RATING REPORT

Olympia Oils (Pvt.) Limited

REPORT DATE:
November 12, 2021

RATING ANALYSTS:
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RATING DETAILS

	Latest Ratings		Previous Ratings	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A-	À-2	BBB+	A-2
Rating Date	*Nov 12, 2021*		*Sep 17, 2020*	
Rating Action	Upgrade		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 – 30.3%	
M. Khursheed Monnoo – 16.3%	
M. Nasir Monnoo – 15.8%	
M. Omer Monnoo – 11.7%	

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (August 2021)

https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

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. During the outgoing year, Mr. Munir Monnoo passed away, consequently his shares were transferred to his son Mr. Humayun Monnoo.

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.

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 85.7% 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 on an average utilize about 30-40% (FY19: 50%) of output. The ratings also draw comfort from minimal reliance on long-term borrowings and adequate debt service coverage. During FY21, leverage indicators and profit margins have improved. However, the ratings remain constrained on account of elevated leverage in relation to peers and 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 highly fragmented structure with no dominant player and low barriers to entry resulting in limited pricing power and thin profitability margins. OOL faces stiff competition from players like Dalda, Sufi, Habib, Rafhan, etc.; however, it largely circumvents this competition through bulk sales to institutional clients. The domestic production of oilseeds is low, which exposes the industry to risks associated with the import of raw material, including excessive inventory lead-time, government duties, exchange rate risk, and price volatility. Around Pakistan is amongst the leading consumers of edible oil with the same comprising 2.8% of the GDP. Current per capita consumption stands at around 22kg in 2020 compared to global average of 24kg. Going forward, overall demand is likely to expand on the back of growing demand of frying and processed food, increasing number of restaurants, urbanization and growing disposable incomes along with ongoing shift from unpackaged to packaged products.

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 noted in revenues and net margins during FY21 led by surge in overall market demand

Net sales of the company increased to Rs. 12.4b (FY20: Rs. 7.7b) exhibiting an exorbitant sales growth of 61% during FY21 largely being a function of 38% increase in volumes and 13% increase in average selling prices led by passing on the impact of currency devaluation. Volumetric growth is attributable to overall surge in demand and capturing share of one of the leading players in the edible oil industry which has limited its business operations (*Tahir Omer Industry).* In terms of product sales mix, soya bean meal and soya bean oil continued to be the major revenue drivers and contributed almost 84.2% (FY20: 87.7%) of total revenue during FY21 while contribution of packed sales stood at 14.3% (FY20: 11.9%). In terms of rupee terms, sales of soya bean meal and soya bean oil stood higher at Rs. 10.6b (FY20: Rs. 6.8b) while packed sales stood at Rs. 1.8b (FY20: Rs. 924mb) during FY21. The sale of soybean meal constituted around three-fifths of the total bulk sale. The prime customers of soya bean meal are the associated concerns of Olympia Group which on an average utilizes around 30-40% of the output, while the remaining is sold in the open market. The concentration among top-5 customers improved to 54% (FY20: 62%) during FY21 but remained on the higher side. However, comfort is drawn from bulk sales to institutional clients. The gross profit of the company increased to Rs. 837m (FY20: Rs. 578m) while gross margin declined to 6.7% (FY20: 7.4%) mainly due to higher raw material prices led by currency devaluation and inability to pass on the total impact of the same in sales price. Finance costs were reported lower in FY21 due to lower interest rates. Despite higher expenses recorded for WWF and WPPF, lower income on bank deposits due to reduced policy rates and higher turnover tax, overall net profitability after tax improved to Rs. 329.8m (FY20: Rs. 120.6m) during FY21. Consequently, net margins improved to 2.6% (FY20: 1.6%) in the outgoing year.

