RATING REPORT

Unity Foods Limited

REPORT DATE:

February 13, 2025

RATING ANALYST:

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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A	A2	A	A2
Rating Outlook/Watch	Negative		Negative	
Rating Date	*February 13, 2025*		*November 01, 2023*	
Rating Action	*Reaffirmed*		*Reaffirmed*	

COMPANY INFORMATION	
Incorporated in 1991	**External auditors:** Grant Thornton Anjum Rahman
Listed Public Limited Company	**Chief Executive Officer:** Muhammad Farrukh Amin
Key Shareholders:	**Chairman:** Lt Gen Omar Mahmood Hayat (Retd)
Wilmar Pakistan Holdings Pte Ltd – 34.84% Unity Wilmar Agro (Private) Limited – 14.08% CEO and family members – 13.25% General Public (Local) – 25.55%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

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

Unity Foods Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Unity Foods Limited ('UFL' or 'the Company') was established in Pakistan in 1991 as a private limited company and was subsequently converted into a public limited company on June 16, 1991. The Company was listed on Pakistan Stock Exchange (PSX) on February 01, 1994. Registered office of the Company is located in Lahore, Pakistan while manufacturing plants, mills, and refinery facilities are situated in Karachi, Kotri and Lahore

Profile of Chairman

Lt. Gen. (Retd) Omar Mahmood Hayat, Chairman of Unity Foods, brings four decades of military and corporate leadership. Notably, as head of Pakistan Ordnance Factories, he doubled sales and exports. Currently, he chairs the Pakistan Humanitarian Forum, inspiring Unity Foods and beyond.

Profile of CEO

Muhammad Farrukh has over 18 years of experience in the commodity business. Mr. Farrukh has expertise in exploring and developing previously untapped new export markets and managing group's overall operations and business relationships.

Company Profile

Unity Foods Limited ('UFL' or 'the Company') was established in Pakistan in 1991 as a private limited company and was subsequently converted into a public limited company on June 16, 1991. The shares of the Holding Company have been listed on the Pakistan Stock Exchange since February 01, 1994. UFL is principally involved in the extraction and processing of edible oils, industrial fats, flour and various feed ingredients for Pakistan's poultry and livestock sectors. Within the edible oil segment, the Company has four major brands namely Dastak, Lagan, Ehtimam and Zauqeen. Dastak, its flagship brand, is targeted at the mid-tier segment. The Company has geographical footprints in Sindh, Hyderabad, Balochistan and Punjab while it serves the entire country through pan-Pakistan distribution and supply chain network. The company has recently enhanced its refining capacity indicating continued confidence in the market potential.

UFL has a wholly owned subsidiary, Sunridge Foods (Private) Limited ('SFPL' or 'the Subsidiary'). The Subsidiary was established in Pakistan as a privately held company on March 16, 2015.

The majority shareholding, comprising 48.92% as of FY24 (FY23: 35.65%), is held by associated Companies, undertakings, and related parties, including Wilmar Pakistan, comprising 34.84% (FY23: 21.74%), and Unity Wilmar Agro, constituting 14.08% (FY23: 13.92%). The remaining shareholding is held by directors, the CEO and their families, comprising 13.34% (FY23: 11.88%), the local general public at 25.55% (FY23: 34.89%), and others at 12.19% (FY23: 17.58%)

During the year, capacity utilization was subdued on account of lower take up in the market amid supply anomalies relating to edible oil in the country as well as depressed purchasing power due to high inflationary environment. The Company has also installed additional production capacity in edible oil refinery plant, increasing it from 264,600 MT to 372,600 MT, which has also contributed towards lower utilization figures.

