



# EMERGING

Credit Rating Ltd

## Quality Feeds Limited

### Credit Rating Report (Agreement No-2022-12-28-68661)

Valid From	Valid Till	Rating Action	Long Term Rating	Short Term Rating	Outlook
January 01, 2024	December 31, 2024	Surveillance-12	AAA	ST-1	Stable
January 01, 2023	December 31, 2023	Surveillance-11	AAA	ST-1	Stable
January 01, 2022	December 31, 2022	Surveillance-10	AAA	ST-1	Stable

**Date of Incorporation** : December 4, 1995

**Managing Director** : Mr. Ihtesham B. Shahjahan

**Authorized Capital** : BDT 200.00 Million

**Paid up Capital** : BDT 48.54 Million (As on June 30, 2023)

**Total Assets** : BDT 10,679.39 Million (As on June 30, 2023)

**Bank Loan Limit** : Working Capital **BDT 11,445.99 Million**

**Contact Analysts** : Abdur Rahman [rahman@emergingrating.com](mailto:rahman@emergingrating.com)  
Md. Harun Chowdhury [harun@emergingrating.com](mailto:harun@emergingrating.com)

**Credit  
Analysis**

**Entity Rating**

Arifur Rahman FCCA, FCA, CSAA  
Chief Executive Officer  
Emerging Credit Rating Limited



## 2024 Surveillance Review

### Quality Feeds Limited

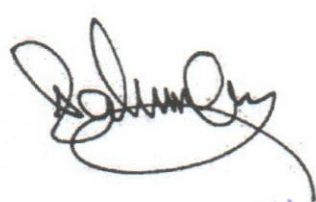
#### Major Rating Factors

- Strengths**
- Effective quality control leads to the production of superior-quality goods
  - Affiliated with a prominent business conglomerate with diverse business interests
  - Strong distribution network complemented by a well-designed marketing strategy
  - Benefiting from group exposure and supported by backward linkage
  - Increased production capability through the incorporation of new automation facilities
  - Increased cash generation from operation
- Challenge/ Risks**
- Intense competition within the industry
  - Rising costs of raw materials
  - Currency devaluation affected the cost of operation

**Rationale** Emerging Credit Rating Limited (ECRL) has affirmed **AAA** (Pronounced as Triple A) long term credit rating and **ST-1** short term credit rating to Quality Feeds Limited (hereafter referred to as 'QFL' or 'the company'). The outlook on the rating is **Stable**. The ratings are consistent with ECRL's rating methodology for this type of company. Quality Feeds Limited (QFL) specializes in the production of diverse feeds for the fish and poultry industry in Bangladesh. The company's primary focus includes manufacturing fish, shrimp, poultry, cattle, and aquarium feeds, among others. ECRL considered financial performance, scale of business, management experience and prospect of the industry while assigning the rating. The rating is based on audited financial statement of FY2020-2022 and unaudited financial statement of FY2023 as well as other quantitative and qualitative factors.

Quality Feeds Limited (QFL) is a leading feed manufacturer committed to producing and promoting high-quality animal feed products with strict hygiene standards for farmers. With strong ties to industry pioneers, QFL distributes poultry, fish, shrimp, and cattle feed across Bangladesh through 09 Zonal Offices, 29 Regional Offices, 23 Sales Depots, 7 Poultry Diseases Diagnosis Labs, and 1 Fish Diseases Diagnosis Lab, supported by 1,050 plus agents. Renowned for its quality and reliability, QFL operates 17 independent plants capable of producing pellet and mash feed. Strategically located in Gazipur and Bogura, the company's three factories have a combined production capacity of 710,414 MT per year, establishing it as a major player in the feed industry.

The company's revenue reached BDT 19,035.88 million in FY2023, reflecting a growth of 6.92%. This positive improvement can be attributed to a substantial increase in promotional efforts, which significantly contributed to an increase in sales. The company's commitment to premium feed quality, maintained through in-house laboratory testing, and has consistently satisfied customers, resulting in steady revenue growth over financial years. The COGS of the company slightly increased in line with revenue and stood at BDT 17,829.91 million in FY2023. However, the growth of cost of goods sold has lagged behind the growth of revenue in FY2023 leading to rise in gross profit margin as well as the company adeptly controlled its procurement expenses, resulting gross profit margin slightly improved 6.34% in FY2023 from 5.82% in FY2022. A marginal improvement in the operating profit



Md. Rahman FCCA, FCA, CSAA  
Executive Officer  
Emerging Credit Rating Limited





margin was achieved through a combined effort of boosting overall revenue and efficiently managing selling and distribution expenses, which encompassed a reduction in salaries and allowances. However, a substantial 185.59% increase in finance costs led to a decline in the net profit margin from 2.04% in FY2022 to 1.76% in FY2023. The net profit after tax also decreased from BDT 362.44 million to BDT 335.25 million in FY2023. The company's reliance on short-term liabilities for working capital needs became evident in FY2023, with a 114.72% increase in short-term loans from banks. This led to a deficiency in short-term assets, reflected in a current ratio of 0.84 times. The substantial 590.78% growth in inventory compared to the previous year resulted in an increased inventory turnover days from 9 to 39 and a notable 20 days increase in the cash conversion cycle.

Despite the challenges, the increase in working capital finance in FY2023 boosted the cash inflow from operating activities from BDT 555.53 million to BDT 811.44 million. The company's financing approach also shifted, with a significant rise in the debt-to-equity ratio from 0.97 times in FY2022 to 1.42 times in FY2023. To address the ongoing dollar crisis, the company secured credit facilities from two additional banks, ensuring a continuous inflow of raw materials and mitigating potential disruptions.


Quality Feeds Limited has continued their banking relationship with different banks. The company has access to BDT 11,445.99 million working capital loans, whereas it avails only BDT 6,859.79 million loans as on December 31, 2023. According to the banker's certificate, the company has consistently met its payment obligations, demonstrating a regular and timely repayment record.

The outlook of the rating is **Stable**. It reflects the future trend of the business, flexibility of the debt performance and ability of efficient working capital management which can be termed as vital indicators.

