RATING REPORT

Olympia Oils (Pvt.) Limited

REPORT DATE:

October 11, 2022

RATING ANALYSTS:

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RATING DETAILS				
	Latest Ratings		Previous Ratings	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	A-	A-2
Rating Date	*Oct 11, 2022*		*Nov 12, 2021*	
Rating Action	Reaffirmed		Upgrade	
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.

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 "Monnoo Group" having diversified business interests in textile, poultry, carpets, chemicals & synthetics. The ratings draw strength from moderate business risk profile based on majority of the revenue emanating from bulk sales to institutional clients thereby avoiding competition from mainstream branded oil market.

The sales increased during the outgoing year on account of higher product prices despite decrease in sales volume. The company also posted relatively higher margins on a timeline basis. Leverage indicators improved considerably due to lower short-term borrowings and enhanced equity base. Liquidity profile is underpinned by adequate cash flow coverages and manageable working capital cycle. The demand outlook for consumer goods industry including edible oil, though quite inelastic, may be somewhat impacted due to recent floods in the country affecting ~33 million people. The ratings will remain dependent on maintaining profitability profile, liquidity and capitalization indicators, going forward.

Industry Overview: 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, the competition risk is largely mitigated 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.

The growth prospects of total oilseed and edible oil consumption for MY2022-23 are expected to be somewhat subdued owing to higher prices and other economic headwinds curbing demand. Resultantly, total oil seed imports for MY2022-23 are forecasted to remain unchanged at 3.4m metric tons. Oilseed and edible oil stocks are expected to remain at minimum pipeline levels, equivalent to about one month of domestic needs, in order to manage cash flows amidst elevated prices. Soybeans are expected to remain the dominant oilseed imported, accounting for nearly three-fourth of the total imports while the rest constitute rapeseed imports. Soybean and rapeseeds imports for upcoming marketing year are expected to remain unchanged at 2.6m metric tons and 0.8m metric tons, respectively. The flat import projections reflect stagnant demand prospects from the feed compounding sector and sluggish demand of edible oil. Palm oil is forecasted to remain the major imported oil whilst facing significant price pressure and potential for disruption in supplies from key exporters; import forecast remain unchanged at prior year's level of 3.6m metric tons. (USDA)

For promotion of oilseed crops, Ministry of National Food Security & Research is executing a mega project 'National Oilseed Enhancement Programme' with a total cost of Rs. 10.964b under the National Agriculture Emergency Programme. Subsidy of Rs. 5,000 per acre for seed/inputs for canola, sunflower and sesame and 50% on purchase of oilseed machineries is being provided to growers. (Pakistan Economic Survey 2021-22). However, despite the subsidy, the wheat or sugarcane price support policy outweighs any incentives to plant oilseeds and limits potential for significant expansion in their domestic output.

During FY22 (July-March), 2.754m tons of edible oil or oilseed for crushing amounting Rs. 662.657b (US$ 3.681b) was imported. Local production of edible oil during this period is estimated at 0.460m tons. Total availability of edible oil during FY22 is estimated at 3.214m tons.

Table 1: Area and Production of Major Oilseed Crops (000 Tonnes)

Crops	2020-21			2021-22 (July-March) (P)*		
	Area (000 Acres)	Production		Area (000 Acres)	Production	
		Seed	Oil		Seed	Oil
Cotton Seed	5,137	1,782	214	4,740	2,126	255
Rapeseed & Mustard	608	338	108	692	377	121
Sunflower	151	87	33	253	141	54
Canola	77	49	19	124	79	30
Total	**5,073**	**2,256**	**374**	**5,809**	**2,723**	**460**

*P: Provisional

Source: Pakistan Oilseed Development Board (PODB), Pakistan Bureau of Statistics

However, with the recent floods across different areas of the country, the UN has estimated 2 million acres of crops to have been impacted. The cotton/rice growing area, South Punjab, has also been inflicted with heavy rains and flash floods. Therefore, a significant reduction in the country's output can be envisaged this year.

Operations update: The installed seed crushing capacity remained intact at 180,000 MT while capacity utilization was reported at 51% (FY21: 72%). As the raw material for production is majorly imported, the production was curtailed in order to lower working capital requirements amidst sharp devaluation of local currency during the outgoing year. However, it is to be noted that the augmentation in crushing during FY21 was largely attributable to capturing share of a leading industry player, which had limited its operations.

