

RATING REPORT

Millac Foods Private Limited

REPORT DATE:

February 06, 2025

RATING ANALYSTS:

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RATING DETAILS		
Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A-	A2
Rating Outlook/ Watch	Stable	
Rating Action	Initial	
Rating Date	Feb 06, 2025	

COMPANY INFORMATION

Incorporated in 1999

External auditors: Malik Haroon Ahmad & Co.

Private Limited Company

CEO: Mr. Farrukh Ikram

Key Shareholders (with stake 5% or more):

*Mr. Farrukh Ikram ~ 50.0%**Mrs. Saima Farrukh Ikram ~ 40.0%**Mr. Murad Ikram ~ 0.7%**Miss. Nayba Ikram ~ 0.7%*

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates:<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Millac Foods (Private) Limited

OVERVIEW OF THE INSTITUTION

Millac Foods Private Limited was incorporated in Pakistan on October 14, 1999 under the Companies ordinance 1984 as a private limited company.

Profile of CEO

Mr. Farrukh took charge of the Company in August 2003, as the CEO. He graduated in Dairy Technology from Victorian College of Agriculture and Horticulture, Australia. He has accompanied various trade missions to Australia and New Zealand led by the government of Pakistan.

RATING RATIONALE

Company Profile

Millac Foods Private Limited (“Millac” or “the Company”) was incorporated in Pakistan on October 14, 1999 under the Companies ordinance 1984 as a private limited company. The principal activities of the Company are processing and marketing of milk food products. The registered office of the Company is located at 4.5.KM Raiwind, Manga Road, Lahore. Millac holds several certifications, including ISO 14001, ISO 45001, ISO 9001, and Food Safety System Certification 22000 (FSSC 22000). Additionally, the Company employs over 500 people.

Plant Locations	
Location	Purpose
<u>Lahore</u> 4.5 K.M Raiwind, Manga Road, Raiwind	Registered office and plant of powder division
<u>Karachi</u> Plot No. 3/4, Sector 21 Korangi Industrial Area	Plant of liquid division

Product Portfolio

S. No	Company's Products
Consumer	
1	Milk Powder
2	Tea Whitener
3	Condensed Milk
4	Lassi
5	Yogurt
6	Fruit Yogurt
7	Raita
8	Butter
9	Ghee
10	Malted Milk Powder
Industrial	
1	Milk Powders
2	Industrial Butter
3	Malted Milk

Group Companies

Millac Foods hold 43.4% of shares in Pakistan Milk Foods Manufacturers Limited. The remaining companies within the group share common directorship.

Group Companies			
S.No	Entity	Structure	Company Description
1	MegaLac Pakistan (Pvt) Ltd	Private Limited	The Company is engaged in the commercial import and sale of animal

			feed and animal farm management equipment
2	Pakistan Milk foods Manufacturers Ltd	Unquoted Public Limited	It is principally engaged in the processing, trading, and marketing milk food products.
3	Millac Pakistan	Sole Proprietorship	Mr. Farrukh owns a sole proprietorship that specializes in selling fat-filled milk powder.
4	Millac Pakistan (Pvt) Ltd	Private Limited	The Company was previously involved in selling pasteurized milk but is currently non-operational.
5	Pro-Tech Trade Services (Pvt) Ltd	Private Limited	The principal business of the Company is trading and import of food, dairy products, chemicals, and allied products. Currently, the operations of the Company are suspended.

Shareholding

The shareholding structure of Millac is entirely family-owned, primarily under the control of Mr. Farrukh Ikram, who also serves as the CEO of the Company. Mr. Farrukh took charge of the Company in August 2003, as the CEO. He graduated in Dairy Technology from Victorian College of Agriculture and Horticulture, Australia. He has accompanied various trade missions to Australia and New Zealand led by the government of Pakistan. Moreover, Mrs. Saima Farrukh Ikram, wife of Mr. Farrukh Ikram, holds 40% stake in the Company. Mr. Murad Ikram (son of Mr. Farrukh Ikram) is serving as a director and also involved in the business decision making, with his expertise as a Chemical Engineer from Northwestern University, Robert R. McCormick School of Engineering and Applied Sciences, USA.