**Exhibit 1: Financial Highlights: Quality Feeds Limited**

FYE 30 June	2023	2022	2021	2020
Revenue (BDT in Millions)	19,035.88	17,804.09	11,502.32	11,248.97
Revenue Growth (%)	6.92	54.79	2.25	8.77
COGS (BDT in Millions)	17,829.91	16,768.14	10,752.67	10,556.23
COGS Growth (%)	6.33	55.94	1.86	7.98
Gross Profit Margin (%)	6.34	5.82	6.52	6.16
Operating Profit Margin (%)	3.04	2.69	3.38	3.09
Net Profit Margin (%)	1.76	2.04	2.78	2.43
Current Ratio (x)	0.84	0.81	0.78	0.83
Cash Conversion Cycle (Days)	20	(6)	(13)	(5.00)
Debt to Equity Ratio (x)	1.42	0.97	0.87	1.23
ROA (%)	3.14	6.04	6.04	5.38
ROE (%)	9.63	15.34	15.95	16.17
CFO (BDT in Millions)	811.44	555.53	339.03	990.42

*FY2020-2023 data obtained from audited financial statements.*

  
Arifur Rahman FCCA, FCA, CSAA  
Chief Executive Officer  
Emerging Credit Rating Limited





## A. BUSINESS DESCRIPTION

### A.1. Company Background

Quality Feeds Limited established on December 4, 1995, stands as a key player in the feed industry. In order to consolidate its foot hold in Bangladesh economy and to reduce risk the entity expanded in related industries by establishing new companies. These companies were opened in order to establish to service one single target market, the farmers of Bangladesh. The names of the companies and their purpose are given below.

#### Exhibit 2: Sister concerns of Quality Feeds Limited

Name of the Business	Nature of Business	Type of Business
Quality Breeders Limited	Poultry feed, poultry breeding, hatching, fish hatcheries, prawn/shrimp hatchery, poultry farming, dairy farming, fish farming, agricultural farming, pisciculture, horticulture	Private Limited
Quality Aquabreeds Limited	Fish fry hatching, fish hatcheries, prawn/shrimp hatchery, fish farming, fish culture, fish processing plants, cold storage, ice plants, freezing plants, agricultural farming	Private Limited
Quality Integrated Ago Limited	Manufacturing, processing and marketing of agriculture products.	Private Limited
Quality Printing Packaging Limited	Produces Poly Propylene Woven Sacks for use in food grain, animal feed, fertilizer, cement, seed and other commercial and industrial uses.	Private Limited
Quality Livestock Limited	Sustainable farming, processing and marketing of premium grade cattle, mutton and chicken products	Private Limited
Quality Hospitality Limited	Q Hotel & Suite is an ongoing project	Private Limited

The vision of the company is to produce high quality and safe feed. In order to achieve this vision the company has set the following missions

- Developing employee capability at all levels.
- Provide value for money to their customer.
- Focus on research and development to improve existing product lines.
- Developing market network for easy access for their products to their customers.
- Create long term relationships and mutual benefits with customers, business partners, employees, joint ventures and shareholders.

The company sets most of its policies to complete these missions; as a result it uses quality machineries for production and concentrates highly on distribution, marketing and public relations.

### A.2. Products, Capacity Utilization & Infrastructure:

The entity concentrates on producing four types of products which are fish feed, shrimp feed, poultry feed and cattle feed. In addition, the company has launched aquarium feed in its product line. QFL sells products of different quality in order to differentiate its products; the entity offers these products under different brand names in a range of prices, which are used to feed broiler chicken, layer chicken, Pangush fish, Carp fish and shrimps.

These products are produced from three factories one in Gazipur which was established in 1995 on 3.60 acre approximately and the other two are in Bogra (Unit 1 & Unit 2) established in 2004 and 2013 respectively built on 5.97 acre and 3.30 acre approximately. QFL has installed a number of separate plants in these two factories in order to produce different types of feed meals. Gazipur factory has four production plants; of those four plants three are imported from Germany, Netherland and Italy, the other one is locally made. Bogra factory unit 1 uses 7 plants for production purpose, among these plants, 3 are of Italian origin; one Chinese and the rest four are assembled locally. The





12<sup>th</sup> floating feed plant of the company is situated in Bogra which has a production capacity of 8 MT. These machines are maintained by QFL maintenance team and the spare parts are imported.

QFL has the ability to produce 40.00 MT of feed per hour in Gazipur plant and 35 MT per hour in Bogra factory (Unit 1) and 34 MT in Bogra factory (Unit 2). The factories are operated for 9 hour in two shifts every day during normal times however in July, August and September which is the peak season for feed production the factories are run for 22 hours using two shifts. The detailed capacity and capacity utilizations are given below.

**Exhibit 3:** Capacity utilization details: Quality Feeds Ltd

Year	Gazipur		Bogra Unit -1		Bogra Unit -2 (Nandigram)	
	Capacity in MT	Utilization in MT	Capacity in MT	Utilization in MT	Capacity in MT	Utilization in MT
2009	1,85,472	1,12,874	77,000	55,930	-	-
2010	1,85,472	1,38,149	1,24,000	97,010	-	-
2011	1,85,472	1,20,158	2,62,000	1,36,584	-	-
2012	1,85,472	98,086	2,62,000	1,21,413	-	-
2013	1,37,280	1,14,436	2,05,920	1,30,851	17,160	12,219
2014	1,37,280	81,816	2,05,920	1,12,345	34,320	26,466
2015	1,37,280	1,06,071	2,05,920	1,05,786	34,320	31,354
2016	1,71,600	1,25,900	1,81,896	1,23,719	96,096	60,776
2017	1,93,440	1,44,217	1,77,840	1,30,479	1,12,320	70,854
2018	2,12,784	1,17,518	1,95,624	1,08,864	1,30,416	62,937
2019	2,19,648	1,33,473	2,14,157	1,17,725	1,30,416	84,509
2020	2,19,648	1,41,671	2,14,157	1,43,212	1,87,730	1,04,267
2021	2,05,920	1,38,496	2,40,240	1,41,409	2,36,798	1,01,674
2022	2,05,920	1,19,656	2,40,240	1,23,510	2,36,798	1,02,012
2023	2,33,376	1,09,327	2,40,240	1,12,258	2,36,798	1,12,240