Liquidity profile remained adequate mainly supported by healthy cash flows coverage of outstanding obligations

Funds from Operations (FFO) of the company increased to Rs. 335m (FY20: Rs. 210m, FY19: Rs. 116m) during FY21 mainly on the back of higher profitability. Given minimal reliance on long term financing, FFO to long-term debt coverage remained sizeable at 75x (FY20: 44x) while FFO to total debt stood higher at 14% (FY20: 8.5%). Trade debts decreased to Rs. 1.2b (FY20: Rs. 1.1b) at end-FY21 that included receivables from associated concerns amounting at an average of around Rs. 200m. As per ageing, 80% receivables were due within 90 days as per routine credit while 10% were due more than 270 days. The company carried out routine capex while no major capex is planned for the next two years. Debt service coverage ratio remained comfortable at 3.73x (FY20: 2.24x; FY19: 1.8x) during FY21. Furthermore, coverage of short-term borrowings through trade debts and inventory and current ratio were reported above 1x.

Given slightly extended working capital, short term borrowing increased while leverage indicators improved due to growth in equity base through profit retention

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 increased to Rs. 2.5b (FY20: Rs. 2.4b) at end-FY21 due to extended working capital cycle amidst COVID-19. These facilities were secured against charge on current assets, fixed assets and lien on import documents. OOL currently has access to around Rs. 5b of funded and Rs. 6b of 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 growth in equity base through higher profit retention, gearing and leverage indicators improved to 1.87x (FY20: 2.39x, FY19: 2.2x) and 2.49x (FY20: 3.00x, FY19: 2.7x) respectively by end-FY21. As per management, leverage indicators are expected to remain moderate due to reliance on short-term borrowing only for working capital requirements with no plans of drawing long term debt, 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	**FY18**	**FY19**	**FY20**	**FY21**
Fixed Assets	525	530	674	670
Stock-in-Trade	1,080	911	1,939	1,924
Trade Debts	713	1,393	1,086	1,242
Cash & Bank Balances	251	249	228	347
Total Assets	3,052	3,566	4,316	4,940
Trade and Other Payables	785	310	427	568
Long Term Debt	3	5	5	5
Short Term Debt	1,257	2,101	2,453	2,532
Total Debt	1,260	2,106	2,457	2,537
Total Equity	833	950	1,029	1,359
Total Liabilities	2,179	2,576	3,087	3,381
Paid Up Capital	429	429	359	359
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**FY21**
Net Sales	7,075.1	7,297.2	7,775.4	12,547.6
Gross Profit	371.5	457.7	578.3	837.2
Operating Profit	240.7	303.8	423.3	644.8
Profit Before Tax	138.7	139.5	249.0	516.4
Profit After Tax	50.3	48.3	120.6	329.9
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**FY21**
Gross Margin (%)	5.3%	6.3%	7.4%	6.7%
Net Margin (%)	0.7%	0.7%	1.6%	2.6%
Net Working Capital	254.8	366.0	502.0	779.0
Trade debts/Sales	10.1%	19.1%	14.0%	9.9%
FFO	112.0	115.8	209.8	355.8
FFO to Total Debt (%)	8.9%	5.5%	8.5%	14.0%
FFO to Long Term Debt (%)	3862.1%	2363.9%	4439.6%	7490.6%
Debt Servicing Coverage Ratio (x)	2.2	1.80	2.24	3.73
Current Ratio (x)	1.1	1.1	1.2	1.2
Stock+ Trade Debts/STD	142.6%	109.6%	123.3%	125.1%
Gearing (x)	1.51	2.22	2.39	1.87
Leverage (x)	2.62	2.71	3.00	2.49

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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Due Diligence Meeting	(see table below)

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
12/11/2021	A-	A-2	Stable	Upgrade
17/09/2020	BBB+	A-2	Stable	Reaffirm
31/05/2019	BBB+	A-2	Stable	Reaffirm
12/04/2018	BBB+	A-2	Stable	Initial

Due Diligence Meeting

Name	Designation	Date
Mr. Sajid Iqbal	CFO	September 27, 2021