, is propelling the shift towards packaged bread products. The growing population, projected to reach approximately 270 million by 2030 according to Worldometers, further fuels the demand for convenient food options. Convenience, along with greater focus on quality and safety, has made packaged bread a staple in households across urban and suburban areas.

The notable shift in consumer preferences is also emerging as health-conscious choices gain traction. There is a growing demand for whole wheat, multi-grain and other nutritionally enhanced variants, as consumers seek healthier alternatives to traditional white bread. This trend is pushing manufacturers to enhance their product offerings.

Restaurants and street food vendors are also increasingly opting for packaged breads due to their convenience, consistency in quality, and a longer shelf life. This has become an important segment of demand, as these establishments rely on the ease of sourcing packaged bread to meet customer needs efficiently, further bolstering the industry's growth.

Despite a downward trend in inflation, the bread industry continues to face significant cost pressures, primarily due to the volatility in the prices of key raw materials such as flour, sugar and oil. While inflation has moderated in the recent months, raw material costs remain unpredictable. Notably, as per the data provided by Pakistan Bureau of Statistics, the price of flour surged by 32% from March 2023 to March 2024, just before the recent decline in inflation, significantly impacting production costs. Consequently, the price of bread rose by 14% during the same period, while sugar prices increased by 39%. These fluctuations pose ongoing challenges for producers in maintaining consistent pricing. In addition, gas shortages have further exacerbated operational costs, forcing manufacturers to seek alternative solutions to maintain the operations of their ovens. While inflation is expected to stabilize in the near term, there are concerns that it could rise again in the future, further heightening price volatility in the industry.

Moreover, bread manufacturers must manage efficient distribution to ensure freshness, relying on a fleet of temperature-controlled vehicles for timely deliveries. Optimizing delivery routes and maintaining supply chain coordination are key to preserving product quality and meeting consumer demand, especially for perishable items with limited shelf lives.

Despite these challenges on cost front, demand of the bread industry is expected to continue its growth trajectory, fueled by rising consumer awareness and the ongoing shift towards healthier, more convenient food options. Manufacturers will need to navigate these cost pressures while responding to the changing preferences of the market in order to remain profitable in the long-term.

Rating Drivers

Increase in Revenue driven by Growth in Exports Sales

In FY24, revenue grew by 28% Y/Y, reaching Rs. 6 billion compared to Rs. 4.7 billion in FY23. Of this, 58% (FY23: 52%) was derived from export sales, while 42% (FY23: 48%) came from local sales. The increase in export sales was driven by 43% Y/Y increase in prices along with the impact of rupee devaluation and a 19% increase in volumes.

The Company's key export markets include Saudi Arabia followed by United States. Other notable markets include Japan, Norway and Australia. In terms of product mix, the Paratha segment accounts for 80% of total export sales. In response to growing market demand for healthier and more convenient options, the Company expanded its product range to include Pita and Tortilla, further diversifying its offerings in the international market. Additionally, sales from the top 10 export clients account for 79% of total export revenue, with 43% derived from a single client.

This single client represents 25% of GHFL's total sales, indicating a moderate level of client concentration. However, this concentration risk is mitigated through the long-term nature of the relationship with the client, which was established approximately 20 years ago. Moreover, the client provides advance payments, which further reduces financial risk by ensuring predictable cash flows. These established relationships and favorable payment terms help mitigate the impact of any potential volatility in client-specific demand, contributing to a more stable revenue stream.

In FY24, domestic sales growth was primarily driven by an 11% price increase, although volume experienced a minor decline of 1% Y/Y. Despite a slight decrease in the share of the bread segment, revenue from this segment increased. In terms of bread distribution, approximately 65% of sales are through General Trade, while 35% come from Local Modern Trade, which includes key retailers like Imtiaz, Chase and Naheed.

In contrast, the burger segment experienced an uptick in sales. This segment is primarily split between 65% HORECA (which includes clients like KFC, Kababjees, Burger O'Clock and Aga Khan Hospital) and 35% General Trade.

Gross and Operating Margins remained intact in FY24; Net margin witnessed a minor drop amid higher finance cost and taxation

The cost of sales rose to Rs. 5 billion in FY24, up from Rs. 4 billion in FY23, primarily driven by higher raw material costs, including sugar, flour, packaging materials, as well as increased gas expenses. The rise in gas costs was driven by shortages, prompting GHFL to seek alternative fuel sources to operate their ovens. Despite the higher costs, gross profit increased to Rs. 0.9 billion, up from Rs. 0.7 billion in FY23, reflecting a growth of 23%. However, the gross profit margin slightly decreased to 14.4% compared to 14.9% in FY23.

The operating profit margin remained stable at 8.6%. However, net profit declined to Rs. 77 million in FY24, down from Rs. 126 million in FY23, primarily due to an increase in finance cost and taxation. As a result, the net profit margin decreased from 3% in FY23 to 1% in FY24. Going forward in FY25, gross and operating margins of the company are expected to stay at same levels while net margins are forecasted to rebound to FY23 levels with forecasted drop in finance cost.

Improved Liquidity and Cashflow Coverage

In FY24, GHFL's liquidity position showed an improvement, primarily driven by a reduction in short-term debt. This resulted in an increase in the current ratio to 1.11x (FY23: 1.05x). Additionally, the Company's net operating cycle improved to 76 days in FY24, compared to 89 days in FY23, demonstrating enhanced operational efficiency. This improvement was attributed to reductions in both receivable and inventory days, along with a slight increase in payable days. Going forward, GHFL's liquidity profile is expected to improve, provided the Company effectively manages its net operating cycle.

Funds from operations (FFO) increased to Rs. 198 million in FY24, up from Rs. 161 million in FY23. This growth in FFO, coupled with a reduction in debt, contributed to an improvement in the Company's cashflow coverage ratios. The significant decrease in long-term debt resulted in a substantial improvement in the FFO to long-term debt ratio, which rose to 1.85x from 0.88x in FY23. Additionally, FFO to short-term debt and FFO to total debt ratios, showed slight improvements. The debt service coverage ratio also saw a modest increase, rising to 1.29x in FY24 from 1.18x in FY23.

In FY25, GHFL's cashflow coverage is expected to improve, driven by a planned reduction in borrowing compared to FY24 and a forecasted increase in revenue.

Marginal Improvement in Equity driven by Retained Profits

The equity base of the Company increased to Rs. 1.3 billion in FY24, up from Rs. 1.2 billion in FY23, primarily due to retained profits. As a result of a reduction in total debt, the financial risk of the Company improved, leading to improved gearing and leverage ratios. The gearing ratio declined to 1.08x (FY23: 1.24x), while the leverage ratio decreased to 1.51x (FY23: 1.67x).

Looking forward, during the rating horizon, the Company has no plans to mobilize any long-term debt consequently, the capitalization indicators are expected to further improve gradually.

REGULATORY DISCLOSURES — Appendix I

Name of Rated Entity	Golden Harvest Foods (Private) Limited
Sector	Food
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	(see table below)

Rating Date	Medium to Long Term	Short Term	Outlook/Rating Watch	Rating Action
RATING TYPE: ENTITY				
14-Nov-24	BBB+	A2	Stable	Reaffirmed
08-Dec-23	BBB+	A2	Stable	Reaffirmed
28-Nov-22	BBB+	A2	Stable	Reaffirmed
25-Oct-21	BBB+	A2	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	(see table below)

Name	Designation	Date
Mr. Hatim Rangwala	Group Financial Controller	November 05, 2024