### A.3. Raw Materials, Production Process, Buyers, Suppliers and Competitors

In order to produce feed, the raw materials are acquired from a number of suppliers all over the country. Primarily the firm produces feed using rice polish, maize, soyabean extraction and number of various vitamins and chemicals etc. These materials go through series of steps before completing into finished goods. The complexity of the production process varies from unit to unit, as different units are used to produce different feeds. The most complex production process is used to in shrimp feed production and the simplest process is used to produce mashed poultry feed and cattle feed. The process is given below:

**Exhibit 4:** Basic production process



The above diagram exhibits the most basic feed making process which is used to produce mash, however in order to produce shrimp feed the raw materials needs to be mixed after hammering then it is classified before passing it through the mixer once again. The materials are then conditioned, after that the foreign particles are taken out using an extruder; subsequent to which the materials are dried using a dryer and oil coated using an oil coater. Finally the end product is cooled then shifted and bagged.

The company acquires raw materials from both local and international market. For example maize is acquired both locally and globally. The firm acquires rest of the raw materials from all over Bangladesh. It sells its products using different brands in order to differentiate its value offerings, in a wide price range attracting as many clients as possible. After production QFL sells its products in two ways, either by sending them directly to the sales depots or by directly selling them from the factory.





The entity mainly sales its products to its agents and then the agents sells it to the regular clients. The industry in which the company operates is a competitive one, there are small, medium and large companies operating in the industry. The QFL is a large player in its industry; it directly competes with the industry giants. The details of QFL's competitors and suppliers are given below:

**Exhibit 5:** List of major competitors and suppliers

Major Suppliers	Major Competitors
Modina Trading/ DASF Feed Ingredients	Nourish Poultry and Hatchery Limited
Nabil Trading Corporation/Promotive Enterprise	CP/ACI Godrej Agrovet
Nazrul Enterprise/Trade Link International	Paragon/ Kazi Farms
Sonargaon Feed Crushing Ltd	R R P

#### A.4. Marketing Strategies

QFL does detailed marketing research in order to understand the industry. It employs leading experts of poultry feed and fish feed to visit various rural customers in order to try to understand their needs and customize its products accordingly. Furthermore in order to ensure maximum coverage the company sells its product from various sales depots all over the country. At present there are 23 sales depots all over the country. In order to penetrate the market farther the company has 1,050 assigned dealers all over the country. In order to coordinate between various sales centers and depot the company uses computer software called Amader Cloud. Moreover, the company has invested around BDT 123.78 million in promotion in the latest financial 2022-2023. The newly introduced aquarium feeds are marketed in the brand name of Quality Gold and Quality Platinum and are available at different birds and aquarium shops in around 24 districts of the country.

#### A.5. Quality Control

In order to achieve the company's vision, QFL tests all its raw materials, and products. Before the products reach the farmers they are tested for moisture, ash, crude fiber and fat, total proximate, protein solubility, per oxide value, non-protein nitrogen, ammonia, PH, free fatty acid value and finally for hardness.

The company also runs a poultry diagnostic lab where the chickens can be subjected to HI test, Bacteriological test, Salmonella test, chicken culture test and at last for Bacterial load. In addition the QFL also performs microscopic examination of protozoa, mycological examination and histopathology & post mortem examination. QFL concentrates in checking the quality of raw materials in order to maintain a certain standard. It specifically checks the protein level in the raw materials, if the protein level is low then it adds extra protein in the material. In addition QFL also produces in batch so that if any one bag is not up to the mark then QFL can trace all the bags produced in that batch and call them off from the market. The company has implemented new automated machinery for the loading and unloading of raw materials, resulting in a reduction of both loading/unloading times and reduced labor.

## B. INDUSTRY ANALYSIS

### B.1 Agricultural Prospect in Bangladesh

Agriculture plays a pivotal role in generating employment opportunities for large populations through increased productivity and growth. The sector, encompassing crops, fisheries, livestock, and forests, significantly contributes to the country's GDP. It serves as a major employer, engaging nearly half of the labor force, and acts as a primary supplier of raw materials to agro-based industries. Agriculture holds a unique position in social activity, addressing crucial issues such as ensuring food and nutrition security, providing avenues for income generation, and contributing to poverty alleviation. Moreover, the development of agriculture is indispensable for reducing rural poverty, as it serves as a source of diverse consumer-demanded agricultural commodities, particularly in rural areas. The growth of agriculture not only fosters economic development but also plays a vital role in meeting the nutritional needs of the population and creating sustainable livelihoods.

