

RATING REPORT

Sunridge Foods (Private) Limited

REPORT DATE:

September 10, 2024

RATING ANALYST:

Abdul Kadir

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RATING DETAILS		
Rating Category	Initial Ratings	
	Long-term	Short-term
Entity	BBB+	A-3
Rating Date	September 10, 2024	
Rating Action	Initial	
Rating Outlook/ Rating Watch	Stable	

COMPANY INFORMATION

Incorporated in 2015	External auditors: Naveed Zafar Ashfaq Jaffery & Co. Chartered Accountants
Private Limited Company	CEO: Mr. Farrukh Amin
Key Shareholders (with stake 5% or more):	
Unity Foods Limited – 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>

Sunridge Foods (Private) Limited (SF)

OVERVIEW
OF THE
INSTITUTION

RATING RATIONALE

Sunridge Foods (Private) Limited (SF) was incorporated in 2015 and launched its first product in 2017. SF was acquired by Unity Foods Limited in 2020. The principal activity of the company is the processing of food items.

Profile of CEO

Mr. Farrukh Amin has nearly two decades of experience related to FMCG sector, both at the national and international level.

Sunridge Foods (Private) Limited ('SF' or 'the Company') is a wholly-owned subsidiary of Unity Foods Limited. It primarily engages in the processing of wheat, flour and rice; the major product sales related to flour. Other products for the Company include sugar, salt, lentils, pulses and other staples with a majority of local sales. The Company sells its products under the brand name 'Sunridge', directly to retailers, restaurants, hotels and a vast network of distributors spread across the country. SF manages three facilities flourmills and a rice-processing unit in the provinces of Sindh and Punjab. Additionally, SF possesses storage facilities in Punjab, KPK, and Sindh.

Key Rating Drivers:

During FY24, the wheat and flour milling industry in Pakistan navigated through a complex risk environment.

Market demand for wheat and flour in Pakistan remained robust due to the country's heavy reliance on the staple food, with 2.2% (FY23: 1.9%; FY22: 1.8%) contribution to the GDP during FY24. The wheat production for FY24 stood at 31.4m MT (FY23: 28.2m MT), marking an approximate 11.6% increase compared to the previous year. The volatility of wheat prices, influenced by both local and global market dynamics, was a primary concern. Pakistan's reliance on wheat imports, which totaled approximately 3.5m MT during FY24, added an element of exposure to international market shifts and currency fluctuations, increasing the industry's sensitivity to external factors. However, flour milling companies typically pass on any price to their customers, though generally with a time lag.

The devastating floods during recent years has affected large areas of agricultural land, leading to reduced wheat plantation and delays in the seeding process. This situation was exacerbated by the high costs of inputs like fertilizers, further hampering wheat production. Additionally, the industry grappled with challenges stemming from global geopolitical tensions and the resulting supply chain disruptions, which impacted wheat imports and prices. These factors collectively posed a threat to wheat availability and affordability in Pakistan.

Corporate Profile

SF, a wholly owned subsidiary of Unity Foods Limited, specializes in providing a comprehensive range of staple products. Established with the objective of establishing a prominent brand identity in the local market, the company operates under a premium brand name. In addition to its primary focus on staples, SF extends its portfolio through Sunridge Confectionery Limited, an integral part of the group's value chain. This subsidiary is dedicated to delivering high-quality value-added products, including cupcakes, cakes, nimco, and a diverse range of confectionery items. SF has also expanded its investment portfolio with two ventures: Unity Plantations (Private) Limited, a corporate farming business, and Unity Technologies (Private) Limited, an online B2B selling platform and retail chain stores (Sunridge Mart). Both of these enterprises are wholly owned by SF, contributing to the overall diversification and growth of the company.

Capacity Utilization

Capacity utilization has remained volatile over the years. In FY21, despite an installed capacity of 101,400 units, actual production amounted to 60,064 tons, with a capacity utilization of 59%. Subsequently, in FY22, despite a significant increase in installed capacity to 206,520 tons, actual production increased marginally to 68,277 tons, resulting in a notable decrease in capacity utilization to 33%. During FY23, actual production increased significantly to 104,304 tons with capacity utilization of 51%, indicating scope for enhancing resource utilization and operational efficiency. The capacity utilization is tabulated below:

	FY21	FY22	FY23
Installed Capacity	101,400	206,520	206,520
Actual Production	60,064	68,277	104,304
Capacity Utilization	59%	33%	51%