	FY20	***FY21***	***FY22***
Seed Crushing Capacity (MT)	180,000	180,000	180,000
Seed Crushing (MT)	89,904	129,009	91,005
Capacity Utilization	50%	72%	51%

The company has power requirement of around 1 MW while operating at current capacity for which it has sanctioned load of 1 MW from national grid and steam generators of 1 MW rated capacity. Recently, the company has installed 1 MW solar system worth around Rs. 70m. The long-term investment of Rs. 168m (FY21: Rs. 168m) pertained to property held by the group companies at a commercial area in Lahore; OOL has 15% share in this property. During FY21, each company surrendered its share in the favor of Olympia Hotel and Resorts (OHRL), an associated company, in the same proportion. OHRL will issue ordinary shares at Rs. 64 per share (Rs. 54 premium per share) to the company. As of June 30, 2022, the formalities for issuance of shares of OHRL to the company were in process. Long-term deposits (FY22: 270m; FY20: Rs. 160m) have increased owing to margin account and TDR account deposits in various banks related to bank guarantee in favor of Excise and Taxation department against levy of excise duty.

Growth in topline led by higher product prices: Net sales of the company were reported higher at Rs. 13.8b (FY21: Rs. 12.5b) driven by notable increase in average selling prices of edible oil and meal despite lower volumetric sales. During FY22, average rates of edible oil have exhibited an increase of ~67% vis-à-vis last year while soybean meal average prices increased by ~22%. In terms of quantity sales of soybean oil and meal decreased by 15% and 26%, respectively, during the outgoing year primarily to control working capital requirements, as discussed earlier in this report. Resultantly, the proportion of soybean oil increased to 32% (FY21: 24.7%) while the same decreased for meal to 49.2% (FY21: 59.7%) in the sales mix during FY22. Sale of packed oil has also increased due to higher prices, with some increase in contribution to 16.2% (FY21: 14.2%). During the outgoing year, the export sale of soybean meal also showed some increase in terms of quantity and prices. The exports sales were made in Afghanistan and Tajikistan.

Sales concentration has showed improvement on a timeline basis as top five accounts accounted for about 36% (FY21: 46%; FY20: 54%) of gross sales in FY22. The lower sales concentration is primarily attributable to decrease in proportion of sales to associated companies to improve working capital cycle. The proportion of soybean meal sales to associated companies, including Lahore Feeds Ltd., Olympia Feeds (Pvt.) Ltd. and Punjab Feed Mills decreased to 15% (FY21: 17%; FY20: 30%). Breakdown of sales into volume, value and average rates for three years is tabulated below:

	FY20			FY21			FY22		
Product-wise Breakup of Sales	**QTY (M.T)**	**Value (m. Rs.)**	**Avg. rate**	**QTY (M.T)**	**Value (m. Rs.)**	**Avg. rate**	**QTY (M.T)**	**Value (m. Rs.)**	**Avg. rate**
Dirt Oil	715.4	18.3	25,641	964	28.1	29,149	793	36.7	46,292
Soybean Hulls	-	-	-	328	8.2	25,000	1,372	42.1	30,654
Soybean Meal (Local)	65,437	4,924.9	75,262	90,843	7,478.4	82,322	67,510	6,783.5	100,480
Soybean Meal (Export)				600	54.8	91,284	2,134	220.3	103,257
Soybean Oil (Refined in bulk)	14,107	1,906.4	135,138	17,974	3,099.3	172,439	15,278	4,403.1	288,194
Soybean Oil (Refined)	97	13.8	142,735	471	91.2	193,654	199	53.5	269,231
Packaged Sale		912.0			1,777.1			2,234.5	
Net Sales		**7,775**			**12,537**			**13,774**	

During FY22, the company reported higher gross profit of Rs. 1.1b (FY21: 824.0m) with increase in gross margins to 7.9% (FY21: 6.6%) on the back of favorable prices relative to increase in cost of inputs. Cost of sales was recorded higher at Rs. 12.6b (FY21: 11.7b) mainly on account of increase in cost of raw material, which accounts for nearly 95% of the cost of goods manufactured. Administrative and distribution expenses amounted to Rs. 25m (FY21: 22.7m) and Rs. 156.5m (FY21: Rs. 149.7m) and were largely rationalized with sales. Other operating expenses amounted to Rs. 47.6m (FY21: Rs. 38.6m) were largely related to employee related payments. Other income largely comprising profit bank deposits remained limited. Accounting for taxation, the company recorded a net profit of Rs. 467.1m (FY21: Rs. 326.7m) with increase in net margin to 3.4% (FY21: 2.6%) in line with rationalized operating expenses and decrease in effective tax rate despite higher finance cost. As per management, provision for current taxation is based on minimum tax liability at the rate of 1.5% (FY21: 1.5%) of the turnover.

Adequate liquidity profile in terms of cash flow coverages and manageable working capital cycle: Funds from operations (FFO) of the company increased to Rs. 662.6m (FY21: Rs. 240.8m) mainly on account of higher profitability and decrease in income tax paid. Resultantly, FFO to total debt increased to 0.37x (FY21: 0.10x) while given limited reliance on long-term borrowings, FFO to long-term debt remained sizeable at 13.3x (FY21: 105.2x) during FY22. Debt service coverage has also remained adequate on a timeline basis (FY22: 3.85x; FY21: 2.95x).