	FY23			FY24		
	Total (MT)	**Utilized**	**Capacity Utilization%**	**Total (MT)**	**Utilized**	**Capacity Utilization%**
Edible oil refinery	264600	214775	81%	372600	126406	34%
Feed mill	302400	166401	55%	302400	96400	32%
Solvent extraction plant	162000	22445	14%	162000	15515	10%
Soap plant	15600	2144	14%	15600	1698	11%

Industry Overview:

Pakistan's edible oil industry is heavily reliant on imported palm oil, with approximately 90% of the country's edible oil requirements met through imports, while only around 10% is fulfilled by local production. This dependency has positioned Pakistan as the third-largest global importer of palm oil. Due to this significant reliance on imports, fluctuations in global pricing and supply chains have a direct impact on Pakistan's edible oil market.. Indonesia and Malaysia, being major exporters of palm oil, play a pivotal role in meeting Pakistan's import needs. However, recent developments in Indonesia have disrupted global palm oil supplies. The country has mandated that 40% of its palm oil production be diverted to biodiesel, leading to reduced availability for exports. This policy shift has caused a surge in prices and supply disruptions, creating challenges for import-dependent nations like Pakistan.

Pakistan's annual consumption of ghee and cooking oil stands at 5 million tonnes, of which 3.5 million tonnes of palm oil are imported. During the first five months of FY25 (5MFY24), Pakistan imported 1.319 million tonnes of palm oil worth $1.26 billion, compared to 1.248 million tonnes valued at $1.17 billion during the same period last year. Pakistan's palm oil market faces challenges as import costs rise sharply, with unit prices reaching ~$1,100 per ton in December 2024, up from below $900 earlier in the year Globally, Malaysia's palm oil stockpiles fell for the second consecutive month in November, dropping by 2.6% to 1.84 million metric tons, while crude palm oil production reached its lowest November level since 2020 due to adverse weather. Simultaneously, Indonesia's increased export levies to prioritize domestic supply have heightened global price volatility. Benchmark futures have surged to their highest levels in 2.5 years, driven by tightening supply and production shortfalls in key exporting nations. For Pakistan, decisions by Malaysia and Indonesia on export policies will be critical in shaping price trends in early 2025 However, Companies operating in this sector typically pass on the price increase to consumers, albeit with a lag.

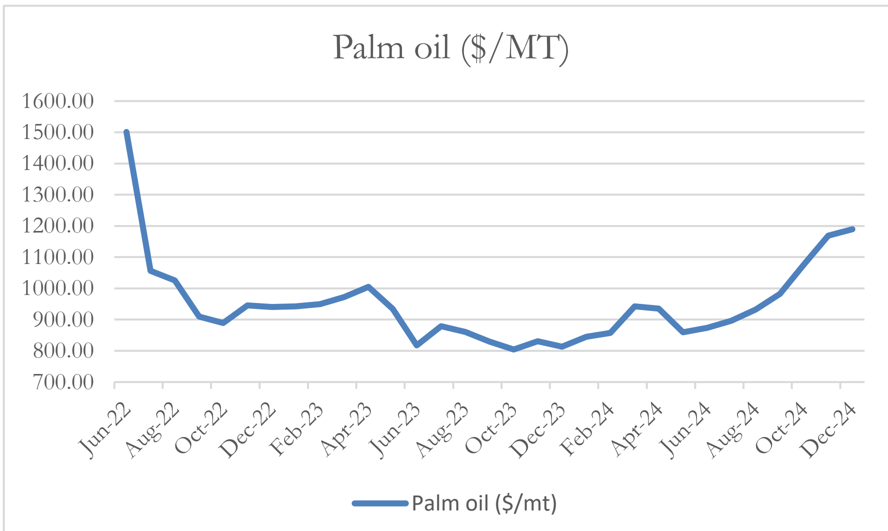

Figure 1: World Bank Commodity Pricing data

<u>Key Rating Drivers</u>

Ratings are supported by strong sponsor profile with majority of shareholding.

During 2024, Wilmar Pakistan Holdings Pte. Limited, a wholly owned subsidiary of Wilmar International Limited increased its equity stake in the Company to 42.17% from 28.97% through a general offer. Wilmar International Limited (WIL) is a Singapore-based conglomerate and a leading integrated agribusiness group in Asia, publicly listed on the Singapore Stock Exchange. In addition, The acquirers include: i) Wilmar Pakistan Holdings Pte. Ltd., ii) Unity Wilmar Agro, iii) Mr. Muhammad Farrukh, and iv) Ms. Fehmida Amin.

The Company benefits from both financial, technical and supply chain support extended by WIL from time to time. In the event of future requirements, VIS expects sponsor support to emanate in future, in case a need arises.

