RATING REPORT

National Sea Foods (Private) Limited

REPORT DATE:
January 25, 2022

RATING ANALYST:
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RATING DETAILS		
Rating Category	**Initial Ratings**	
	Long-term	**Short-term**
Entity	BBB	A-2
Rating Outlook	Stable	
Rating Date	*January 25, 2022*	

COMPANY INFORMATION	
Incorporated in 2003	**External auditors:** Namdar & Co. Chartered Accountants
Private Limited Company	**Chairman:** Mr. Suleman I.Vohra
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Dr. Zubair Suleman Vohra
Dr. Zubair Suleman Vohra ~90.0%	
Mr. Suleman I.Vohra ~5.0%	
Mr. Muhammad Ovais Vohra ~2.5%	
Mr. Muhammad Anas Vohra ~2.5%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Industrial Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

National Sea Foods (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
NSF was incorporated in August, 2003 as a private limited company with the objective of engaging in the business of seafood. The Company has a registered office in West Wharf, Karachi. *Financial statements are audited by Namdar & Co. Chartered Accountants.* **Profile of Chairman** *Mr. Suleman I.Vohra is a seasoned professional with cumulative experience of more than 50 years. Previously, he has served as Finance Director and Chief Executive of Pakistan Fisheries Limited. He also assumed different director level position including Government Ex –Nominee and Metropolitan Steel Corporation Limited.* **Profile of CEO** *Dr. Zubair Suleman Vohra holds an MBBS degree. He has remained actively involved in business activities of seafood industry for the last 20 years.*	**Corporate Profile** Incorporated in 2003, National Sea Foods (NSF) specializes in the processing and export of fresh and frozen seafood products (Shrimps, Squids and Mix Fishes). NSF is a mid-sized player with an estimated market share of ~3-4% in terms of overall seafood exports. Shareholding of the company is vested among four members of Vohra Family. The sponsors are well-experienced and dedicated professionals while NSF has an established operating track record of nearly two decades. The company has a registered office located in Fish Harbor - West Wharf, Karachi. NSF's annual power requirement is around 0.4MW which is met entirely through national power grid (KE). Besides, an alternative gas-based power generator also remains available as a backup, in case the need arises. Total staff strength currently stands at 150 employees. Going forward, the management plans to hire more employees to support future business growth plans. **Production capacity and utilization** NSF's annual installed processing capacity is around 4,000 MTons with cold storage capacity of 800 MTons sufficient for current level of operations. Utilization level stood around 68% in FY21; however, management expects the same to reach 90% in the ongoing fiscal year on account of projected growth in volumes. Furthermore, the management has expressed interest in expansion of overall production capacity in the medium term. **Key Rating Drivers** **Seafood exports registered a slight growth in the outgoing fiscal year; however, its significant potential continues to remain untapped. Acute shortage of infrastructure, low export prices due to poor quality, overfishing, marine pollution and inadequate policies are the major challenges faced by the sector.** Fisheries sector of Pakistan accounts for nearly one percent of the country's GDP with an average share of ~2% in national exports. There are four major fishing harbors in Pakistan, with ~90% of the catch emanating from Karachi Fish Harbor (KFH). According to Marine Fisheries Department, there are around 150 fish and seafood exporting firms, of which 35 operate in the premises of KFH. The domestic per-capita consumption of seafood is termed as one of the lowest in the region and world, at ~2kg (vis-à-vis world average of over 20kg). Hence, most of the produce is exported. Major exports are directed towards China followed by Thailand, Malaysia, the Middle East, Sri Lanka and Japan. Other major buyers include US and EU countries. As per PBS, seafood exports were recorded at USD 414m (FY20: USD 407m) in FY21, representing growth of ~2% which was primarily driven by higher export volumes of 184,396 MTons (FY20: 171,704 MTons). The average prices have stood lower at $2.25 per kg (FY20: $2.35 per kg) while the same has remained below $2.5 per kg from FY18 to FY21 (as compared to $5-8 per kg earned by regional competitors). Low export prices is primarily due to lack of infrastructure and facilities required for producing export-grade products of acceptable standards. In addition to this, overfishing, marine pollution and

inadequate policies are the major challenges faced by the industry. In the long run, investment in infrastructure, development of constructive policies, continuation of assistance and support programs, sustainable conservation of marine resources and enhancement of fish processing units would be the key determinants of seafood exports.

High product quality, adequate storage facility, and access to finance provides comfort to business risk profile.
The company has managed to maintain high product quality through procurement of three-fourth of its raw material from day caught which is facilitated through adequate storage facility and access to working capital financing. As per management, it serves as a competitive advantage, whereas in the industry seafood exporters are mainly reliant on trawlers (more than 72 hours catch) for their raw material procurement. In addition to this, quality is also ensured through third-party customer audits and presence of food safety certifications including ISO and Seafood Halal certificate; acquisition of an additional international certification is currently underway to gain access of new export markets. Going forward, worldwide continuation of Covid-19 with emerging new variants (such as Omicron) and uncertainty of its impact on overall economy and political environment are the key present business risk factors.

Topline has depicted a strong and consistent growth trend over the years. Going forward, sales revenue is targeted to cross Rs. 3b mark by FY22 and a sizeable growth will stem from new products addition.
NSF is primarily an export-oriented company with almost entire sales comprising exports. Sales revenue has registered a three-fold increase over the period of past five fiscal years (FY17-21) on account of healthy demand and volumetric growth in sales. The topline gained further momentum in the ongoing fiscal year and amounted to Rs. 1.4b (FY21: Rs. 1.6b; FY20: Rs. 1.5b; FY19: Rs. 1.2b) during 6M'FY22.

