RATING REPORT

JK Dairies (Private) Limited

REPORT DATE:
Dec 24, 2024

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	BBB+	A2	BBB+	A2
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	*December 24, 2024*		*December 22, 2023*	

COMPANY INFORMATION	
Incorporated in 2007	**Chairperson of the Board:** Ali Khan Tareen
Private Limited Company	**Chief Executive Officer:** Ms. Seher Khan Tareen
Key Shareholders (with stake 10% or more):	**External Auditors:** Riaz Ahmad, Saqib, Gohar & Co. Chartered Accountants
Mr. Ali Khan Tareen – 31.45%	
Ms. Mariam Tareen Sethi – 9.68%	
Ms. Meher Khan Tareen – 9.68%	
Ms. Seher Khan Tareen – 9.68%	
ATF Farms – 39.52%	

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

J.K. Dairies (Private) Limited

OVERVIEW OF THE INSTITUTION

JK Dairies is a private commercial dairy mega farm project located at Rang Pur Sadat, Near Jamal Din Wali in Rahim Yar Khan District.

The company was incorporated under the companies' ordinance 1984 on February 26, 2007.

RATING RATIONALE

JK Dairies Private Limited ("JKD" or "the Company") is a commercial dairy mega farm project situated in Rang Pur Sadat, near Jamal Din Wali in the Rahim Yar Khan District. The farm infrastructure includes various sheds for milking cows, dry cows, and young calves, complemented by a fully automated milking parlor facility, storage for cow feed, residential areas for staff, and other related facilities. The Company's product range encompasses Raw Milk, Whole Milk, Low-Fat Milk, Yogurt, Cream, Hay, Desi Ghee and Forage.

JKD, running a self-sustaining dairy farm, has primarily a business-to-business model with milk is pasteurized and sold under the company's own brand name 'JK Dairies' in nearby cities including Rahim Yar Khan, Sukkur, Multan, Sadiqabad, Bahawalpur etc. For the remaining, the Company has inked annual contract with 'Nestle' for sale of raw milk which is renewed annually along with quarterly price revisions. The sale of Raw Milk to Nestle Pakistan constitutes around 71% of the Revenue from Customers. The Company currently has herd size of 3,634 cows and 40% of them are milking cows. JKD is currently undergoing capacity expansion to add milking parlors and sheds that would almost double the company's milking capacity.

Operational Update:

The number of milking cows increased by 126 cows (10.5%), rising from 1,204 in 2023 to 1,330 in 2024, indicating effective herd expansion or improved management practices aimed at boosting productivity. Alongside this growth, total milk production rose significantly by 16.34%, from 12,509,233 liters in 2023 to 14,557,844 liters in 2024, reflecting higher overall productivity and a possible increase in market demand. Additionally, the average milk yield per cow improved marginally by 1.38 liters, increasing from 28.39 liters in 2023 to 29.77 liters in 2024, suggesting enhanced farm management, optimized feeding practices, and better veterinary care.

	2024	2023
Average Milking Cows (Nos)	1,330	1,204
Milk Production (Liters)	14,557,844	12,509,233
Avg. Milking Per Cow (Liters)	29.77	28.39

Sector Brief:

VIS considers the business risk profile of the packaged milk industry in Pakistan to be medium. The industry is split into loose milk (majority share) and processed milk (low penetration), though increasing consumer awareness is driving a shift toward packaged milk. Challenges include high processing and distribution costs and consumer preference for loose milk. The industry also faces intense competition, albeit a significant growth opportunity exists due to the untapped loose milk market which represents a significant growth opportunity for the packaged milk industry players. Milk demand remains inelastic to price and has grown steadily whereas, between FY22 and FY24, milk production grew at a CAGR of 7.8%, reaching 70.1 million MT, with 80.5% fit for human consumption. On the other hand, fresh and powdered milk prices surged by 21.6% and 28.0% YoY, respectively. Factors such as urbanization, an untapped market with strong growth potential, favorable regulatory policies, and the rising use of milk in confectioneries and sweet dishes have contributed to the increasing demand for packaged milk.