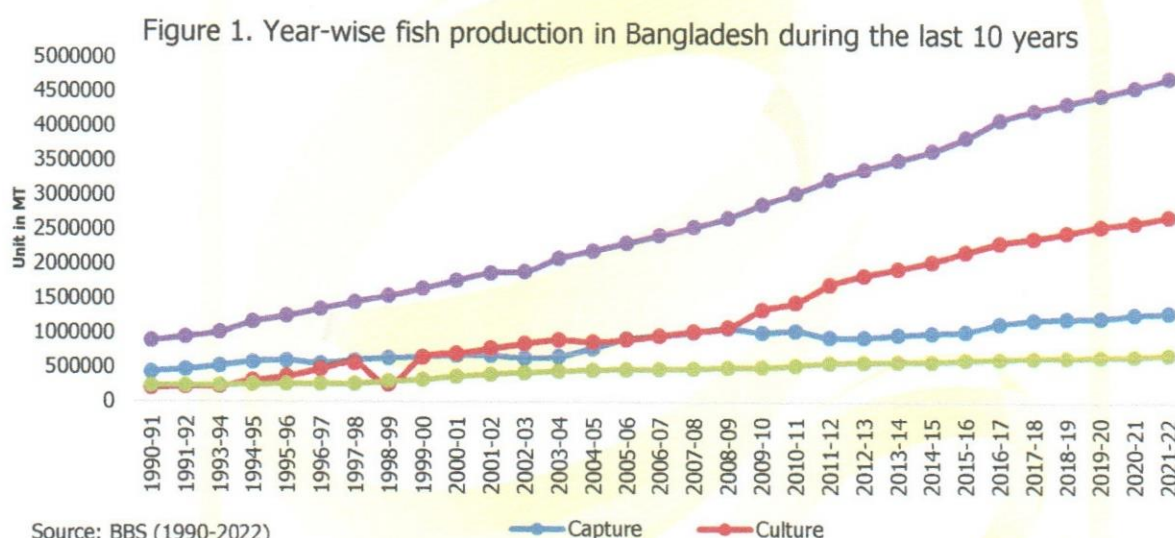




## B.2 Bangladesh Fisheries Sector

Type	Details
Area of Inland fisheries	4,706,171 hector
Inland capture	3,860,772 hector
Inland culture	845,399 hector
Marine Capture Fisheries	1, 18,813 km2
Inland open water (Capture) of total fish production	27.77%
Inland closed water (Culture) of total fish production	57.39%
Marine Fisheries of total fish production	14.84%
Per Capita Fish Consumption	75.50 gm
Fish Contribution to Bangladesh National GDP	3.57%
Bangladesh Ranking in Inland Fish Production	3rd
Bangladesh Ranking in Aquaculture Production	5th
Bangladesh Ranking in Marine Fish Production	11th

**Source: Ministry of Fisheries and Livestock**

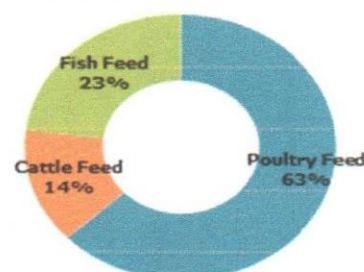


Bangladesh has achieved self-sufficiency in fish production, contributing approximately 60% (with a per capita consumption of 75.50 grams/day surpassing the targeted 60 g/day) to the total daily animal protein intake of its population, according to the Department of Fisheries Bangladesh. In the fiscal year 2021-22, the country recorded a remarkable fish production of over 4.76 million metric tons. This included 1.32 million metric tons from inland open water, 2.73 million metric tons from inland closed water, and 0.71 million metric tons from marine fisheries.

## B.3 Feed Industry in Bangladesh

The agricultural industry has experienced significant growth in recent years, particularly in the poultry, cattle, and fish sectors. Feed mill businesses have played a crucial role in driving the overall expansion of the livestock and fishing industries, providing millions of rural residents with valuable opportunities for income-generating activities. According to a report by the Food and Agriculture Organization (FAO), Bangladesh stands as the fifth-largest producer of feed, holding a 1.50% share of the global market. In comparison, China and India dominate the global feed market, jointly accounting for 40% of its total share.

Feed Consumption %







Most feed businesses in Bangladesh primarily manufacture feed for dairy, poultry, and fish. However, there are some businesses that do not produce dairy feed. The feed industry caters to three main sub-sectors: poultry, cattle, and fish, all of which have experienced substantial growth. Over the past seven years, there has been a remarkable 161% increase in production, maintaining a growth rate of 12-15% prior to the pandemic. The poultry sector is the largest consumer of feed, accounting for 62.9%, followed by cattle at 14%, and fish at 23%<sup>[2]</sup>.

After the pandemic hit the economy it caused a decline in feed sales as farm demands took a plunge. The sector further had been affected after the Russia-Ukraine War. The prices have soared affecting the production costs of poultry, cattle, and fish products while the sectors already had been weakened by the pandemic. The price of key raw materials- maize and soya-meal has increased by 18-30 per cent in the local and global markets, resulting in higher production cost. Feed producers use about 35-36 lakh tons of maize and produces 60-65 lakh tons of animal feed every year, of which 40% is collected from the local market and the remaining 60% is brought in from the international market<sup>[3]</sup>. This will create a food security challenge in the coming year as disruptions in the key staple products of wheat, vegetable oils, and rice.

### Raw material

Feed mills primarily rely on maize and soybean as the main raw materials. However, domestic production of these agricultural grains falls short of meeting the local demand. While the production process remains consistent for all livestock feeds, the formulations vary. Additional ingredients include:

- Wheat offal
- Noodle wastes
- Oyster shells
- Minerals
- Common salt etc.

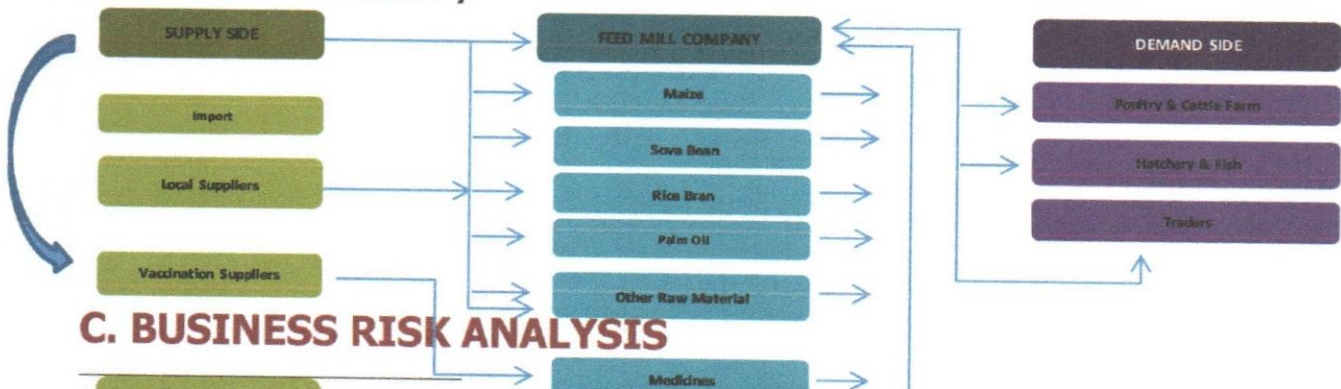
According to the Feed Industries Association of Bangladesh (FIAB), corn or maize constitutes 60% of the feed ingredients. Meanwhile, soybean meal and broken rice make up 30% and 10%, respectively. Due to rising prices of raw materials in the global market, making corn imports more expensive, there is a shift towards using broken rice and bran as substitutes for corn. Interestingly, while rice imports have decreased, domestic rice production has seen an increase. Conversely, wheat imports have risen, while wheat production has declined.

