RATING REPORT

Olympia Oils (Pvt.) Limited (OOL)

REPORT DATE:
June 13, 2019

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	BBB+	A-2	BBB+	A-2
Rating Date	*May 31, 2019*		*April 12, 2018*	
Rating Outlook	Stable		Stable	

COMPANY INFORMATION	
Incorporated in 2003	External auditors: Aslam Malik & Co. Chartered Accountants
Private Limited Company	Chairman of the Board/CEO: Mr. Nasir Monnoo
Key Shareholders (with stake 5% or more):	
M. Shakil Monnoo – 19.3%	
M. Humayun Monnoo – 17.3%	
M. Khursheed Monnoo – 16.3%	
M. Nasir Monnoo – 15.8%	
M. Munnir Monnoo – 13.0%	
M. Omer Monnoo – 11.7%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (May 2016) **https://www.vis.com.pk/kc-meth.aspx**

OVERVIEW OF THE INSTITUTION

Olympia Oils (Pvt.) Limited (OOL) was established in 2003 and started commercial production in 2005. The company is involved in manufacturing of edible oil and oil-meal.

Profile of the Chairman/CEO

Mr. Nasir Monnoo has over 30 years of experience in related industries. He has also served as the director of Olympia Textile Mills Limited.

Financial Snapshot

Total Equity: end-HY19: Rs. 876m; end-FY18: Rs. 832m; end-FY17: Rs. 821; end-FY16: Rs. 727m

Assets: end-HY19: Rs 4.78b; end-FY18: Rs. 3.05b; end-FY17: Rs. 3.2b; end-FY16: Rs 2.1b

Profit After Tax: HY19: Rs. 44m; FY18: Rs. 50m; FY17: Rs., 95m; FY16: Rs. 57m

RATING RATIONALE

Olympia Oils (Pvt.) Limited (OOL) is the flagship company of a diversified industrial conglomerate "Monnoo Group" having business interests in textile, carpets, chemicals, synthetics, and poultry. The ratings assigned reflect stable business model, positive momentum in sales and strong liquidity. The ratings also incorporate vertical integration of OOL with its group companies and favorable demand prospects of edible oil in domestic market. Moreover, the ratings draw strength from long term debt free balance sheet and sound coverages. However, the ratings remained constrained on account of high leverage indicators, depressed margins and highly price sensitive import market of raw material.

Business and Industry Risk Factors: Demand driven price risk is largely curtailed on account of company being involved in bulk sale of edible oil to institutional clients while having limited presence in the highly competitive banded oil market. Similarly, the price risk in the oil-meal segment, by product of oil extraction, is curtailed owing to high demand for the product in the local market. Moreover, utilization of economies of scope under vertical integration coupled with the shift from canola seed to soybean seed on account of higher protein content and better tax regime for the product have created a sustainable market for OOL in the oil-meal segment. In addition, inventory risk is mitigated by dovetailing procurement orders with precise sale forecasts. The company mitigates exchange rate risk by taking exposure in futures contracts and avoiding commodity trading. Further, as per the global commodity statistics the price fluctuation of soybean seed has remained manageable.

Positive Momentum in Revenues supported by steady gross margins: During FY18, net sales of the company stood higher at 7.1b, exhibiting a CAGR of 59% over the last three business cycles. The contribution of bulk sales remained at prior year's level, representing around 86% (FY17: 86%; FY16: 83%) of the total sales revenue during FY18. In terms of product sales mix, soybean meal and soybean oil continued to be the major revenue drivers and contributed almost 85% to the total gross revenue. The contribution of packed sales stood at 14.5% (FY17: 14%; FY16:17%), while in rupee terms packed sales stood higher at Rs. 1.0b (FY17: Rs. 417.9m; FY16: Rs. 602.3m). The new brand "Areej", introduced in FY17, fetched a revenue of Rs. 135.9m by the end-FY18 and constitutes almost 13% of the total packed sales. Going forward, the management expect the sales mix to remain same on account of prevailing market dynamics.

Raw material constitutes 93.6% of the total cost of sales. The cost of major input, soybean seed, exhibited a marginal decline, while taking in account the rationalized increase in other components of cost of sales, gross margins remained the same at 5.3% (FY17: 5.3%; FY: 6.5%). The distribution cost has increased primarily due to brand promotion and sale incentives; meanwhile, administrative expenses were largely rationalized with slight increase manifested in compensation benefits. Moreover, finance cost was recorded higher on account of higher quantum of average borrowings during the year.

Net sales declined during HY19 due to energy shortages which lead to the plant being operational for fewer (87) days during HY19 as compared to 230 days during FY18. As per the management the energy crisis has been rectified; therefore, the sales are expected to meet the full year target of Rs. 7.0b by end-FY19. Gross margins exhibited an increase during the ongoing year owing to increase in prices of end-products. As per management, the impact of Pak rupee depreciation has not been fully passed on yet, meanwhile the management expects the prices to increase, thereby supporting the margins, going forward.