S. No.	Share Holder	% Shareholding
1	Mr. Farrukh Ikram	50.0%
2	Mrs. Saima Farrukh Ikram	40.0%
3	Miss. Nayha Ikram	0.7%
4	Mr. Murad Ikram	0.7%
5	Misc. Shareholders	8.6%
Total		100%

Supply Chain Model

i. Procurement of fresh milk

Raw milk supply is affected by seasonal variations, with production peaking during the winter months, primarily from November to April, in alignment with seasonal changes in Punjab. Consequently, fresh milk is procured in higher quantities during this period. For prolonged use, this fresh milk undergoes the spray drying process, which converts it into powdered form, thereby enhancing its shelf life. Millac collaborates with several suppliers of fresh milk, typically operating on a 03-to-04-day basis.

ii. Production for various markets

Upon procurement, fresh milk is swiftly transferred to the production facility, where it undergoes the de-fatting process and later transformed into granules (i.e., powdered form). The resulting powdered milk is packaged in 25 kg packs, prepared for distribution in the bulk market. During this process, the

cream that is separated is either dispatched to vendors' trucks for immediate distribution or utilized in the production of butter, desi ghee & butter oil.

iii. Segment wise distribution

Following production, 80% of the powdered milk is allocated for bulk distribution. Millac enjoys a significant market share in the bulk segment with distributors in all major bulk markets including in Karachi, Lahore, Rawalpindi, Quetta & Skardu. For this segment, payments are processed on a daily basis, hence, there are no credit terms with bulk distributors. In contrast, supermarkets, enjoy 15 to 20 days credit term in consumer division whereas distributors for consumer markets have to pay in advance. Additionally, the smaller B2B segment are granted a credit limit of up to 20 days.

Corporate Governance Framework

The Company's corporate governance framework is reflective of a Private Limited Company owned by a family and the decision-making is within the control of key shareholders. The Company's Overall corporate governance is at a nascent stage with no Independent Internal Audit function; however, the existing internal audit responsibilities include reporting and providing advice to the Finance department. Management meetings are held daily, during which each department offers updates on their business activities.

ESG & IT Infrastructure

Millac Foods (Pvt) Ltd is committed to sustainability and social responsibility, focusing on eco-friendly sourcing and energy-efficient technologies to reduce its environmental impact. The Company supports local communities through educational, health, and charitable initiatives while ensuring a safe and inclusive work environment for employees. Its IT infrastructure includes Symantec Antivirus for device protection and data synchronization with a Synology DiskStation, offering automated backups for enhanced data security.

Sector Brief

The main raw material for powdered milk industry is raw milk. The drinking milk industry comprises 90% of loose milk market with remaining being the packaged milk. During FY22 to FY24, milk production in Pakistan increased from approximately 65.7 million MT to 70.1 million MT, reflecting a CAGR of about 7.8%, with 80.5% deemed fit for human consumption in FY24. Fresh milk prices rose significantly, averaging PKR 185.0/liter in FY24, a 21.6% YoY increase, while powdered milk prices jumped to PKR 820.2 for 390g, up 28.0% YoY. Dairy imports surged to PKR 23.6 billion in FY24, a ~13% YoY increase, meanwhile exports rose to PKR 20.0 billion in FY24 (FY23: PKR 7.5 Bn).

Millac is the only local player of powder milk in the bulk market, while rest is imported. In the retail segment, it competes with established brands like Nestlé and Olpers. However, the Company primarily focuses on the bulk market, where competition is minimal, allowing Millac to maintain a strong position as the leading local player in this segment.