In terms of product-wise sales mix, shrimps which is the flagship product has constituted the largest proportion in revenues over the years, followed by squid and mix fishes. The management has planned to add Octopus and Scuttle fish in the product portfolio in the ongoing fiscal year. The export markets comprise five countries including China, UAE, Japan, Thailand and Vietnam. Client wise sales concentration draws comfort from long-term association of around 8 to 10 years. Going forward, management has targeted sales revenue to double up and cross the Rs. 3b mark by FY22 with the growth primarily emanating from new products addition.

Profitability margins have sustained. Going forward, higher export volumes will drive the future growth in earning profile.
The company's business model of procuring from day caught along with proper storage facility which enables higher shelf life and post-season product availability (particularly shrimp's peak season from Aug to Oct) facilitates in fetching better margins, relative to peers. Gross margins were reported at 9.6% (FY21: 9.4%; FY20: 7.5%) in 6M'FY22.

On the cost front, power charges form the largest proportion of administrative overheads, followed by salaries expense and depreciation. Financial charges despite the increase remain on the lower side given limited debt present on the balance sheet and the same being mobilized at concessionary rates. Profitability profile is also supported by healthy growth in storage income. Moreover, timeline growth in topline with limited expense base translated into improved bottom-line which has more than doubled in a two year period. Going forward, increase in export volumes will drive the growth in future earnings.

Liquidity buffers have improved owing to timeline growth in earnings.
Liquidity profile is considered sound with healthy cash flow generation in line with growing profitability. In absolute terms, Fund From Operations (FFO) has increased to Rs. 76.2m (FY20: Rs. 40.0m) in FY21, resulting in improved debt coverage metrics. Given upfront payment requirement (as raw material is procured from daily auction market) and extended time to collect receivables (around 30-90 days), the company's working capital cycle necessitates utilization of running finance. Current ratio remains over 1.5x, while trade debts and stock in trade are sufficient to cover short term borrowings. Aging profile of trade debts is sound with no receivable outstanding for more than 90 days.

Leverage indicators are expected to remain within manageable levels given projected improvement in equity base.
NSF's equity base though has increased on a timeline basis but remains limited in terms of size. The growth is attributable to no dividend payout policy. Debt profile is entirely short term in nature with total interest bearing liabilities amounting to Rs.334.6m at end-HFY22. In view of growth strategy, the management plans to enhance credit limit of an ERF line from Rs. 215m to Rs. 500m. Owing to same, leverage indicators may trend upwards; however, the same are expected to remain within manageable levels on account of projected improvement in equity base.

Room for improvement exists in terms of corporate governance framework.
Board of Directors (BoD) comprises four members of Vohra family who are also the shareholders. Overall board composition and oversight may be improved through induction of additional directors (including independent directors), formation of board level committees and greater discussion on future strategy. Given the pace of growth, strengthening of policy and procedural framework and setting up a formalized internal audit function is also considered important. Senior management team comprises experienced personnel. Financial statements are audited by Namdar & Co. Chartered Accountants, which is not classified in SBP's Panel of Auditors.

National Sea Foods (Private) Limited — Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**HFY22**
Fixed Assets	48.1	49.5	59.1	75.1
Inventory	161.3	92.9	139.5	317.2
Trade Debts	-	-	181.4	353.1
Cash & Bank Balances	53.9	245.9	324.2	21.2
Total Assets	**273.2**	**395.8**	**712.3**	**776.2**
Short Term Borrowings	85.0	215.0	335.0	334.6
Accrued Expense	50.0	7.1	133.2	101.0
Total Liabilities	**135.0**	**222.1**	**468.2**	**435.6**
Paid -up Capital	10.0	10.0	10.0	10.0
Unappropriated profit	128.3	163.8	234.1	330.6
Total Equity	**138.3**	**173.8**	**244.1**	**340.6**
INCOME STATEMENT				
Sales	1,221.5	1,464.2	1,617.0	1,442.4
Gross Profit	**141.0**	**109.5**	**151.9**	**138.8**
Administrative Expenses	(56.2)	(58.0)	(62.4)	(36.0)
Operating Profit	**84.8**	**51.6**	**89.6**	**102.7**
Storage Income	2.0	1.3	10.6	6.3
Finance Cost	(8.7)	(2.1)	(8.6)	(2.9)
Profit / (Loss) Before Tax	**78.0**	**50.7**	**91.6**	**106.2**
Profit / (Loss) After Tax	**65.0**	**35.5**	**70.4**	**90.7**
RATIO ANALYSIS				
Gross Margin (%)	11.5%	7.5%	9.4%	9.6%
Net Margin (%)	5.3%	2.4%	4.4%	6.3%
FFO	67.6	40.0	76.2	95.7
FFO/Total Debt (x)	0.8	0.2	0.2	0.6
DSCR (x)	8.8	19.8	10.5	68.7
Gearing (x)	0.61	1.24	1.37	0.98
Debt Leverage (x)	0.98	1.28	1.92	1.28
Current Ratio (x)	1.7	1.6	1.4	1.6
(Stock in trade+ trade debt)/Short term borrowing	1.9	0.4	1.0	2.0

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

VIS **Credit Rating Company Limited**

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	National Sea Food (Private) Limited
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				
01/25/2022	BBB	A-2	Stable	Initial

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. Muhammad Ovais Vohra	Director	Jan 12, 2022