Table: Production, Consumption and Import data

Particulars	Rice		Corn		Wheat	
	2020-21	2021-22	2020-21	2021-22	2020-21	2021-22
<b>Production</b>	34,600	35,850	4,700	4,700	1,180	1,130
<b>Consumption</b>	36,100	36,500	6,900	7,000	8,000	8,500
<b>Import</b>	1,400	1,300	2,434	1,945	7,200	7,500

Source: USDA<sup>[4]</sup>

### Value Chain of Feed Industry<sup>[5]</sup>



## C. BUSINESS RISK ANALYSIS

[3] <https://www.lightcastlebd.com/wp-content/uploads/2017/06/3.png>  
 [4] <https://www.usda.gov/markets/feed-factsheets/maize>  
 [5] <https://www.lightcastlebd.com/wp-content/uploads/2017/06/3.png>





### **C.1. Threat from its Competitors:**

In a competitive business landscape, companies typically encounter rivals unless operating within a monopolistic framework. It becomes imperative for a company to cultivate competitive advantages to thrive, as a lack thereof could result in suboptimal performance. QFL, recognizing this reality, has chosen to distinguish itself in the market by prioritizing the delivery of high-quality services and products. Complementing this approach, the company strategically executes nationwide promotional campaigns to maximize its market share. Despite the effectiveness of its marketing endeavors, QFL acknowledges that a comprehensive strategy must include a detailed analysis of its peers. This analytical process allows the company to gain insights into its own position within the market and to understand the competitive landscape. Despite facing formidable competition from other major players, QFL maintains its status as the leader in the aqua feed industry.

### **C.2. Significant Impact on Raw Material Purchase Price:**

As outlined in the industry analysis, the surge in prices of imported raw materials has placed considerable upward pressure on production costs. Despite this, feed manufacturers have found it challenging to pass on these cost increases to consumers due to intense competition within the industry. Additionally, the company faces heightened risk due to fluctuations in foreign exchange rates, given that a significant portion of raw materials is sourced internationally in foreign currencies, while the final products are sold in the local currency.

### **C.3. Operating Risk Management:**

One of the biggest risks of a manufacturing plant is break down of machineries due to poor maintenance. Since the machineries are very sophisticated once it breaks down it is expensive to repair and furthermore in order to manufacture feed the company deals with a lot of combustible materials as a result the company faces a high chance of fire hazard. Furthermore the company also keeps cash in the factory on each Friday and Saturday of every week as on those days most of the financial institutions remains closed. This leaves QFL exposed to theft and robbery. To negate these risks, the entity in discussion has purchased cash in transit, cash in safe and Burglary & Housebreaking insurance policy. In case of workplace accident to finance the victim's treatment and the company has purchased personal accident policy. In addition, in order to protect its machineries QFL has purchased fire insurance policies from the same insurance company.

### **C.4. Exchange Rate Risk**

The feed industry in Bangladesh relies heavily on the importation of raw materials for feed ingredients. Consequently, Bangladesh is compelled to import these raw materials from abroad, making the exchange rate a crucial factor in cost determination. In alignment with this, the central bank of Bangladesh has opted to devalue the Bangladeshi Taka (BDT) against the US dollar. This move has the potential to escalate the costs of imported raw materials, leading to increased production expenses. Ultimately, such a decision could significantly impact the profitability of companies within import-dependent industries. The company is encountering challenges in importing raw materials from overseas due to the prevailing dollar crisis. This crisis could potentially lead to disruptions in the supply chain.

## **D. FINANCIAL RISK ANALYSIS**

The rating process was based on qualitative aspects which are based on the company's policies in relation with the operating strategies, financial leverage, and ultimate financial goals of the companies. For this purpose of the overall financial risk assessment of the company, ECRL divided the financial portion into five different criteria which are Profitability Analysis, Liquidity Analysis, Cash flow Analysis, Asset Management, Capital Structure, and overall Financial Flexibility. Detailed analysis is presented below:





## D.1. Profitability

**Exhibit 8:** Selected Indicators: Quality Feeds Limited.

<b>FYE 30 June</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Revenue (BDT in millions)	19,035.88	17,804.09	11,502.32	11,248.97
Revenue Growth (%)	6.92	54.79	2.25	8.77
COGS (BDT in Millions)	17,829.91	16,768.14	10,752.67	10,556.23
COGS Growth (%)	6.33	55.94	1.86	7.98
Operating Income (BDT in millions)	578.71	479.00	388.21	348.03
Net Profit After Tax (BDT millions)	335.25	362.44	319.86	272.97
Gross Profit Margin (%)	6.34	5.82	6.52	6.16
Operating Profit Margin (%)	3.04	2.69	3.38	3.09
Net Profit Margin (%)	1.76	2.04	2.78	2.43
ROA (%)	3.14	6.04	6.04	5.38
ROE (%)	9.63	15.34	15.95	16.17

*FY2020-2023 data obtained from audited financial statements.*

QFL conducts thorough market research and peer analysis to grasp customer needs and stay ahead in product design. Specialists interview farmers for insights, and competitor products are tested in labs to enhance QFL's offerings. The company has 23 sales depots and 1,050 dealers nationwide and QFL ensures widespread product availability, including the recently launched aquarium feed in 24 districts.