Operational Update

The Company's major raw material is fresh milk, with an annual requirement of ~50 million liters. The production process begins with pasteurization to eliminate harmful bacteria, followed by separation of cream from the milk. The skim milk is then concentrated to reduce moisture content before being dried to produce powdered milk. Additives such as vegetable fat may be incorporated before drying. This process ensures a powdered milk ready for distribution with a longer shelf-life.

The facility is designed for powdered milk production, with Millac having an annual capacity of 9,400 tons. However, the utilization level is currently at 75.8%. Furthermore, as of June 2024, Millac held a strong position in bulk sales, with approximately 36% market share in the Fat Filled Milk Powder

category. In contrast, the Company has a modest share of around 2% in the retail segment of powdered milk.

Plant Capacity and Actual Production	2021	2022	2023	2024
Installed Capacity (in tons)	9,400	9,400	9,400	9,400
Actual Production (in tons)	7,253	8,052	7,126	6,407
Capacity Utilization	77.2%	85.7%	75.8%	68.2%

Key Ratings Drivers

Pakistan's packaged milk industry is characterized by a medium to low risk profile

The demand for drinking and powdered milk shows minimal sensitivity to economic fluctuations therefore considered largely non-cyclical. As a result, milk demand remains stable with low elasticity. Meanwhile in contrast, the supply of raw milk follows a seasonal pattern, with flush periods typically from December to April and lean periods from May to November.

While the milk sector is not characterized by high growth, it presents opportunities for gradual expansion. Some factors driving the increasing demand for packaged milk, includes a growing population and a shift in consumer preference from loose milk to packaged options. Additionally, the Company's powdered milk is extensively used in bakeries and confectioneries, demand for which too, is expected to improve on the back of rising population.

Sole Local Player in Bulk Powdered Milk Market

Millac's primary product category is Powdered Milk, which contributes ~70% to its total sales as of FY23. In the retail segment of powdered milk, Millac faces competition from major brands namely Nestlé's Nido, Buniyad, and Olpers' newly launched Full Cream Milk Powder. However, Millac predominantly operates in the bulk market (75% share in total sales as of FY23), where competition remains relatively limited.

Although the bulk market is largely unstructured and lacks reliable data, our estimates reveal that Millac has a market share of 36% as of FY24, in the Milk Powder category. This estimate is exclusive of WHEY, which when included brings the Company's market share down to 20%. The rest of market is largely taken up by imported milk powders.

Powdered Milk market (excluding WHEY)			
(In tons)	FY24	FY23	FY22
Trade (import-Export)	10,704	15,547	12,923
Millac's Production	6,407	7,126	8,052
Total Industry	17,830	23,599	20,176
Millac share	36%	30%	40%

Millac is recognized as the leader in the local Fat Filled Milk Powder category, known for its high-quality bulk dairy products, which are distributed through a network of six distributors nationwide.

Table 1: Retail vs Bulk Sales

	FY23	FY22	FY21
Bulk Sales	75.19%	72.01%	62.96%

Retail Sales	24.81%	27.99%	37.04%
Total	100.00%	100.00%	100.00%

In terms of retail segment of powdered milk, Millac Foods holds a ~2% share in the market whereas, the retail market is dominated by renowned players such as Engro Foods, Nestlé, Haleeb Foods, and Nurpur, holding market shares of around 40%, 38%, 2.9%, and 2.5% respectively. Moving forward, the Company aims to enhance its customer base in the retail segment. Expanding into retail segment will require high initial spending to attract customers but is likely to result in high margins for the Company.

Topline and profitability trends demonstrate positive momentum

Over the past three years, the Company has achieved a sales compound annual growth rate (CAGR) of 17.8%, with sales reaching Rs. 9.1 billion for FY24. The Company predominantly operates in the domestic market, with 97.5% of its sales generated locally. A significant portion of its revenue, around ~70% comes from powder milk, ~8% from condensed milk, and ~7% from Industrial butter while the rest comprises of other dairy products like yogurts, cream etc.