Topline reinforced by vertically integrated facility: The sale of soybean meal, a byproduct of oil extraction, constitutes around two-thirds of the total bulk sale. The prime customers of soybean meal are the associated concerns of Olympia Group, while the remaining is sold in open market. A major chunk of the same is sold to associated concerns to utilize the economies of scope under vertical integration. During the year under review, Rs. 2.4b of revenue emanated from sales to its associated companies *(Lahore Feeds Ltd, Olympia Feeds Pvt. Ltd. and Punjab Feeds Ltd.)*, in lieu of which outstanding receivables from related parties stood at Rs. 138m.

Liquidity profile underpinned by healthy cash flows in relation to outstanding obligations: Liquidity of the company largely remained intact; however, Funds from Operations (FFO) were recoded lower on account of high interest and taxation expense during FY18. Given minimal reliance on long term financing, FFO to long term debt was sizable at the end-FY18. On the other hand, in line with higher utilization of short term borrowings, FFO to total debt stood lower at end- FY18. Stock in trade was recorded higher at the end-FY18 on account of retirement of LC. Moreover, the inventory levels further increased during the ongoing year as a result of release of LC coupled with piling up of stock at Karachi port. Furthermore, routine capex amounting to Rs. 12.5m was made as a part of regular BMR requirement. Going forward, no major capex is planned for the next three years. Debt service coverage ratio, albeit declined, was recorded at comfortable levels by end-FY18. Furthermore, ratio of trade debts plus inventory to short term borrowings stood higher at 1.43x (FY17: 0.98x; FY16: 1.05x), reflecting the enhanced ability of the company to meet working capital requirements through internally generated capital. As per management, liquidity position is projected to improve further on account of increase in margins.

Higher Leverage Indicators Due to lower profitability and increased working capital requirement: Debt profile of the company majorly comprises short-term borrowings with minimal long term financing procured. Nonetheless, to meet higher working capital requirements disgorging from higher scale of operations, short-term borrowings amounted to Rs. 1.26b (FY17: Rs. 1.38b: FY16: Rs. 867m) by the end-FY18. These facilities are secured against charge on current assets, fixed assets and lien on import documents Moreover, these facilities are subject to markup ranging from 3 month KIBOR+ 0.85%-1% per annum. OOL has currently access to Rs. 2.0b of funded and Rs. 2.5b of non-funded credit lines. Equity base of the company is supplemented by equity injection in form of interest free unsecured loan from directors. Given higher short-term borrowings along with largely stagnant equity base, gearing and leverage indicators, although declined, have remained on higher side at 1.5x and 2.6x respectively (1.8x and 3.0x; FY16: 1.3x and 2.0x) during FY18. Considering the business model of the company along with no immediate plan of equity injection by the sponsors, leverage indicators are likely to remain high.

Corporate Governance: Senior management team of the company comprises experienced resources having relevant experience in the industry. However, in terms of minuting of Board meetings, formulation of Board level committees and segregation of Chairman and CEO positions the corporate governance framework exhibits room for improvement.

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	June 30, 2016	June 30, 2017	June 30, 2018	Dec 31, 2018
Non-Current Assets	585	584	589	591
Stock-in-Trade	524	573	1,080	2,627
Trade Debts	386	787	713	807
Cash & Bank Balances	100	173	251	188
Other Assets*	524	1,082	420	567
Total Assets	2,119	3,199	3,053	4,780
Trade and Other Payables	455	899	785	983
Short Term Borrowings	864	1,382	1,257	2,764
Long-Term Borrowings *(Inc. current maturity)*	3	4	3	3
Other liabilities	71	93	135	114
Tier-1 Equity	686	781	832	876
Total Equity	727	821	872	916

INCOME STATEMENT	June 30, 2016	June 30, 2017	June 30, 2018	Dec 31, 2018
Net Sales	3,462	5,549	7,075	2,789
Gross Profit	223	296	371	222
Operating Profit	170	222	246	166
Profit After Tax	57	95	50	44
FFO	87	132	111	-

RATIO ANALYSIS	June 30, 2016	June 30, 2017	June 30, 2018	Dec 31, 2018
Gross Margin (%)	6.5	5.3	5.3	7.7
Net Working Capital	157	259	255	297
Current Ratio (x)	1.1	1.1	1.1	1.1
FFO to Long-Term Debt	28.8	32.3	38.8	-
FFO to Total Debt (%)	0.10	0.10	0.09	-
Debt Servicing Coverage Ratio (x)	1.53	2.68	2.16	-
ROAA (%)	0.03	0.04	1.6	2.3
ROAE (%)	0.13	0.18	6.2	10.3
Gearing (x)	1.26	1.77	1.51	3.16
Debt Leverage (x)	2.03	3.04	2.62	4.41
(Stock in Trade+Trade Debts) to Short-term Borrowings (x)	1.05	0.98	1.43	1.24

**Other assets of FY17 include LC in transit amounting Rs. 668m*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

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

'SD' Rating: An 'SD' rating is assigned when 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	Olympia Oils(Pvt.) Ltd
Sector	Consumer Goods
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
May 31, 2019	BBB+	A-2	Stable	Reaffirmed
April 12, 2018	BBB+	A-2	Stable	Initial