The company made substantial investments in marketing and promotion in FY2023 which is 53.56% higher than previous year. This significant boost in promotional efforts contributed to a sharp upturn in sales, with the company experiencing a remarkable revenue growth of 6.92% during that period. The company upholds premium feed quality through in-house laboratory testing, ensuring customer satisfaction and contributing to consistent revenue growth over financial years. However, the growth of cost of goods sold has lagged behind the growth of revenue in FY2023 leading to rise in gross profit margin of the company and the COGS ended at BDT 17,829.91 million in FY2023. Despite facing higher raw material acquisition costs compared to the previous year, the company adeptly controlled its procurement expenses, resulting in a less pronounced increase in the cost of goods sold during FY2023 compared to FY2022 and gross profit margin slightly improved 6.34% in FY2023 from 5.82% in FY2022. The company's operating profit margin saw a slight increase, primarily attributed to effective management of selling and distribution expenses, notably through a reduction in salaries and allowances. The company experienced a substantial increase in finance costs which is around 185.59%. Consequently, the net profit margin declined from 2.04% in FY2022 to 1.76% in FY2023. Additionally, the net profit after tax saw a decrease, dropping from BDT 362.44 million in FY2022 to BDT 335.25 million in FY2023. The company's Return on Assets (ROA) and Return on Equity (ROE) slightly decline in FY2023, primarily attributed to a reduction in the company's net profit during the fiscal year.

## D.2. Liquidity Analysis:

**Exhibit 9:** Selected Indicators: Quality Feeds Limited

<b>FYE 30 June</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Current Ratio (x)	0.84	0.81	0.78	0.83
Quick Assets Ratio (x)	0.38	0.67	0.67	0.74
Days Receivables (days)	13	13	18	18
Days Payable(days)	33	28	42	40
Inventory Turnover (days)	39	9	11	17
Cash Conversion Cycle (days)	20	(6)	(13)	(5)

*FY2020-2023 data obtained from audited financial statements.*

The company relies heavily on short-term liabilities, emphasizing a substantial dependence on bank financing and accounts payable to fulfill its working capital needs. In FY2023, the company experienced notable sales growth, requiring a 114.72% increase in short-term loans from the bank to meet up the overall working capital demands. Consequently, this resulted in a deficiency of short-term assets, with the current ratio standing at 0.84 times for FY2023. The company experienced a substantial 590.78% growth in inventory compared to the previous year. Consequently, the inventory





turnover days also increased from 9 days in FY2022 to 39 days in FY2023, which led to a notable increase in Cash Conversion Cycle of 20 days in FY2023.

### D.3. Cash-flow Coverage

**Exhibit 10:** Selected Indicators: Quality Feeds Limited

FYE 30 June	2023	2022	2021	2020
CFO (BDT in millions)	811.44	555.53	339.03	990.42
CFO Interest Coverage (x)	3.67	7.17	6.60	16.52
CFO Debt Coverage (x)	(0.41)	(0.08)	0.17	0.45
CFO Short-Term Debt Coverage (x)	(0.41)	(0.08)	0.17	0.45

*FY2020-2023 data obtained from audited financial statements.*

Increase in working capital finance in FY 2023 has mainly caused the cash inflow from operating activities to increase from BDT 555.53 million to BDT 811.44 million. With a notable rise in finance expenses, the CFO Interest Coverage ratio declined, reaching 3.67 times in the FY2023, compared to 7.17 times in FY2022.

### D.4. Leverage & Capital Structure

**Exhibit 11:** Selected Indicators: Quality Feeds Limited

FYE 30 June	2023	2022	2021	2020
Debt-to-Equity (x)	1.42	0.97	0.87	1.23
Total Liabilities to Total Assets (x)	0.67	0.61	0.62	0.67
Short Term Debt Ratio (x)	1.41	0.97	0.87	1.23

*FY2020-2023 data obtained from audited financial statements.*

QFL primarily relies on debt financing for its financing needs, showing a notable shift towards debt compared to equity. The debt-to-equity ratio witnessed a significant rise, reaching 1.42 times in the FY2023, a marked increase from the 0.97 times recorded in FY2022. In response to the ongoing dollar crisis, the company has required credit facilities from two additional banks to ensure the continuous import of raw materials, mitigating potential disruptions. However, around 67% of the company's asset is financed by debt in FY2023 and the total liabilities to total assets slightly increased. In FY2023, the debt-to-equity ratio stood at 1.42 times, with the short-term debt ratio at 1.41 times. This suggests that the company relies primarily on short term debt financing rather than equity financing.

### D.5. Bank Facilities & Credit History

**Exhibit 12:** Bank Loan: Quality Feeds Limited (As at December 31, 2023) (BDT in Million)

Bank	Mode	Outstanding	Limit
Prime Bank PLC	L/C (Sight/DP/UPAS)	53.74	1,300.00
	Acceptance (Inner limit of LC)	573.21	(1,300.00)
	MPI-TR	-	(1,200.00)
	Bai-Muajjal (Inner limit of MPI-TR)	-	(500.00)
	Bai-Salam (Inner limit of MPI-TR)	-	(50.00)
	Bank Guarantee (Inner limit of LC)	6.03	(50.00)
	<b>Total</b>	<b>632.98</b>	<b>1,300.00</b>
Bank Alfalah Limited	SLC/ULC/DPLC	24.96	500.00
	TR/MTR	44.45	(500.00)
	STL/MLPO	-	(500.00)
	<b>Total</b>	<b>69.41</b>	<b>500.00</b>
The Premier Bank PLC	LC	439.22	800.00
	LTR	334.28	(700.00)
	<b>Total</b>	<b>773.50</b>	<b>800.00</b>
BRAC Bank PLC	L/C	482.24	1,200.00
	Acceptance	-	(1,200.00)





	UPAS	441.20	(1,200.00)
	LATR	-	(1,200.00)
	RL-01	-	(1,000.00)
	RL-02	-	(500.00)
	BG	-	(50.00)
	OD	-	50.00
	<b>Total</b>	<b>923.44</b>	<b>1,250.00</b>
Eastern Bank PLC	Usance Letter of Credit	169.91	785.00
	Acceptance	473.32	(785.00)
	<b>Total</b>	<b>643.23</b>	<b>785.00</b>
Standard Chartered Bangladesh	Letter of Credit	459.05	1,250.00
	Acceptance	700.56	(1,250.00)
	<b>Total</b>	<b>1,159.61</b>	<b>1,250.00</b>
City Bank PLC	One-Off Funded	205.00	205.00
	Non-Funded	317.71	2700.00
	<b>Total</b>	<b>522.71</b>	<b>2,905.00</b>
Mutual Trust Bank PLC	L/C	336.97	1,000.00
	Acceptance	658.95	(1,000.00)
	LTR	-	(1,000.00)
	Time Loan	-	(1,000.00)
	<b>Total</b>	<b>995.92</b>	<b>1,000.00</b>
Dhaka Bank PLC	LC/LTR	983.00	1,500.00
	<b>Total</b>	<b>983.00</b>	<b>1,500.00</b>
HSBC	Accepted Bills	155.99	155.99
	<b>Total</b>	<b>155.99</b>	<b>155.99</b>
<b>Grand Total</b>		<b>6,859.79</b>	<b>11,445.99</b>

QFL relies on support from ten distinct banking institutions for its day to day operations. The company has access to BDT 11,445.99 million working capital loans, whereas it avails only BDT 6,859.79 million loans as on December 31, 2023. According to the banker's certificate, the company has consistently met its payment obligations, demonstrating a regular and timely repayment record.