The Company's gross margins have been improving steadily, reaching 12.1% in FY24, up from 9.9% in FY21, driven by higher pricing and a reduction in raw material costs, such as palm oil. Operating expenses have generally aligned with inflationary trends with operating margin clocking at 3.1% for FY24 (FY23: 4.0%) Despite the challenging high-interest rate environment, the Company's finance costs have decreased to just 0.1% of net sales in FY24, down from 0.3% in FY23, due to reduced debt levels. The Company achieved a net profit margin of 1.5%, resulting in a net profit of Rs. 133 million.

Debt Coverage Metrics and Liquidity Profile Remained Strong

The Company exhibits a consistent performance over the years with Funds from Operations (FFO), reaching Rs. 204 million in FY24 (FY23: Rs. 234 Mn). The FFO-to-total debt ratio improved significantly, rising to 3.88x in FY24 from 1.43x in FY23, primarily due to a reduction in debt levels. Similarly, the FFO-to-long-term debt ratio surged to 333.59x in FY24, up from 81.0x in FY23, as long-term debt decreased to Rs. 0.6 million from Rs. 2.9 million in FY23. As of Oct,'24, the Company has no outstanding long-term debt.

The Debt Service Coverage Ratio (DSCR) improved significantly, rising to 20.48x in FY24 from 8.73x in FY23, driven by lower finance costs and reduced debt levels. Short-term borrowings also decreased by 68% YoY, leading to an increase in short-term coverage to 14.39x in FY24 from 5.14x in FY23. The Company maintains an adequate liquidity profile with current ratio clocking at 1.17x in FY24 (FY23: 1.19x). Additionally, the Company enjoys a negative cash conversion cycle with inventory financed through supplier credit. As of FY24, the operating cycle stands at negative 20 days (FY23: 16 days).

Declining Debt Levels Reflect Favorable Gearing Profile

The Company's Tier-1 equity has grown at a 4-year CAGR of 54.1%, increasing from Rs. 210 million in FY21 to Rs. 660 million in FY24, driven by strong profit retention. Total debt has significantly declined on a timeline basis to Rs. 52.7 million in FY24, down from Rs. 395 million in FY21, resulting in a favorable debt profile. As a result, the Company's gearing ratio improved substantially from 1.88x in FY21 to just 0.08x in FY24.

While the Company's gearing profile is favorable because of low debt levels, its future growth potential remains constrained due to the small equity base.

FINANCIAL SUMMARY (amounts in PKR millions)				
RATIO ANALYSIS	Jun'21	Jun'22	Jun'23	Jun'24
Gross Margin (%)	9.9%	11.0%	12.2%	12.1%
Net Margin	0.2%	1.6%	2.1%	1.5%
FFO	43.2	241.1	234.2	204.4
FFO to Total Debt	0.11	1.02	1.43	3.88
Current Ratio (x)	1.04	1.18	1.19	1.17
Quick Ratio	0.36	0.80	0.83	0.67
(Stock+ Trade Debts)/ Short-term Debt	3.39	4.75	5.14	14.39
Debt Servicing Coverage Ratio (x)	1.67	3.79	8.73	20.48
Gearing (x)	1.88	0.62	0.30	0.08
Leverage (x)	8.38	4.08	2.97	2.52
ROAA (%)	0.4%	4.3%	5.6%	3.6%
ROAE (%)	5.3%	40.3%	38.2%	21.9%

REGULATORY DISCLOSURES				Annexure II	
Name of Rated Entity	Millac Foods Private Limited				
Sector	Dairy				
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				
	06-02-2025	A-	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.				
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.				
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Due Diligence Meetings Conducted	Name	Designation	Date		
	Mr. Salman Shahzad	CFO	Sept 25, 2024		
	Mr. Imtiaz Siddiqui	Manager Finance			