RATING REPORT

Olympia Oils (Pvt.) Limited

REPORT DATE:
Sep 17, 2020

RATING ANALYSTS:
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RATING DETAILS

	Latest Ratings		Previous Ratings	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	BBB+	A-2	BBB+	A-2
Rating Date	*Sep 17, 2020*		*May 31st, 2019*	
Rating Action	Reaffirm		Reaffirm	
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

VIS Entity Rating Criteria: Corporates (May 2019)

https://www.vis.com.pk/kc-meth.aspx

Olympia Oils (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Olympia Oil (Pvt.) Limited was established in 2003 as Private Limited Company and started commercial production in 2005. The company is involved in the production and sales 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

Tier 1 Equity:

end-11MFY20:Rs. 1.14b;
end-FY19: Rs. 950m;
end-FY18: Rs. 833m;

Assets:
end-11MFY20: Rs 3.21b;
end-FY19: Rs. 3.56b;
end-FY18: Rs 3.05b;

Profit After Tax:
11MFY20: Rs. 186m;
FY19: Rs. 48m;
FY18: Rs. 50m;

RATING RATIONALE

Olympia Oils (Pvt.) Limited (OOL) is primarily engaged in the production and sales of edible oil and oil meal using solvent extraction process. OOL is the flagship company of a diversified industrial conglomerate "Monnoo Group" having business interests in textile, poultry, carpets, chemicals & synthetics. The ratings draw strength from moderate business risk profile based on around 85% bulk sales to institutional clients thereby avoiding competition from mainstream branded oil market. The ratings incorporate relatively lower demand risk of oil meal due to vertical integration with group owned feed mills which utilize about 50% of output. The ratings also draw comfort from minimal reliance on long term borrowings and adequate debt service coverage. Lately, leverage indicators have decreased while margins have witnessed some increase during 11MFY20. However, the ratings remained constrained on account of price sensitivity on account of imported raw material & exchange rate fluctuations.

Business and Industry Risk Factors

Edible oil market is highly competitive on account of stiff competition from major players like Dalda, Sufi, Habib, Rafhan, etc. while OOL largely circumvents this competition through bulk sales to institutional clients. The demand risk in the oil meal segment being a by-product of solvent extraction is mitigated through sales to group feed mill while price risk is mitigated due to high demand in the poultry sector. OOL mitigates inventory risk by synchronizing procurement orders with sales forecast. The company mitigates exchange rate risk by taking exposure in futures contracts while keeping close watch for price fluctuation in the international market.

Positive Momentum in Revenues while margins remained low in FY19; however, margins have trended upwards during 11MFY20

Net sales of the company increased to Rs. 7.29b (FY18: Rs. 7.07b) exhibiting sales growth of 3.1% during FY19. In terms of product sales mix, soya bean meal and soya bean oil continued to be the major revenue drivers and contributed almost 84.4% (FY18: 85.5%) of total revenue during FY19 while contribution of packed sales stood at 15.6% (FY18: 14.5%). In terms of rupee terms, sales of soya bean meal and soya bean oil stood higher at Rs. 6.19b (FY18: Rs. 6.04b) while packed sales stood at Rs. 1.1b (FY18: Rs. 1.0b) during FY19. The sale of soybean meal constituted around two-thirds of the total bulk sale. The prime customers of soya bean meal are the associated concerns of Olympia Group which utilizes around half of the output, while the remaining is sold in the open market. The concentration among top-10 customers remained on the higher side at 58% (FY18: 56%) during FY19. The gross profit of the company increased to Rs. 458m (FY18: Rs. 372m) while gross margin improved slightly to 6.2% (FY18: 5.2%) mainly due to marginal decrease in soya bean price during FY19. The distribution cost increased primarily due to advertisement and distribution cost to Rs. 133m (FY18: Rs. 110m) during FY19 while administrative expenses increased to Rs. 18m (FY18: Rs. 14m). Finance cost increased to Rs. 164m (FY18: Rs. 102m) on account of higher average short term borrowings and interest rates during the year. Net profit remained largely stagnant at Rs. 48m (FY18: Rs. 50m) during FY19.

OOL reported net sales of Rs. 7.23b during 11MFY20 while gross margins increased to 9.4% on account of higher product prices, an outcome of higher demand, and purchase of raw material at favorable prices during this period. The company reported higher financial charges of Rs. 228m mainly due to higher average interest rates. Net profit stood higher at Rs. 186m with some increase in net margins to 2.6% (FY19: 0.7%; FY18: 0.7%) during 11MFY20.