Overview of Company's long-term investments, contract liabilities, loan given to subsidiary, and increase in advances to suppliers

The Company holds long-term investments valued at Rs. 1.2b at end-9MFY24 (FY23: Rs. 0.8b). Among these investments, Rs. 605m relates to Sunridge Confectionary (a wholly owned subsidiary), while the rest is invested in Al Shaheer Corporation Limited. During FY22, SF received advances pursuant to contracts established with select customers for the provision of ration bags aimed at combatting malnutrition in Pakistan at predetermined rates. These advances were reported as contract liabilities amounting Rs. 2.8b at end-FY22. During FY23, SF disbursed a 2-year long loan worth Rs. 964m to its subsidiary company, Sunridge Confectionary Limited. This loan carries markup at 3 months KIBOR + 0.05% per annum or the average borrowing cost of lender, whichever is higher. There was a notable surge in advances to suppliers and security deposits during FY23, reaching Rs. 436.4m (FY22: Rs. 83.5m).

Gradual increase in sales though bottom line remained marginal

The company has exhibited growth in sales over the years. Net sales increased by ~95% to Rs. 11.0b (FY22: Rs. 5.7b; FY21: Rs. 3.6b) during FY23 on the back of both higher volumetric growth and selling price. SF maintains a network comprising around 500 distributors, with prominent clients including institutions utilizing SF's products in their manufacturing processes, along with significant engagements with large-scale retailers. The top 10 customer-wise concentration in sales stood at 29% in FY23. Corn export sales were nil (FY22: Rs. 909m) during FY23 due to international commodities market price fluctuation.

Product	FY 2023			FY 2022		
	Sales	Gross Profit	GP %	Sales	Gross Profit	GP %
Flour	10,243,905,965	1,520,745,147	15%	4,639,491,664	203,544,113	4%
Lentil & Pulses	261,703,010	4,093,304	2%	51,334,173	957,261	2%
Others	602,876,491	96,867,301	16%	69,567,116	34,323,102	49%
Corn	-		0%	909,503,027	153,264,910	17%
	11,108,485,466	1,621,705,752	14.6%	5,669,895,980	392,089,386	6.9%

Net sales continued to exhibit an increasing trend to Rs. 15.8b in 9MFY24. The company was able to increase its gross margins to 15.6% (FY22: 6.9%; FY21: 12.8%) during FY23 after a decline during FY22 due to significant increase in cost of goods sold.

Given higher finance cost of Rs. 373m (FY22: Rs. 137m) and considerably higher operating expenses of Rs. 1,181m (FY22: 629m) in FY23, net margins remained suppressed with net profit of Rs 182.1m (FY22: Rs. 255.1m); FY21: Rs. 226.5m) in FY23. Net margins stood at 1.6% (FY22: -4.5%; FY21: 6.3%) during FY23. Despite higher sales, net profit for 9MFY24 stood at Rs. 153.8m mainly on account of lower gross margins and higher operating expenses.

A capex of Rs. 3.4b is planned to be completed in FY25; it is partially allocated towards augmenting the capacity of silos taking it from 16,000 MT to 43,600 MT. A partial amount will also be utilized for significant enhancements in production capacity of rice and flourmills. Furthermore, construction of two new warehouses spanning 50,000 square feet is currently underway and is planned to be completed within FY25. As per management, the planned capex is projected to be financed mainly from internal sources and short-term borrowings. Based on the above-mentioned capacity and storage enhancements, the management is projecting significant increase in sales and profitability during FY25.

Coverages and liquidity have remained volatile

Funds from Operations (FFO) recovered and improved to Rs. 575m (FY22: Rs. (278m); FY21: Rs. 212m) during FY23. Similarly, FFO to total debt improved to 0.29x (FY22: -0.15x; FY21: 0.14x) in FY23. Cash flow coverages in relation to financial obligations are considered sound as indicated by debt servicing coverage ratio of 4.9x (FY22: -0.9x; FY21: 3.8x) in FY23. During FY23, cash conversion cycle (CCC) improved to 37 days (FY22: 112 days). The current ratio stood at 1.4x (FY22: 0.5x) at end-FY23. FFO declined to Rs. 195.8m in 9MFY24.

Trade debts to total sales (annualized) improved to 6.7% in 9MFY24. According to the management, credit terms are subject to market conditions, and a grace period can be provided based on the nature of the relationship with the client.