Topline remained constrained

In FY24, the Company reported topline contraction of approximately 33%, with revenue declining to Rs. 60 billion from Rs. 90 billion in FY23. This decline was primarily on account of price decline which on average fell by ~17% in cooking oil retail segment from June'23 to June'24, coupled with subdued market demand on account of carry over stock from FY23, lower take up in anticipation of lower prices due to supply glut in the country caused by the increased imports in the previous years to counter any price increase and forex issues. This oversupply, caused local prices to drop below the prevailing cost of imports, leading to negative price parity on multiple occasions. Consequently, overall, industry wide import value of the palm oil reduced. Company's sales, as a result, also remained under stress with revenues in the individual and branded segment recording a decline. Going forward, the Company anticipates topline growth to be supported by increased capacity utilization, normalizing inventories levels and higher exports targeted for FY25.

Strained margins impacting profitability

Contraction in gross margins was observed in FY24 primarily due to rationalization of high-cost inventories from past year in the wake of declining price trend in FY24. With inventories streamlined, the margins have started to recoup in 1QFY25 with gross margins recorded at 14%. However, we expect margins to remain range bound of historical numbers given the anticipated commodity price increase.

Despite a positive impact on operating margins from exchange gains and other income, net margins remained negative on account of high finance cost arising from elevated debt levels. Nevertheless, in 1QFY25, the uptick noted in net margins, recorded at 0.40%.

Going forward, while net margins are expected to benefit from a notable reduction in policy rate, we expect gross margins to remain vulnerable to volatility in international prices and local market dynamics.

Working capital pressures continue to impact liquidity

The Company's liquidity remains under pressure, largely due to buildup of receivables and funding support to related parties. Ageing of the receivables reflect collection delays with notably 40% of the receivables overdue by more than 90 days, Furthermore, Unity has been providing working capital support to subsidiaries, namely Sunridge Foods (Private) Limited, Sunridge Confectionary Limited and Sunridge Mart (Private) Limited. However, as represented by management, this support is unlikely to continue in the future, which is expected to have a favorable impact on working capital. Besides, as a consequence of easing interest rates, the receivable cycle is easing out providing cushion to the liquidity indicators.

Additionally, to mitigate liquidity challenges, the Company extended payables with Wilmar and increased reliance on short-term borrowings, however, the high interest cost strained profitability and consequently debt coverage metrics in FY24. As a result of support from Wilmar, related party, in payment terms, together with buildup of provisions held against payment of Sindh Development and Infrastructure Cess (SIDC), the Company has been able to build a short-term portfolio comprising majorly of mutual fund investments, which also provided a tax advantage in the past. While ratings draw support from this liquid portfolio for any debt servicing shortfalls, as the company rationalizes its payables, this liquid pool is expected to decline and therefore improving working capital efficiency will remain critical, going forward.

Elevated gearing and leverage

The Company's financial risk profile indicates heightened gearing and leverage ratios, recorded at 1.81x and 3.18x, respectively. The equity base contracted during the year, primarily due to a negative bottom line. The debt structure is predominantly composed of short-term borrowings to meet working capital requirements. However, after accounting for liquid investments and cash holdings on the balance sheet, the adjusted gearing and leverage ratios improve to 1.3x and 2.5x, respectively. We expect this to rationalize over time, however the high gearing will continue to drag profitability in the medium term.

