

RATING REPORT

Shakarganj Food Products Limited

REPORT DATE:

March 22, 2018

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	
	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	20 March'18	
Sukuk (preliminary)	A	
Rating Outlook	Stable	
Rating Date	20 March'18	

COMPANY INFORMATION

Incorporated in 2001	External auditors: EY Ford Rhodes, Chartered Accountants
	Chairman of the Board: Mr. Anjum M. Saleem
Public Limited Unlisted Company	Chief Executive Officer: Mr. Anjum M. Saleem
Key Shareholders (with stake 5% or more):	
Shakarganj Limited- 49.2%	
Bank Islami Pakistan Limited- 40.2%	
Crescent Steel and Allied Products Limited - 7.9%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: *Industrial Corporates (October 2016)*

<http://jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf>

Shakarganj Food Products Limited

OVERVIEW OF THE INSTITUTION

Shakarganj Food Products Limited is an unlisted public limited company setup by initially acquiring a fruit juice concentrate plant from A.M. Fruits in 2005 and later acquiring a dairy facility from Dairy Crest Limited in 2006. Principal activity of SFPL involves manufacturing, processing and sale of food products including dairy, fruit pulps, and concentrate juices.

Profile of Chairman/CEO:

Mr. Anjum A. Saleem is the Chairman/CEO of SPFL and carries over 30 years of international and local diverse corporate management experience.

Mr. Anjum holds a Chartered Accountant qualification from ICAEW (Institute of Chartered Accountants, England & Wales) and also serves as CEO of Shakarganj Limited.

Financial Snapshot:

Net Profit: 1QFY18: Rs. 105.7m; FY17: Rs. 260.7m; FY16: Rs. 581.9m

Net Equity: 1QFY18: Rs. 2.1b; FY17: Rs. 2.0b; FY16: Rs. 1.7b

RATING RATIONALE

The ratings assigned to Shakarganj Food Products Limited (SFPL) take into account company's sustained business growth, sound liquidity profile and adequate debt coverages. Ratings also derive strength from strong sponsor profile of the company comprising renowned business concerns including Sharkarganj Limited (SML), Bank-Islami Pakistan Limited (BIPL) and Crescent Steel and Allied Products Limited (CSAP). Business risk profile of the company is considered moderate on account of increasingly competitive operating environment leading to pressure on margins. Moreover, industry margins remain sensitive to regulatory changes in taxes and duties.

Product Portfolio and Market Share

SFPL primarily operates two business divisions; dairy and juice, with former comprising more than 95% of gross sales. Product portfolio of the company include plain and flavored UHT milk, tea whiteners, UHT cream, desi ghee, fruit concentrates and juices. Within tea whitener segment, SFPL is the market leader with about 32% share while the share of its UHT milk brand 'Good Milk' stood low at 5.5% in FY17.

Asset Mix

By end-1QFY18, total assets of the company increased to Rs. 5.1b (FY17: 4.9b; FY16: 4.6b; FY15: Rs. 3.5b); fixed assets comprise around half of total asset base, while inventory accounts for one-fifth of the same. Going forward, asset base is expected to enhance further primarily on account of planned capex pertaining to capacity expansion related to dairy plant.

Profitability

Over the last three years, net sales of the company have grown at a CAGR of 22% mainly on account of consistently higher volumetric sales, while some increase in prices has also contributed to a certain extent. Concentration in sales is, however, evident as top 10 distributors contribute around one-fifth of gross sales. During FY17, net sales amounted to Rs. 12.4b (FY16: Rs. 10.1b; FY15: Rs. 8.4b); gross margin declined on account of imposition of sales tax and custom duties on raw material, thereby leading to higher cost of sales. Given some increase in salaries and freight cost, operating expenses stood higher while finance cost increased due to relatively higher average borrowings. Accounting for taxation, net income stood lower at Rs. 260.7m (FY16: Rs. 581.9m; FY15: Rs. 640.6m) during FY17; the same amounted to Rs. 105.7m during 1QFY18.

Liquidity & Cash Flows

Liquidity profile of the company is considered adequate on account of sufficient cash flows in relation to outstanding debt and effective cash cycle. During FY17, Funds from Operations (FFO) decreased primarily on account of lower bottom line leading to lower FFO-to-total debt of 0.46x (FY16: 0.50x; FY15: 1.21x); the same amounted to 0.47 during 1QFY18.