In conclusion, the market remains largely informal, dominated by smallholder farms lacking technology, which impacts domestic supply and exports. Implementing significant regulatory measures, such as minimum pasteurization laws, could effectively address key industry challenges and drive further growth.

Major players include:

Public listed companies: Friesland Campina Engro Pakistan (Olper's), Nestle Pakistan (Milkpak), Fauji Foods Limited (Nurpur), At-Tahur Limited (PREMA)

Private limited or public unlisted companies: Haleeb Foods Limited (Haleeb), Adams Milk Foods (Adams), Dairyland (Private) Limited (Dayfresh), Millac Foods (Private) Limited, Shakarganj Foods (Private) Limited

Key Rating Drivers

Strong Financial Profile of Sponsors

JK Dairies is part of JK Group. JK Group is a well-established business group with diverse interests and a strong financial foundation. The group operates in various sectors, including sugar, dairy, mining, mangoes, power & Sports.

Topline continued its growth momentum while margins lack sustainability

During FY24, revenue from customers increased by 25.9% reaching Rs. 2.86 b (FY23: Rs. 2.27) on the back of 16% Y/Y higher volumetric sales and 9% Y/Y increase in average milk selling price. Further, positive change in fair value of biological assets added Rs. 3.06 b (FY23: 2.4 b) to the topline. Sale of milk stood higher at 14.6 m liters (FY23: 12.5 m liters) driven by 10.5% YoY increase in the number of milking cows and improvement of 4.9% YoY in avg milk/cow due to better farming techniques that led to higher sales during FY24. Milk constituted a dominant portion comprising 71% (FY23: 63%) of the total Revenue with Sales to 'Nestle Pakistan' constituting 96% of the total Milk Sales. While sugarcane, hay and livestock contributed about 8.76% (FY23: 5.38%), 8.34% (FY23: 11.09%), 7.47% (FY-23: 10.35%) to the total sales respectively and the rest emanated from other agricultural products.

Product wise breakup of sales in %

Particulars	**% of Revenue (FY-24)**
Raw Liquid Milk	71%
Hay	8%
Live Stock	7%
Pasteurized Milk Sale	4%
Sugarcane & Others	9%

Despite the overall increase in revenue, the gross margin declined to 11.7% (FY23: 13.6%) in FY24 on account of inflated input costs, mainly due to rise in prices of cattle feed. While the operating costs declined by 50% to Rs. 77.3 m (FY23: Rs153.6 m) driven by rationalization of salaries and allowances. The financial cost incurred by the company increased to Rs. 166.3 m (FY23: Rs. 158.84 m) due to higher level of interest rates. Additionally, company recorded profit from Associates of Rs 44 Mn as compared to Loss of Rs,129.4 Mn during same period last year. Resultantly, the company recorded higher net profit and net margins of Rs. 423.57 m (FY23: Rs. 175.8 m) and 7.2% (FY23: 3.8%) respectively. Going forward, the profitability is expected to improve as company is currently in process to increase its Production capacity and interest rates have reduced but still somewhat remains elevated.

Improved cashflow and debt coverages during the period under review.

The Funds from Operations (FFO) increased to Rs. 358.4 m (FY23: 183.4 m; FY22: Rs. 319 m), mainly due to higher operating profits. FFO to total debt increased to 0.43x (FY23: 0.20x) due to higher FFO and overall decrease in total debt. Given the specific nature of the business and products, the company has low levels of inventory and trade debts. Therefore, the company's current ratio has historically remained below 1. However, it has improved to 0.81x (FY23: 0.67x; FY22: 0.84x) as a result of an increase in current assets due to profit retention and capital injection. Moreover, the cash conversion cycle (days) -16 (FY23: -26) has remained negative over the years, signifying that supplier's credit is being used to finance a portion of working capital which bodes well for the liquidity profile of the Company.