Unity Foods Limited Appendix I

Financial Summary

Balance Sheet (PKR Millions)	FY21A	FY22A	FY23A	FY24A	3MFY25M
Property, plant and equipment	7,759.13	8,477.95	10,858.64	10,238.10	9,513.56
Right-of-use Assets	192.88	71.85	31.41	1.82	0.91
Intangible Assets	9.32	75.33	79.79	65.80	63.31
Long-term Investments	827.64	827.64	7,827.64	7,827.64	7,827.64
Stock-in-trade	10,752.54	11,222.63	10,203.67	10,067.55	14,757.98
Trade debts	12,290.84	21,946.84	23,648.10	24,612.51	18,551.86
Short-term Investments	6,858.99	10,224.84	9,568.94	3,919.45	8,518.58
Cash & Bank Balances	318.04	641.19	1,006.05	5,123.71	1,174.50
Other Assets	3,528.99	5,132.73	8,307.31	18,300.12	16,848.24
Total Assets	42,538.37	58,621.00	71,531.55	80,156.70	77,256.58
Creditors	12,653.60	19,101.76	21,312.95	22,682.99	20,990.23
Long-term Debt (incl. current portion)	552.94	452.44	683.36	712.17	653.09
Short-Term Borrowings	14,693.56	15,902.17	24,603.32	33,976.85	34,136.26
Total Debt	15,246.50	16,354.61	25,286.68	34,689.02	34,789.35
Other Liabilities	1,258.97	2,008.06	3,207.94	3,593.34	2,234.43
Total Liabilities	29,159.07	37,464.43	49,807.57	60,965.35	58,014.01
Paid up Capital	9,940.50	11,940.50	11,940.50	11,940.50	11,940.50
Revenue Reserve	3,438.78	5,816.05	6,383.51	3,850.86	3,902.08
Other Equity (excl. Revaluation Surplus)	0.00	3,400.00	3,400.00	3,400.00	3,400.00
Sponsor Loan	0.00	0.00	0.00	0.00	0.00
Equity (excl. Revaluation Surplus)	13,379.28	21,156.55	21,724.01	19,191.36	19,242.58

Income Statement (PKR Millions)	FY21A	FY22A	FY23A	FY24A	3MFY25M
Net Sales	66,400.98	82,184.56	90,158.19	60,488.68	12,925.41
Gross Profit	5,191.66	7,845.60	12,139.48	5,296.94	1,828.10
Operating Profit	4,269.25	4,152.24	3,570.03	5,002.77	1,620.98
Finance Costs	880.12	1,663.60	3,406.68	6,970.00	1,592.26
Profit Before Tax	3,389.13	2,488.64	163.35	-1,967.23	28.72
Profit After Tax	3,111.75	2,436.42	567.45	-2,532.65	51.23

Ratio Analysis	FY21A	FY22A	FY23A	FY24A	3MFY25M
Gross Margin (%)	7.82%	9.55%	13.46%	8.76%	14.14%
Operating Margin (%)	6.43%	5.05%	3.96%	8.27%	12.54%
Net Margin (%)	4.69%	2.96%	0.63%	-4.19%	0.40%
Funds from Operation (FFO) (PKR Millions)	2,525.42	2,166.54	3,270.94	-4,074.83	1,194.35
FFO to Total Debt* (%)	16.56%	13.25%	12.94%	-11.75%	13.73%
FFO to Long Term Debt* (%)	456.73%	478.86%	478.66%	-572.17%	731.51%
Gearing (x)	1.14	0.77	1.16	1.81	1.81
Leverage (x)	2.18	1.77	2.29	3.18	3.01
Debt Servicing Coverage Ratio* (x)	2.78	2.01	1.83	0.33	1.11
Current Ratio (x)	1.17	1.32	1.05	1.01	1.02
(Stock in trade + trade debts) / STD (x)	1.57	2.09	1.38	1.02	0.98
Return on Average Assets* (%)	10.12%	4.82%	0.87%	-3.34%	0.26%
Return on Average Equity* (%)	32.37%	14.11%	2.65%	-12.38%	1.07%
Cash Conversion Cycle (days)	38.41	52.02	47.88	67.16	74.87

**Annualized, if required*
A - Actual Accounts
P - Projected Accounts
M – Management Accounts

Unity Foods Limited

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Unity Foods Limited
Sector	Food & Personal Care
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
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	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
RATING TYPE: ENTITY				
13-02-2025	A	A2	Negative	Reaffirmed
01-11-2023	A	A2	Negative	Reaffirmed
30-08-2022	A	A2	Negative	Maintained
29-04-2021	A	A2	Stable	Upgraded
13-11-2020	A-	A2	Stable	Reaffirmed
01-10-2019	A-	A2	Stable	Initial

Due Diligence Meetings Conducted

S.No	Name	Designation	Date
1	Aamir Shehzad	Executive Director	13-Nov-2024
2	Mohammad Hassan	Senior Manager Investment	