## D.6. Collateral

Quality and Value of collaterals determine the extent of credit facilities a company can attain from financial institutions. Quality Feeds Limited accessed short term to import raw materials, fund working capital requirements, import capital machineries, and finance their expansion. To benefit from the credit amenities, the company and the banks had security arrangements that had the company's assets collateralized.

With Prime Bank PLC the company maintains the following securities:

1. Board Resolution from Quality Feeds Limited for availing the approved investment facilities.
2. Existing 1<sup>st</sup> ranking Pari-Passu charge by way of hypothecation with other lenders over the floating assets (present & future) of Quality Feeds Limited duly registered with RJSC & Firm(s) along with NIGPA will continue. [Prime Bank's existing charge is Tk.1,600.00 Million]
3. Insurance Policy to be obtained considering the average stock value or the approved funded limit of Prime Bank PLC. Under banks mortgage clause covering risk of Fire only.
4. Security cheque covering the limits.
5. Bai Muajjal Agreement.
6. Bai Murabaha Agreement.
7. Bai Salam Agreement.
8. Usual charge documents from Quality Feeds Limited as mentioned below:
  - a) Demand Promissory Note for BDT 1600.00 Million only.
  - b) Letter of Continuity for BDT 1600.00 Million only.
  - c) Letter of Agreement for BDT 1600.00 Million only.





- d) Letter of Disbursement for BDT 1600.00 Million only.
- e) Letter of Revival for BDT 1600.00 Million only.
- f) Letter of Authority.

For The Premier Bank PLC QFL has kept the following:

- First paripasu priority charge by the way of hypothecation on the floating assets of the company with charge registered with RJSC
- Letter of Guarantee (Limited Company)
- All charge documents covering full amount.
- Letter of Hypothecation

The security documents required to complete and execute the availed Eastern Bank PLC are given below:

- Registered hypothecation (1<sup>st</sup> charge on Pari pasu basis with Prime Bank Ltd., The Premier Bank Ltd., City Bank PLC and Standard Chartered Bank) over entire floating assets (stocks) of Quality Feeds Limited.

The security documents required to complete and execute the availed Standard Chartered Bank Limited are given below:

- Demand Promissory note of BDT 1,250.00 million with letter of continuity and revival.
- Hypothecation of stocks of Raw materials, WIP, finished goods, book of debts etc which shall not be less than BDT 1,100.00 million.

For City Bank PLC , the company maintains the following securities:

- Registered 1<sup>st</sup> ranking charge with RJSC on pari-passu basis with existing lenders by way of hypothecation over floating assets (stock and receivables) of the company covering BDT 170.00 crore.
- Specific charge on plant & machineries with RJSC on CBL financed machineries covering BDT 30.00 crore.
- Insurance on stock covering risk of Fire & RSD as per CBL policy. In case of insurance on machineries risk will have to be covered as per CBL policy.
- All other basic and usual charge documents.

For The Dhaka Bank PLC, the company maintains the following securities:

- All charge documents covering full amount.
- Hypothecation over stocks of Raw materials, WIP, finished goods, book of debts etc.
- Letter of hypothecation of stocks of Raw materials, WIP, finished goods, book of debts etc.

For Mutual Trust Bank PLC, the company maintains the following securities:

- 1<sup>st</sup> charge over Floating Assets of the company on PPSSA basis with the existing lenders
- Post-dated cheque covering full amount

For Bank Alfalah, the company maintains the following securities:

- Ranking Charge over stock and book debts of the company for BDT 500 Mn.
- Lien on Import documents/accepted drafts.
- Trust Receipt/Murabaha Trust receipt agreement
- Nil cash margin
- Standard charge documents.

For BRAC Bank PLC, the company maintains the following securities:

- Registered Hypothecation (1<sup>st</sup> charge on Pari Passu basis) on all present and future floating assets including inventory & book debt of the company with RJSC, along with notarized IGPA to sell the hypothecation assets, favouring BRAC Bank Limited.
- BBL's Charge to be filed with RJSC for BDT 1,250.00 Million.





For HSBC, the company maintains the following securities:

- Demand Promissory Note for BDT 1,125,000,000/- with Letter of Continuity & Revival.
- Corporate Guarantee to be executed by Quality Breeders Limited and Quality Aquabreeds Limited for BDT 1,125,000,000/- with supporting Board Resolutions.
- First charge over the Borrower's Stocks of Raw Materials, Work In Progress and Finished Goods & Book Debts and Receivables duly filed and registered with the Registrar of Joint Stock of Companies and Firms (RJSC) on Pari Passu basis with other lenders. The Bank's share being BDT1, 125,000,000/-.
- First charge over the Borrower's Plant & Machinery duly filed and registered with the Registrar of Joint Stock of Companies and Firms (RJSC) on Pari Passu basis with other lenders. The Bank's share being BDT 150,000,000/-.
- Power of Attorney in relation to charged/hypothecated goods/assets and/or for enforcement of rights under relevant charge/hypothecation deeds.

## E. MANAGEMENT AND OTHER QUALITATIVE FACTORS

### E.1 Human Resource Development

Quality Feeds Limited concentrates in developing its human resource as it believes that only quality human resource may provide the firm success in the future. The company has several departments each with specific task at hand in order to promote specialization and maximum efficiency. QFL believes in training and retaining its employees. The brightest and the most promising employees are sent for trainings in world renowned institutions of feed mill and in addition the company has purchased personal accident insurance policy for employees working in QFL.