Liquidity profile remained adequate mainly supported by healthy cash flows
Funds from Operations (FFO) of the company increased to Rs. 227m (FY19: Rs. 116m, FY18: Rs. 112m) during 11MFY20 mainly on the back of higher profitability. Given minimal reliance on long term financing, FFO to long term debt remained sizeable at 94x (FY19: 23x, FY18: 38x) while FFO to total debt stood higher 0.15x (FY19: 0.05x, FY18: 0.09x). Stock in trade increased to Rs. 1.04b (FY19: Rs. 911m, FY18: Rs. 1.08b) by end-11MFY20 which mainly consisted of raw material inventory. Trade debts decreased to Rs. 898m (FY19: Rs. 1.3b, FY18: Rs. 713m) by end-11MFY20 that included receivables from associated concerns amounting Rs. 350m (FY19: Rs. 378m, FY18: Rs. 138m). Trade debts decreased mainly owing to recovery from poultry sector which was facing demand issue during FY19. As per ageing, 87% receivables were due within 90 days as per routine credit while 6% were due more than 270 days. The company carried out routine capex amounting to Rs. 20m (FY19: Rs. 27m, FY18: Rs. 15m) during 11MFY20 while no major capex is planned for the next two years. Debt service coverage ratio remained comfortable at 1.9x (FY19: 1.8x, FY18: 2.2x) during 11MFY20. Furthermore, ratio of trade debts plus inventory to short term borrowings was above 1.2x (FY19: 1.1x, FY18: 1.4x).

Short term borrowing decreased while leverage indicators improved
Debt profile of the company mainly comprises short-term borrowings with minimal reliance on long term borrowings. To meet higher working capital requirements, the company relies on short term borrowings which decreased to Rs. 1.5b (FY19: Rs. 2.1b, FY18: Rs. 1.2b) by end-11MFY20 due to lower working capital requirements. These facilities were secured against charge on current assets, fixed assets and lien on import documents. These facilities are subject to markup ranging from 3 month KIBOR + 0.85%-1% per annum. OOL currently has access to around Rs. 2.5b of funded and non-funded credit lines. Equity base of the company is supplemented by equity injection in form of interest free unsecured loan from directors and profit retention. Given lower short-term borrowings along with some increase in equity base, gearing and leverage indicators decreased at 1.4x (FY19: 2.2x) and 1.8x (FY19: 2.7x) respectively by end-11MFY20. As per management, leverage indicators are expected to remain moderate due to reliance on short-term borrowing only for working capital requirements, going forward.

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

Olympia Oils (Pvt.) Limited — Appendix I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**June 30, 2018**	**June 30, 2019**	**May 31, 2020**
Non-Current Assets	642	654	653
Stock-in-Trade	1,080	911	1,042
Trade Debts	713	1,393	898
Advance, deposits & other receivables	314	300	279
Other Assets	52	59	91
Cash & Bank Balances	251	249	250
Total Assets	3,052	3,566	3,213
Trade and Other Payables	785	310	310
Short Term Borrowings	1,257	2,101	1,549
Long-Term Borrowings *(Inc. current maturity)*	3	5	3
Total Borrowings	1,260	2,106	1,552
Other liabilities	136	160	171
Total Liabilities	2,179	2,576	2,033
Tier-1 Equity	833	950	1,140
Total Equity	873	990	1,180
Paid Up Capital	359	359	359
INCOME STATEMENT	**June 30, 2018**	**June 30, 2019**	**May 31, 2020**
Net Sales	7,075	7,297	7,237
Gross Profit	372	458	678
Finance Cost	102	164	228
Profit Before Tax	139	140	296
Net Profit	50	48	186
FFO	112	116	227
RATIO ANALYSIS	**June 30, 2018**	**June 30, 2019**	**May 31, 2020**
Gross Margin (%)	5.3	6.3	9.4
Net Profit Margin (%)	0.7	0.7	2.6
FFO to Total Debt (x)	0.09	0.05	0.15
FFO to Long Term Debt (x)	38	23	94
Debt Servicing Coverage Ratio (x)	2.2	1.8	1.9
(Inventory + Receivables) / Short Term Borrowing	1.4	1.1	1.2
Debt Leverage (x)	2.6	2.7	1.8
Gearing (x)	1.5	2.2	1.4

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 Oil (Pvt.) Limited
Sector	Consumer Goods
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
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				
17/09/2020	BBB+	A-2	Stable	Reaffirm
31/05/2019	BBB+	A-2	Stable	Reaffirm
12/04/2018	BBB+	A-2	Stable	Initial