RATING REPORT

Khalis Oil & Ghee Industries Limited (KOGIL)

REPORT DATE:
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RATING DETAILS		
	Initial Rating	
Rating Category	Long-term	Short-term
Entity	BBB+	A-2
Rating Outlook	*Stable*	
Rating Action	Initial	
Rating Date	*September 28th.'18*	

COMPANY INFORMATION	
Incorporated in 2014	External auditors: Kamran & Co. Chartered Accountants
Public Limited (Unlisted) Company	Chairman of the Board/CEO: Rana Tahir Iqbal
Key Shareholders (with stake 5% or more):	
Rana Iqbal Hussain – 33.33%	
Rana Tahir Iqbal – 33.33%	
Rana Omer Iqbal – 33.33%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria: Industrial Corporates (May 2016)
http://jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf

Khalis Oil & Ghee Industries Limited

OVERVIEW OF THE INSTITUTION

Khalis Oil & Ghee Industries Limited (KOGIL) was incorporated in 2014. The company's business revolves around manufacturing and marketing of Banaspati Ghee & Cooking Oil.

Profile of the Chairman/CEO

Rana Tahir Iqbal has a business degree from King's College London. He has over 10 years of working experience in the group.

Financial Snapshot

Total Equity: end-FY18: Rs. 1.1b; end-FY17: Rs. 465m; end-FY16: Rs. 145m

Assets: end-FY18: Rs. 2.0b; end-FY17: Rs. 850m; end-FY16: Rs. 158m

Profit After Tax: FY18: Rs. 233m; FY17: Rs. 103m; FY16: Rs. (4m)

RATING RATIONALE

Khalis Oil & Ghee Industries Limited (KOGIL) is an edible oil refining unit. The company is a part of Khalis Group which owns business stake in various sectors. The assigned ratings take into account relatively high business risk profile, though considerable experience of sponsors in the related industries. The ratings also take into account moderate financial risk profile as reflected in stable but vulnerable profit margins, middling gearing indicators, and sufficient liquidity. The ratings are constrained by low brand recognition, high competition in the branded edible oil segment, under-utilized production capacity, and weak corporate governance.

Key Rating Drivers:

Vulnerability to risks

KOGIL is positioning itself to capitalize on favorable demand dynamics of Pakistan's edible oils industry. The company, however, is a relatively new entrant and hence faces higher competition from well-established brands which have extensive distribution network. Due to its low brand recognition, KOGIL is more prone to pricing pressure created by cheaper varieties of imported edible oils and unorganized sector which has notable penetration in the industry. The company also faces challenges in marketing since there are little product differentiation and limited value addition. Although, the industry regularly passes on the impact of any increase in imported raw material prices, a sustained increase in prices could dampen the overall profitability in the wake of KOGIL's open market procurement strategy.

Accelerated production uplifts sales

KOGIL exhibited an 83% growth in net sales during FY18 on account of a sizeable increase in production output and a notable improvement in the average selling prices. This coupled with procurement of raw material at marginally cheaper rates resulted in higher profit margins. Consequently, the company registered higher net income, which also includes a favorable impact of tax exemption. Going forward, net sales are expected to improve as KOGIL has room to increase production levels.

Coverages remained sufficient

With higher FFO, FFO to total debt ratio improved to 0.39x despite higher utilization of short-term borrowings. The debt service coverage ratio of 10.3x remained on the higher side in the absence of any long-term debt. While the current ratio weakened to 1.16x during FY18, but is considered sufficient. Going forward, cash flows are expected to improve on account of incremental sales mainly emanating from potential increase in production output.

Moderate gearing in the absence of a long-term debt

Core equity of KOGIL augmented to Rs. 539m with the accumulation of undistributed profits during FY18. The debt profile of the company only comprises short-term credit facilities which have been availed to finance the working capital requirements. During FY18, the outstanding balance of short-term borrowings increased on account of accelerate production activity. Resultantly, gearing and debt leverage indicators stood slightly higher at 1.5x and 1.7x, respectively. As per the financial projections, the gearing indicators are expected to improve going forward as the equity is augmented on the back of profit retention and stable borrowing levels.

Corporate governance framework needs improvements

The Board of Directors of the company comprises three members; all being the members of sponsoring family. The senior management team is well-equipped with the industry knowledge and experience. However, the overall corporate governance framework exhibits room for notable improvements, including formal board meetings and formation of board committees.

Khalis Oil & Ghee Industries Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	June 30, 2016	June 30, 2017	June 30, 2018
Non-Current Assets	148	401	983
Stock-in-Trade	-	92	493
Trade Debts	-	246	350
Cash & Bank Balances	1	45	49
Other Assets	9	66	86
Total Assets	**158**	**850**	**1,961**
Trade and Other Payables	13	30	33
Short-Term Borrowings	-	299	797
Long-Term Borrowings *(Inc. current matur)*	-	-	-
Other Liabilities	-	56	63
Total Liabilities	**13**	**385**	**893**
Tier-1 Equity	145	258	539
Total Equity	**145**	**465**	**1,068**

INCOME STATEMENT	June 30, 2016	June 30, 2017	June 30, 2018
Net Sales	-	1,767	3,240
Gross Profit	(3)	158	318
Operating Profit	(4)	115	273
Profit After Tax	(4)	103	233
FFO	(4)	90	307

RATIO ANALYSIS	June 30, 2016	June 30, 2017	June 30, 2018
Gross Margin (%)	-	9.0%	9.8%
Net Working Capital	(3)	116	137
FFO to Long-Term Debt	-	-	-
FFO to Total Debt	-	0.30	0.39
Debt Servicing Coverage Ratio (x)	-	12.7	10.3
ROAA (%)	-	20.5%	16.6%
ROAE (%)	-	33.8%	30.4%
Gearing (x)	-	1.2	1.5
Debt Leverage (x)	0.1	1.5	1.7

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

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

'SD' Rating: An 'SD' rating is assigned when JCR-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	Khalis Oil & Ghee Industries Limited
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	JCR-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	JCR-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		
28/09/2018	BBB+	A-2	Stable	Initial