

## RATING REPORT

## Faisalabad Oil Refinery (Pvt.) Limited (FORL)

**REPORT DATE:**

April 08, 2020

**RATING ANALYSTS:**

Maham Qasim

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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-2	BBB+	A-2
Rating Date	April 08, 2020		June 28, 2019	
Rating Outlook	Stable		Stable	

## COMPANY INFORMATION

Incorporated in 1984-1985	External auditors: Zaheer Babar & Co. Chartered Accountants
Private Limited Company	Chairman of the Board/CEO: Mr. Mian Muhammad Hanif
<b>Key Shareholders (with stake 5% or more):</b>	
Muhammad Usman Saleem – 82.05%	
Muhammad Hassan Rasheed – 8.95%	
Khizra Rasheed – 4.48%	
Atiya Rasheed – 4.48%	

## APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (May 2019)

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

**Faisalabad Oil Refinery (Pvt.) Limited**

**OVERVIEW OF THE INSTITUTION      RATING RATIONALE**

Faisalabad Refinery Oil (Pvt.) Limited (FORL) was established in 1984-1985. The company is involved in the manufacturing of Vegetable Ghee, Cooking Oil, and allied products.

**Profile of the Chairman/CEO**

Mr. Mian Muhammad Hanif has more than 25 years of experience in edible oils, sugar, steel, and education sectors. He is also acting chairman of Pakistan Edible Oils Refiners Association.

**Financial Snapshot**

**Total Equity:** end-HY20: Rs. 7.4b; end-FY19: Rs. 6.9b; end-FY18: Rs. 5.3b

**Assets:** end-HY20: Rs. 13.9; end-FY19: Rs. 15.7b; end-FY18: Rs. 10.8b

**Profit After Tax:** HY20: Rs. 385m; FY19: Rs. 363m; FY18: Rs. 338m

The ratings assigned to Faisalabad Oil Refinery (Pvt.) Limited (FORL) take into account its association with Madinah Group, having business stake in various sectors encompassing edible oils, sugar, ethanol, power generation, mass media and steel. The assigned ratings reflect stable business model, sustained sale volumes, sizeable equity base, improved margins and sound liquidity profile. Furthermore, ratings draw comfort from integrated production facility, profound distribution network along with well-established brand. Minimal reliance of the company on long term financing, adequate coverages and positive demand prospects of edible oil have also provided strength to the business. However, the ratings are constrained as a result of highly price sensitive import market of raw material and high dependence of the company on short-term credit facilities.

**Business and industry risk factors:** FORL, like all branded edible oil firms, faces pricing pressure from the unorganized segment, which has a significantly higher market share in Pakistan’s edible oil industry. The company also faces challenges in marketing since there is little product differentiation and minimal switching cost. The industry is exposed to high credit risk arising from widespread debtor base, but FORL avoids it by taking advance payments from most of its distributors. The industry provides a natural hedge to some extent as input and output prices are fairly correlated, and yet, the management maintains an optimal level of raw material inventory to avoid inventory losses in case of adverse movements in prices. While FORL does not take positions in agro-commodity futures, the senior management closely monitors the trends and volatility levels to manage the pricing risk. The commodity statistics show that the price volatility of palm oil and rapeseed oil has remained range-bound over the past twelve months.

**Stagnant Topline:** Despite increase in the average prices of the final retail products the topline of the company remained largely stagnant at Rs. 16.4b (FY18: Rs. 16.3b) owing to decline in volumetric sales to 161,630 MT during FY19 as compared to 170,660 MT in the preceding year. Vegetable ghee (*under the flagship brand of Kisan Vegetable Ghee*) has remained the major revenue driver, followed by cooking oil; the same contributed around 54% (FY18: 59%) and 23% (FY18: 22%) respectively, to the total gross revenue. Further, prevalent slump in the steel sector remained impedimental to the offtake of the company’s steel segment with the revenues initially increasing slightly to Rs. 64m (FY18: Rs. 42.3m) during FY19 while coming to a complete halt during the ongoing year. Around two-third of the sales originated from Punjab region, meanwhile overall region wise concentration has exhibited improvement. The contribution of oil meal, soap and other products to the total sales mix has changed marginally. The downward trend in sales continued during HY20 as well, with quantum sales recorded lower at 71,667 MT; the same is an indicator of intense competition faced by the company with entry of new market players making market capitalization difficult.

Gross margins of the company exhibited an improving trend; recorded higher at 13.2% (FY19: 8.8%; FY18: 7.2%) as an outcome of higher average sales price per unit of all products. Further, no notable increase in the cost of primary raw material, edible oil, also contributed positively to the gross margins of the company. The raw material mix slightly tilted further towards procurement of edible oil as compared seeds; therefore the contribution of oil meal in the revenue generation has declined on the timeline basis. Capacity utilization of oil refinery has declined to 71% (FY18: 79%), as the number of days, the plant has remained operational increased to 239 days (FY18: 243days) during outgoing

year. Keeping the market dynamics, capacity utilization of the steel unit has remained low during FY18. Raw material cost comprises the major chunk of the cost of goods. The selling and distribution cost has increased in line with increase in company's scale of operations; meanwhile, the administration expenses were largely rationalized in terms of sales growth with a slight increase manifested in compensation benefits. Despite increase in finance cost to Rs. 543.6m (FY18: Rs. 346.6m) owing to higher utilization of short term borrowings, the bottom line was recorded higher on account of improvement in margins and rationalized operating expenses.

