RATING REPORT

Sunridge Foods (Private) Limited

REPORT DATE:
December 26, 2024

RATING ANALYST:

Zainab Imran
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RATING DETAILS	
	Initial Ratings
Rating Category	**Long-term**
Sukuk 1	AAA (plim)
Rating Date	December 26, 2024
Rating Action	Preliminary
Rating Outlook/ Rating Watch	Stable

COMPANY INFORMATION

Incorporated in 2015	**External auditors:** Naveed Zafar Ashfaq Jaffery & Co. Chartered Accountants as of June 30, 2023
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

Rating the Issue
https://docs.vis.com.pk/docs/Rating-the-Issue-Aug-2023.pdf

VIS Rating Scale
https://docs.vis.com.pk/docs/ratingscale.pdf

OVERVIEW OF THE INSTITUTION

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.

RATING RATIONALE

Corporate Profile:

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, rice and staple foods including sugar, salt, lentils and pulses. SF also 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. 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 having three key facilities including SR-1: Pesa flour plant for wheat processing and flour packing located in Port Qasim, SR-2: Flour mill for wheat processing located in Site Area and SR-3: Rice and flour mill located in Sheikhupura. The Company has geographical footprints in Punjab, KPK, and Sindh.

During FY24, flour segment capacity reached 197,100 MT from 167,1000 MT in the previous year, registering an increase of 18% whereas rice segment capacity reached 61,320 MT from 39,420 MT reported last year, exhibiting a growth of 55%. As a result of these additions, the installed capacity of the company has grown by 25%. However, the capacity utilization remained lower in FY24, at 36% (FY23: 51%), primarily due to increase in installed capacity and lower annual production due to unfavorable market and industry conditions. Going forward, the company is planning for the expansion of storage capacity, primarily for wheat at SR-3, by adding 12,500MT.

Proposed Sukuk

SFPL plans to issue a Rs. 2 billion Sukuk to finance capital expenditures and working capital. Capex includes expansion of wheat storage capacity, installation of renewable energy solutions, and enhancements in production infrastructure through equipment upgrades and facility improvements. Tenor of the Sukuk is for five-years inclusive of two-year grace period, proposed pricing is KIBOR + 0.70%. The security structure of the Sukuk includes the following:

- The Sukuk principal amount of Rs 2.0 billion is guaranteed by Infrazamin Pakistan Limited (IZP).
- Through a trustee, (i)exclusive lien on Finance Payment Account ('FPA'). For the initial two years, the Company will deposit upcoming (I) installments in six (06) equal tranches prior to the 10th of each month, and the last installment is to be deposited at least twenty (20) days prior to the payment date. During the last three years, the Company will deposit upcoming (P+I) installments in six (06) equal tranches prior to the 10th of each month, and the last installment is to be deposited at least twenty (20) days prior to the payment date. (ii) Exclusive lien on Finance Service Reserve Account ('FSRA'). The Company from its own sources will deposit two (2) (I) semi-annual installments in a Bank/AMC account, which will be under the lien of the Trustee, and this will be a revolving obligation.
- Hypothecation charge over all present and future fixed and current assets of the Borrower for the value of PKR 1,000 million.

Compliances: Compliance is required with Private Infrastructure Development Group (PIDG's) Disclosure Policy and Procedures, Anti-corruption and Integrity Policy and Procedures, and Environmental and Social Policies and Procedures.

Non-Payment Event: The Company and its Sponsors are unable to fund the FPA Account within the stipulated timelines and FSRA is exhausted or insufficient to meet FPA requirement.

- In case a non-payment event is triggered, and the FSRA and FPA are not replenished by SFL or Unity Foods Limited, a minimum of 30 days prior to the next payment date, trustee will notify the sukuk-holders and intimate IZP to proceed to pay the principal instalments in line with the amortization schedule over a 12-month 'cure period'. This cure period would commence from the date on which the FSRA is utilized in the event of any non-payment (principal and/or profit).

- If no cure is found after the cure period, Trustee can call a meeting of the sukuk-holders and vote for an acceleration on the guarantee to the extent of the principal amount up to the Maximum Guaranteed Amount only, provided that 70% of sukuk holders are in agreement with the exercise of acceleration. Until this agreement is reached, IZP will continue to pay the Sukuk holder the principal instalments as per the amortization schedule on the due date of each instalment.