Sl.	Employee Type	Number
01	Management	07
02	Administration, HR & Corporate Affairs	21
03	Accounts and Finance	25
04	Sales & Marketing	332
05	Manufacturing Unit	1,576
06	Others	208

### E.2 Management Experience

QFL is steered by a very strong management. Mr. M. Kaiser Rahman, the Chairman of the company has more than twenty years of experience in management consultancy, strategy formulation and business planning. The Managing Director of the company, Mr. Ihtesham B. Shahjahan has a track record of working in various multinational companies before joining QFL. He also worked as a freelancing consultant for Rahman Rahman Huq a representative firm of KPMG Peat Marwick. The company also has a stable mid-level management, for example Mr. Md. Aminul Islam who is the Asst. Director, Finance & Accounts at QFL has completed Chartered Accountancy Course from Rahman Rahman Huq.

## F. LIST OF ABBREVIATION

ECRL	Emerging Credit Rating Limited
COGS	Cost of Goods Sold
ROA	Return on Asset
ROE	Return on Equity
CCC	Cash Conversion Cycle
GPM	Gross Profit Margin
NPM	Net Profit Margin
CFO	Cash Flow from Operation
WDV	Written Down Value
L/C	Letter of Credit
IT	Information Technology
MT	Metric Ton
BDT	Bangladeshi Taka





## G. CORPORATE INFORMATION

### Board of Directors, As on 30 June 2023

Mr. M. Kaiser Rahman	Chairman
Mr. Shahryar Hussain	Vice Chairman
Mr. Ihtesham B. Shahjahan	Managing Director
Mr. S. M. Feroz	Director
Mr. Md. Safir Rahman	Director
Mr. Uzayr Hafiz	Director
Mr. Md. Basir Rahman	Director

### Shareholding Position, As on 30 June 2023

Name	Shareholding %
Mr. M. Kaiser Rahman	17.00%
Mr. Shahryar Hussain	11.50%
Mr. S. M. Feroz	11.50%
Mr. Md. Safir Rahman	10.00%
Mr. Uzayr Hafiz	11.50%
Mr. Md. Basir Rahman	10.00%
Mr. Munaz Murshed Khan	10.00%
Mr. Riaz Murshed Khan	5.29%
SABINCO	10.12%
IPDC of Bangladesh Ltd.	3.09%

### Corporate Office

House -14, Road – 7  
Sector- 4, Uttara, Dhaka  
Tel: +88028916024

### Auditor

A.K. Azad & Co.  
Chartered Accounts  
Al-Razi Complex(Royal Group), 166-167 Shahid Syed  
Nazrul Islam Sharani, Dhaka 1000



## RATING SYMBOL

### LONG-TERM RATINGS

ECRL's Long-Term Ratings are assigned to debt with maturities of more than one year. These debt ratings specifically assess the likelihood of timely repayment of principal and payment of interest over the term to maturity of such debts.

RATING	DEFINITION
AAA	Indicates that the ability to repay principal and pay interest on a timely basis is extremely high.
AA	Indicates a very strong ability to repay principal and pay interest on a timely basis, with limited increment risk compared to issues rated in the highest category.
A	Indicates the ability to repay principal and pay interest is strong. These issues could be more vulnerable to adverse developments, both internal and external, than obligations with higher ratings.
BBB	This grade indicates an adequate capacity to repay principal and pay interest. More vulnerable to adverse developments, both internal and external, than obligations with higher ratings.
BB	This rating suggests that likelihood of default is considerably less than for lower-rated issues. However, there are significant uncertainties that could affect the ability to adequately service debt obligations.
B	Indicates a higher degree of uncertainty, and therefore, greater likelihood of default. Adverse developments could negatively affect repayment of principal and payment of interest on a timely basis.
C	High likelihood of default, with little capacity to address further adverse changes in financial circumstances.
D	Payment in default.

**Notes:** Long-Term Ratings from AA to B may be modified by the addition of a plus (+) or minus (-) suffix to show relative standing within the major rating categories. Bank-guaranteed issues will carry a suffix (bg), corporate-guaranteed issues, a (cg), issues guaranteed by a financial guarantee insurer (FGI), an (fg), and all other supports, an (s) when such guarantees or supports give favorable effect to the assigned rating.

### SHORT-TERM RATINGS

ECRL's Short-Term (ST) Ratings are assigned to specific debt instruments with original maturities of one year or less, and are intended to assess the likelihood of timely repayment of principal and payment of interest.

RATING	DEFINITION
ST - 1	The highest category; indicates a very high likelihood that principal and interest will be paid on a timely basis.
ST - 2	While the degree of safety regarding timely repayment of principal and payment of interest is strong, the relative degree of safety is not as high as issues rated ST-1.
ST - 3	This grade indicates while the obligation is more susceptible to adverse developments, both internal and external, the capacity to service principal and interest on a timely basis is considered adequate.
ST - 4	This rating suggest likelihood of default is considerably less than for lower rated issues but faces significant uncertainties that could impact its financial commitment on the obligation.
ST - 5	High likelihood of default, with little capacity to address further adverse changes in financial circumstances.
ST - 6	Payment in default.

**Notes:** Short-Term (ST) Ratings will also carry a suffix (bg) for bank-guaranteed issues, (cg) for corporate-guaranteed issues, (fg) for FGI-guaranteed issues, and (s) for all other supports when such guarantees or supports give favorable effect to the assigned rating.

### Rating Outlook

ECRL's Rating Outlook assesses the potential direction of the Corporate Debt Rating over the intermediate term (typically over a one to two-year period). The Rating Outlook may either be :

<b>POSITIVE</b>	Which indicates that a rating may be raised;
<b>NEGATIVE</b>	Which indicates that a rating may be lowered;
<b>STABLE</b>	Which indicates that a rating is likely to remain unchanged; or
<b>DEVELOPING</b>	Which indicates that a rating may be raised, lowered or remain unchanged.

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