Debtors Ageing (As of June 30, 2023)

Not Due	<30 days	31 to 180 days	181 to 360 days	>361 days	Total
394	544	280	113	0	1,332

Gearing and leverage have improved on the back of equity injection. With plans to mobilize short-term financing, increase in leverage indicators is projected.

Given issuance of share at premium, total equity increased to Rs. 7.2b (FY22: Rs. 101m; FY21: Rs. 356m) by end-FY23. Apart from equity, the balance sheet is funded mainly through short-term borrowings and trade payables. Gearing and debt leverage stood at 0.3x (FY22: 18.6x) and 0.4x (FY22: 50.1x) respectively at end-FY23. As the company plans to mobilize significant short-term financing for working capital needs, the management is projecting increase in leverage indicators, going forward.

FINANCIAL SUMMARY				
(Rs. in millions)				
BALANCE SHEET	FY21	FY22	FY23	9MFY24
Property, plant and equipment	904.4	2,631.6	4,614.4	4,991.5
Stock-in-Trade	1,015.2	1,474.4	1,481.8	2,024.8
Trade Debts	229.3	570.4	1,324.2	1,406.9
Cash & Bank Balances	12.4	198.1	149.2	73.5
Long-Term Investments	-	-	835.5	1,244.1
Long-Term Advance	2.7	5.8	273.3	965.9
Current Portions of Long-term Loans	-	-	700.0	-
Advances, Deposits & Prepayments	18.7	83.5	436.4	3,210.0
Other Assets	86.6	192.2	359.6	402.6
Total Assets	2,269.3	5,156.0	10,174.3	14,319.3
Trade and Other Payables	360.3	385.3	692.8	4,968.9
Long Term Debt	31.4	8.5	-	-
Short Term Debt	1,443.0	1,870.3	1,978.6	1,974.2
Total Debt	1,474.4	1,878.8	1,978.6	1,974.2
Contract Liabilities	45.2	2,756.0	30.1	-
Other Liabilities	33.9	35.1	268.2	42.3
Total Liabilities	1,913.8	5,055.2	2,969.6	6,985.3
Paid Up Capital	531.2	531.2	2,086.8	2,086.8
Total Equity	355.5	100.8	7,204.7	7,334.0
INCOME STATEMENT	FY21	FY22	FY23	9MFY24
Net Sales	3,602.9	5,669.9	11,043.5	15,795.3
Gross Profit	459.5	392.1	1,719.4	1,785.0
Operating Expenses	(231.0)	(628.7)	(1,181.5)	(1,436.7)
Operating Profit	247.6	(202.2)	629.7	461.5
Profit Before Tax	166.7	(339.5)	256.9	326.3
Profit After Tax	226.5	(255.1)	182.1	153.8
RATIO ANALYSIS	FY21	FY22	FY23	9MFY24
Gross Margin (%)	12.8%	6.9%	15.6%	11.3%
Net Margin (%)	6.3%	-4.5%	1.6%	1.0%
Net Working Capital	(603.5)	(2,698.6)	1,261.7	1.5
Trade debts/Sales	6.4%	10.1%	12.0%	6.7%
FFO	211.9	(277.5)	575.0	195.8
FFO to Total Debt* (x)	0.14	-0.15	0.29	0.13
FFO to Long Term Debt* (x)	6.75	-32.61	-	-
Current Ratio (x)	0.7	0.5	1.4	1.0
Debt Servicing Coverage Ratio (x)	3.7	(0.9)	4.9	1.6
Gearing (x)	4.1	18.6	0.3	0.3
Leverage (x)	5.4	50.1	0.4	1.0
(Stock in Trade + Trade Debts)/STD (x)	0.9	1.1	1.4	1.7
ROAA* (%)	10.0%	-6.9%	2.4%	1.4%
ROAE* (%)	63.7%	-111.8%	5.0%	2.8%
CCC	99	112	37	-

*Annualized

REGULATORY DISCLOSURES		Annexure II		
Name of Rated Entity	Sunridge Foods (Private) Limited			
Sector	Food			
Type of Relationship	Solicited			
Purpose of Rating	Entity Ratings			
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook
	RATING TYPE: ENTITY			
	Sep-10-2024	BBB+	A-3	Stable
Rating Action	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 Meeting Conducted	Name	Designation	Date	
	Mr. Rizwan Ahmad	Chief Financial Officer	January 9, 2024	