On the coverages front, the Debt Coverage position of the company has improved on the back of higher Funds from Operations (FFO). Which has led to improvement in DSCR of the company from 0.93x in FY23 to satisfactory level of 1.41x in FY24. Following the same trend of higher FFO generation, the FFO to Total Debt metric has also shown improvement, increasing from 0.20x in FY-23 to 0.43x in FY24. Going forward, sustainability is required in cashflow and debt coverages in order to improve ratings on a positive side.

Capitalization indicators registered improvement on a timeline basis

The Company's equity base increased to Rs.2.4 b (FY23: Rs. 1.9b) by end of FY24 on the back of profit retention and capital injection of Rs. 94 Mn by issuance of new shares to associate company ATF Mango farms. Debt profile of the company comprises a mix of short-term and long-term borrowings. The short-term borrowings increased to Rs. 310 m (FY23: Rs. 264m) by end-FY24 to meet the higher working capital requirements while long-term borrowings decreased on account of scheduled principal repayments. Overall gearing ratio remained at conservative levels with a consistent reduction to came in at 0.35x (FY23: 0.48x) and 0.63x (FY23: 0.84x) respectively at end of FY24. Leverage (Liabilities/Equity) also followed the same trend. Currently, the Company is planning capital expenditure in medium term to double its production capacity through the mix of bank borrowings and internal sources. Therefore, the gearing and leverage level is expected to increase slightly in line with capacity expansion of the Company.

Financial Summary	(*Amount in Million*)		APPENDIX -I	
BALANCE SHEET	**Jun'21**	**Jun''22**	**Jun'23**	**Jun'24**
Property, Plant & Equipment	660	640	600	652
Long-term Investments	513	833	804	848
Biological Assets (LT+ST)	623	832	1,154	1,334
Stock in Trade	7	10	15	37
Trade Debts	28	43	41	51
ST Investments	10	11	16	20
Cash & Bank Balances	18	19	6	71
Other Assets	463	764	790	866
Total Assets	**2,323**	**3,153**	**3,426**	**3,879**
Trade and Other Payables	145	218	379	355
Short Term Borrowings	161	189	264	310
Long-Term Borrowings *(Inc. current matur)*	636	782	636	515
Total Borrowings	797	971	901	825
Total Liabilities	**1,129**	**1,466**	**1,563**	**1,499**
Issued, Subs, and Paid Up Capital	450	450	450	544
Equity	**1,194**	**1,687**	**1,863**	**2,380**
INCOME STATEMENT	**FY21**	**FY22**	**FY23**	**FY24**
Total Sales	2,796	3,598	4,646	5,922
Gross Profit	338	546	630	695
Operating Profit	229	469	499	628
Profit Before Tax	234	602	211	506
Profit After Tax	105	493	176	424
FFO	114	319	183	358
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**FY24**
Gross Margin (%)	12.1%	15.2%	13.6%	11.7%
Net Margin (%)	3.7%	13.7%	3.8%	7.2%
FFO to Long-Term Debt	0.18	0.41	0.29	0.70
FFO to Total Debt	0.14	0.33	0.20	0.43
Debt Servicing Coverage Ratio (x)	0.82	1.01	0.93	1.41
ROAA (%)	4.5%	18.0%	5.3%	11.6%
ROAE (%)	8.8%	34.3%	9.9%	20.0%
Gearing (x)	0.67	0.58	0.48	0.35
Leverage (x)	0.95	0.87	0.84	0.63
Current Ratio	0.74	0.76	0.67	0.81
Inventory + Receivables/Short-term Borrowings	0.22	0.28	0.21	0.28
Cash Conversion Cycle (Days)	-13	-16	-26	-16

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	JK Dairies (Pvt.) Limited
Sector	Dairy Products
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see table below
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.
Due Diligence Meetings Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
24/12/2024	BBB+	A2	Stable	Reaffirmed
22/12/2023	BBB+	A2	Stable	Reaffirmed
04/01/2023	BBB+	A2	Stable	Initial

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Abid Ali	GM Finance	2 Dec, 2024
2	Mr. Waqas	Asst. Accounts Manager	2 Dec, 2024