Stock in trade stood lower at Rs. 1.4b (FY21: Rs. 2.0b) mainly due to decrease in finished goods inventory (FY22: Rs. 411.1m; FY21: 848.1m) at end-FY22. Trade receivables amounted to Rs. 1.4b (FY21: Rs. 1.0b) while as a percentage of net sales stood at 10% (FY21: 8%). Credit terms for sale of edible oil to institutional clients entails 10 to 20 days while for meal sales 30 days credit is provided to clients. The company usually execute meal sales on 60% cash payment. Sales with associated companies are done on same credit terms. Aging profile of trade receivables is considered satisfactory as around

90% of the receivables were outstanding for less than three months. Advances, deposits and other receivables stood at Rs. 563m (FY21: Rs. 508.1m) which includes advance income tax paid amounting to Rs. 490.3m (FY20: 347m). Cash and bank balances stood at Rs. 163.5m (FY21: Rs. 351.2m). Trade and other payables stood higher at Rs. 630.1m (FY21: Rs. 416.7m) mainly due to increase in advances from customers amounting Rs. 219.1m (FY21: Rs. 56.1m) and trade creditors to Rs. 190.4m (FY21: Rs. 177.6m). Current ratio was reported at 1.5x (FY21: 1.2x) at end-FY22. Coverage of short-term borrowings via stock in trade and trade debts improved to 1.64x (FY21: 1.18x). Net operating cycle has improved to 73 days (FY21: 91 days) on account of higher inventory and receivable turnover.

Improvement in leverage indicators on account of lower short-term borrowings and augmentation in equity: Debt profile of the company largely comprised short-term borrowings while long-term borrowing albeit increased during the year, have remained minimal. The company obtained a demand finance facility of Rs. 49m to partially finance the solar power setup. Short-term borrowings decreased to Rs. 1.7b (FY21: Rs. 2.5b) by end-FY22 in line with working capital requirements. OOL has access to around Rs. 6b of funded and Rs. 7b of non-funded credit facilities. The core equity enhanced to Rs. 2.0b (FY21: Rs. 1.5b) on the back of profit retention. Resultantly, debt leverage and gearing have improved to 1.36x (FY21: 2.17x) and 0.91x (FY21: 1.71x), respectively. Going forward, capitalization indicators are expected to remain manageable on the back of profit retention and largely maintained debt profile.

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**FY20**	**FY21**	**FY22 (Provisional)**
Fixed Assets	674	650	638
Long-Term Investment	-	168	168
Long-Term Deposit	94	160	270
Stores and Spares	65	80	180
Stock-in-Trade	1,939	1,951	1,441
Trade Debts	1,086	1,046	1,383
Advances, Deposits and Other Receivables	231	508	563
Cash & Bank Balances	228	351	163
Total Assets	**4,316**	**4,915**	**4,805**
Trade and Other Payables	427	417	630
Long Term Debt	2	2	50
Short Term Debt	2,453	2,532	1,721
Total Debt	2,455	2,535	1,771
Other Liabilities	205	277	252
Total Liabilities	**3,087**	**3,229**	**2,652**
Tier-1 Equity	**1,029**	**1,486**	**1,954**
Total Equity	1,229	1,686	2,153
Paid Up Capital	359	359	359
INCOME STATEMENT	**FY20**	**FY21**	**FY22 (Provisional)**
Net Sales	7,775	12,533	13,710
Gross Profit	578	824	1,089
Operating Profit	423	636	869
Profit Before Tax	249	515	638
Profit After Tax	121	327	467
RATIO ANALYSIS	**FY20**	**FY21**	**FY22 (Provisional)**
Gross Margin (%)	7.4	6.6	7.9
Net Margin (%)	1.6	2.6	3.4
Net Working Capital	502	757	1,181
FFO	209.8	241	663
FFO to Total Debt (x)	0.09	0.10	0.37
FFO to Long Term Debt (x)	88.3	105.2	13.3
Debt Servicing Coverage Ratio (x)	2.24	2.95	3.85
Current Ratio (x)	1.2	1.2	1.5
Cash Conversion Cycle (Days)	116	91	73
Stock+ Trade Debts/STD	1.23	1.18	1.64
Gearing (x)	2.39	1.71	0.91
Leverage (x)	3.00	2.17	1.36

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 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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
11/10/2022	A-	A-2	Stable	Reaffirmed
12/11/2021	A-	A-2	Stable	Upgrade
17/09/2020	BBB+	A-2	Stable	Reaffirmed
31/05/2019	BBB+	A-2	Stable	Reaffirmed
12/04/2018	BBB+	A-2	Stable	Initial

Due Diligence Meeting

Name	Designation	Date
Mr. Sajid Iqbal	CFO	August 25, 2022