Funding & Capitalization

By end-FY17, total equity of the company augmented to Rs. 2.0b (FY16: Rs. 1.7b; FY15: Rs. 1.2b) on account of profit retention. By end-1QFY18, total borrowings amounted to Rs. 896.4m (FY17: 988.3m, FY16: Rs. 1.1b; FY15: Rs. 692.9m); borrowings comprise both short-term and long-term debt. On account of increase in equity by virtue of profit retention and periodic repayment of long-term debt, gearing and leverage improved to 0.43 (FY17: 0.49x; FY16: Rs. 0.63x; FY15: 0.59x) and 1.40x (FY17: 1.43x; FY16: 1.65x; FY15: 1.96x) by end-1QFY18. Recently, the board of directors has approved a right share issue of Rs. 700m during the ongoing year, in order to rationalize its capital structure.

Prospective Sukuk Issue

SFPL has mandated BIPL as its lead advisor & arranger for issuance of privately placed and secured, diminishing musharakah Sukuk of amount upto Rs. 1.0b (inclusive of a Rs. 300m green shoe option). Tenor of the Sukuk will be 6 years including 1-year grace period. Principal will be repaid in 20 quarterly installments starting from 15th month from the date of Issuance. Moreover, the company will maintain a Debt Service Account (DSA) with accounts bank, which will be held under exclusive lien of investment agent/trustee (for the benefit of the sukuk investors). The company shall ensure that during each month (and in any case not later than the fifteenth (15th) day of each month), it shall deposit the amount equivalent to the 1/3rd of the upcoming installment amount (principal + profit/rental) into DSA so that the aggregate amount in the DSA on the due date is equal to the installment amount of the relevant period due for payment.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Shakarganj Food Products Limited-**Appendix I**

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>				
<u>BALANCE SHEET</u>	FY15	FY16	FY17	1QFY18
Fixed Assets	1,750.1	2,379.3	2,614.3	2,650.1
Stock-in-Trade	867.6	824.9	949.9	910.7
Trade Debts	55.2	57.3	76.9	66.7
Sales Tax Recoverable	513.5	692.9	413.6	401.8
Other Assets	292.0	485.9	576.5	844.5
Cash & Bank Balances	22.3	196.6	222.9	179.8
Total Assets	3,500.7	4,636.9	4,854.1	5,053.6
Trade and Other Payables	1,308.0	1,517.4	1,472.8	1,632.5
Long Term Debt <i>(including current maturity)</i>	692.9	902.4	688.3	596.4
Short-term Debt	-	200.0	300.0	300.0
Other Liabilities	317.5	269.8	393.3	419.2
Total Liabilities	2,318.4	2,889.6	2,854.4	2,948.1
Total Equity	1,182.3	1,747.3	1,999.8	2,105.5
<u>INCOME STATEMENT</u>				
Net Sales	8,425.5	10,106.4	12,416.4	3,879.5
Gross Profit	1,829.7	2,017.9	1,973.4	622.3
Profit before Tax	752.5	592.6	396.7	165.3
Profit After Tax	640.6	581.9	260.7	105.7
<u>RATIO ANALYSIS</u>				
Gross Margin (%)	21.7	20.0	15.9	16.0
Net Margin (%)	7.6	5.8	2.1	2.7
FFO	837.7	547.0	453.6	105.3
FFO to Total Debt	1.21	0.50	0.46	0.47
FFO to Long-term Debt	1.21	0.61	0.66	0.71
Debt Leverage	1.96	1.65	1.43	1.40
Gearing	0.59	0.63	0.49	0.43
DSCR	4.15	0.84	1.08	1.16
ROAE (%)	74.2	39.7	13.9	20.6

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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	Shakarganj Food Products Limited				
Sector	Consumer Goods				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	Mar 20, '18	A-	A-2	Stable	Initial
	RATING: SUKUK				
	Mar 20,'18	A		Stable	Preliminary
Instrument Structure	<p>Proposed Sukuk is of amount Rs. 1.0b (inclusive of 300m green shoe option). Tenor of the Sukuk will be 6 years including 1-year grace period. Principal will be repaid in 20 quarterly installments starting from 15th month from the date of issuance.</p> <p>The facility shall be secured by first pari passu charge over moveable & immovable fixed assets of the company with 25% margin plus any other security mutually agreed or as advised by the legal counsel. Moreover, the company will maintain a Debt Service Account (DSA) with accounts bank, which will be held under exclusive lien of investment agent/trustee (for the benefit of the sukuk investors). The company shall ensure that during each month (and in any case not later than the fifteenth (15th) day of each month), it shall deposit the amount equivalent to the 1/3rd of the upcoming installment amount (principal + profit/rental) into DSA so that the aggregate amount in the DSA on the due date is equal to the installment amount of the relevant period due for payment.</p>				
Statement by the Rating Team	JCR-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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