- In case, no cure or agreement is achieved after lapse of 12-month period cure period, Investors will have the right to call an acceleration on the guarantee whereby IZP will have to settle the outstanding principal loan amount up to the Maximum Guarantee Amount ("MGA") within 20 days. IZP may also at any time after the cure period accelerate the principal payment up to the Maximum Guaranteed Amount.

Guarantor's profile:

InfraZamin Pakistan Limited (IZP) is a for-profit credit enhancement guarantee Companym rated 'AAA' by PACRA and backed by equity capital from InfraCo Asia Investments (60%) and Karandaaz Pakistan (40%). The primary objective of the IZP is to issue credit enhancement guarantees for promoting private infrastructure projects This initiative reflects a strategic collaboration under the umbrella of the Private Infrastructure Development Group (PIDG), which is supported by six governments—the UK, the Netherlands, Switzerland, Australia, Sweden, and Germany—alongside the International Finance Corporation (IFC).

IZP leverages the extensive expertise of InfraCo Asia and GuarantCo, coupled with Karandaaz Pakistan's in-depth local market knowledge and track record in fostering financial inclusion through technological solutions.

Industry Overview:

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 supported by post-flood recovery, better input availability, and expanded cultivation area. Despite this growth, the domestic wheat market remained unstable due to supply disruptions, affecting the downstream supply chain. To mitigate the risk of shortages, the government imported 3.5 million tons of wheat. However, this, coupled with a bumper crop and declining global prices, led to oversupply, triggering a price collapse and resulting in inventory losses for farmers and millers. Nevertheless, going forward government is planning to deregulate the wheat market by eliminating the minimum support price to ensure greater stability in wheat value chains, this would allow increasing competitiveness, and reducing distortions in local supply.

Key Rating Drivers:

Planned capex to aid future growth

Ratings are supported by the planned capex that will enhance overall Company's future growth. Company is planning BMR of Rs. 1.3 billion to aid future growth in the categories of Renewables, Storage, Equipment replacement & installation, and improvement and upgradation.

- **Renewable Energy**: Installation of two wind turbines in SR-1, each with a capacity of 0.5 MW, along with an addition of 0.5 MW solar capacity in SR-3 to promote green energy that will total to ~1MW.
- **Enhanced Storage:** Construction of silos and corresponding intake cleaning sections to

significantly increase storage capacity, primarily in wheat by 12,500MT with addition of 2 warehouses.

- **Equipment Replacement & Installation**: Replacement of the boiler and shifters in the flour mill to enhance product quality through proper segregation, along with the installation of a new packing machine.
- **Improvements and Upgradation:** Proper Electrical System for Uninterrupted Supply for Smooth operations and supporting the new machinery/equipment includes dryers (ss), ms bins, conveyors, elevators also upgradation in infrastructure including the construction of a boundary wall and the installation of pavers.

Investments in associates

The Company's long-term investments amounted to Rs. 3.6 billion in FY24 (FY23: Rs. 0.8 billion), accounting for 23% of the asset base. Of this, Rs. 2.6 billion is invested in Sunridge Confectionery, a wholly owned subsidiary engaged in manufacturing of confectionery items, including cakes, cupcakes, and nimco while the remaining amount is allocated to other subsidiaries and other investments.

Going forward, planned consolidations and self-sustainability of the subsidiaries will remain important for Company's liquidity profile.

Impact of Commodity Market Dynamics on margin volatility

Margins remained volatile in FY24, significantly influenced by the abrupt and significant fall in wheat prices due to supply anomalies. In FY22, the government set the support price at Rs. 2,200 per 40 kg, which increased to Rs. 3,900 in FY23 and Rs. 4,000 in FY24. Recently, the price was reduced to Rs. 3,900 per 40 kg. However, the actual market price was considerably lower than the support prices amid free fall as a consequence of supply glut. These fluctuations have resulted in lower selling prices and inventory losses eventually disrupting market parity and placed pressure on profit margins.

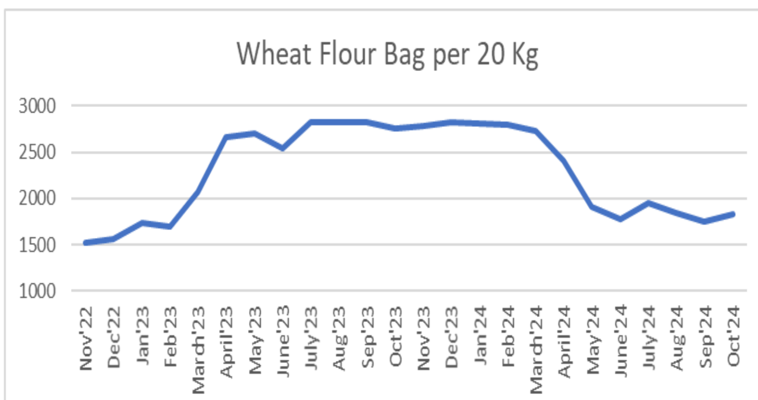

Figure 1: PBS average monthly price data

Growth in topline noted on timeline basis, recorded at Rs. 17b in FY24 (FY23: Rs. 11b) on the back of volumetric growth. However, adverse pricing situation in the market negatively impacted the gross margins along with inventory losses which dragged the gross margins to 8.4% (FY23: 15.6%). Furthermore, the higher operating expenses in an inflationary environment put additional pressure, causing the net margin to turn negative (-1.6%) in FY24, despite some support provided by the other income portion.

Nevertheless, in 1QFY25, as market situation has begun to normalize, gross margins have started to improve and stood at 15.8% and net margin noted at 1.2% on the back of lower operating expenses. However, financial charges remained high during the quarter which is expected to decline with easing interest rates.

Liquidity & coverage indicators

As a result of lower profitability in FY24, together with higher working capital needs of the Company and associates and capex spend, liquidity profile of the Company has remained under pressure, consequently, resulting in balance sheet mismatch, reflective in deteriorating current ratio (0.7x). Additionally, while cash conversion cycle has improved, the same is attributable to company's extension of its payable cycle, reflecting potential liquidity risk. On account of lower profitability, coverage profile has also remained under pressure which in the first quarter of FY25 show signs of improvement with a debt service coverage of 1.1x. Improvement in the liquidity and overage profile will remain important for ratings.

Elevated Leverage:

Leverage and gearing metrics depict an incline. With the cash flows channeling into working capital support for newly established associated companies, payable buildup has been noted. The working capital support expected from the Sukuk proceeds is expected to ease this pressure. Maintaining a reasonable capitalization profile remains imperative for ratings.

REGULATORY DISCLOSURE	**Annexure II**
Name of Rated Entity	Sunridge Foods (Private) Limited
Sector	Food
Type of Relationship	Solicited
Purpose of Rating	Instrument Rating-Sukuk

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
RATING TYPE: SUKUK				
26/December/2024	AAA (plim)		Stable	Preliminary

Instrument Structure

Type: Sukuk
Purpose: The purpose is to finance capital expenditures and working capital requirements.
Amount: Rs. 2.0 billion
Tenor: 5 years inclusive of 2 years grace-period
Pricing: KIBOR + 0.70%
Trustee: Pak Brunei Investment Company Limited
Advisor and Arranger: AKD Securities
Shariah Advisor: Al-Hilal Shariah Advisors (Pvt.) Ltd
Transaction Legal Counsel: Haidermota & Co.
Security:

- InfraZamin Pakistan Limited (IFZPL) is the guarantor with 100% principal amount guarantee i.e., amount of Rs 2.0 billion.

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	amount up to the Maximum Guaranteed Amount only, provided that 70% of sukuk holders are in agreement with the exercise of acceleration. Until this agreement is reached, IZP will continue to pay the Sukuk holder the principal instalments as per the amortization schedule on the due date of each instalment. ▪ In case, no cure or agreement is achieved after lapse of 12-month period cure period, Investors will have the right to call an acceleration on the guarantee whereby IZP will have to settle the outstanding principal loan amount up to the Maximum Guarantee Amount ("MGA") within 20 days. IZP may also at any time after the cure period accelerate the principal payment up to the Maximum Guaranteed Amount. .
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
Rizwan Ahmed	Chief Operating Officer	
Mohmmad Usman	Chief Financial Officer	November,14 2024
Mohammad Hassan	Senior Manager Investments (UFL)	
Nidal Ahmed	SVP Investment (IFZ)	
Umme Emaan Siddiqui	Manager Business Execution (IFZ)	November 7, 2024
Mohammad Hassan	Senior Manager Investments (UFL)	