During HY20, net sales amounted to Rs. 8.5b, in consistent with the projections put forward by management. Gross margins exhibited an increase during ongoing year in line with increase in prices of end-products. As per management, the impact of Pak rupee depreciation has been fully passed on; therefore the margins will be maintained at current levels.

**Investment in associated company provided impetus to profitability:** FORL maintained its stake in its associated concern, Madina Sugar Mills Limited at 36.3% (FY18: 36.3%), during FY19. Further, the share of profit from associated concern increased to Rs. 215.1m (FY18: Rs. 159.4m). Accordingly, the value of long term investment in associate stood higher at Rs. 1.8b (FY18: Rs. 1.6b) by end-FY19. The management expects that the investment will continue to provide support to bottom-line, going forward.

**Adequate liquidity supported by healthy cash flows in relation to outstanding obligations:** Funds from Operations (FFO) improved to Rs. 197.6m (FY19: Rs.137.6m; FY18: Rs.178.3m) during HY20 primarily as a result of improvement in margins. Further, liquidity profile of the company has largely remained intact given FFO to long term debt was sizeable as a result of minimal reliance on long term financing. On the other hand, in line with higher utilization of short-term borrowings, FFO to total debt stood lower at end-FY18; meanwhile the same improved slightly during the ongoing year. Stock in trade was recorded lower by end-HY20, as the company was meeting its inventory demand through continuous production, in order to lower the cost associated with holding higher inventory levels and perishable nature of certain products. Advances, prepayments and other receivables stood higher mainly on account of higher sales and income tax receivables. Trade debts were recorded higher relative to quantum of sales during the period under review; however the profile of receivables was satisfactory with nearly 100% of the receivables falling due within 1 to 3 months. Stock in trade stood higher at Rs. 2.7b by the end-FY19, accordingly in order to meet higher working capital needs, short-term borrowings increased to Rs. 7.9b during the same period. FORL has access to Rs. 3.5b of working capital lines available through various banks. During FY19, vehicles costing Rs. 27.4m and Rs. 61.1m were purchased. Capex amounting to Rs. 27.4m was made during FY19, which majorly encompasses buying a plant and machinery as a part of regular BMR requirement. As per management, the company has planned to make an additional investment of Rs. 500m during FY20, which entails buying a seed crushing plant and a generator. The aforementioned capex will be financed through long-term loan facility. Debt service coverage ratio, albeit declined, has remained adequate at 1.06x (FY19: 1.67x; FY18: 1.32x) at the end-HY20. Given increase in profitability, liquidity position is projected to improve further, going forward.

**Augmentation in equity on back of profit retention:** The equity position of the company has strengthened in line with internal capital generation. Debt profile of the company majorly comprises short-term borrowings with minimal reliance on long term financing. Furthermore, to meet higher working capital requirements emanating from high raw

material inventory piled, short-term borrowings peaked to Rs. 7.9b (FY18: Rs. 5.2b) by end-FY19; the same however declined to Rs. 5.7b during HY20. These facilities are secured against charge on current assets, fixed assets and lien on import documents. Moreover, these facilities are subject to markup of 3 month KIBOR+ 0.25% per annum. Albeit equity base has strengthened on timeline basis, given higher utilization of short-term borrowings gearing and leverage indicators have increased to 1.59x and 1.1.67x (FY18: 1.25x and 1.32x; respectively, by end-FY19. Gearing and leverage indicators improved during the ongoing year; the same are projected to improve further on account of higher equity and lower utilization of short-term borrowings by meeting working capital needs through internally generated capital.

**Internal Audit & IT:** An internal audit team of 8 employees oversees the audit related matters on group level. During the period under review, the company has deployed MS Dynamics AX as a replacement of legacy system (SQL Server 2005 and reporting tool Crystal 19).

**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.

**Faisalabad Oil Refinery (Pvt.) Limited**
**Appendix I**

<b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions)</i>				
<b>BALANCE SHEET</b>	<b>June 30, 2017</b>	<b>June 30, 2018</b>	<b>June 30, 2019</b>	<b>Dec 31, 2019</b>
Non-Current Assets	2,934	3,483	5,085	5,050
Stock-in-Trade	1,939	1,327	2,666	1,575
Trade Debts	2,113	4,016	4,913	4,553
Advances, Prepayments and other Receivables	1,566	1,840	2,349	1,817
Cash & Bank Balances	53	12	395	541
Other Assets	213	131	299	320
<b>Total Assets</b>	<b>8,818</b>	<b>10,809</b>	<b>15,707</b>	<b>13,856</b>
Trade and Other Payables	99	201	134	89
Short Term Borrowings	3,722	5,246	7,937	5,658
Long-Term Borrowings <i>(Inc. current maturity)</i>	-	2	43	38
Paid Up Capital	700	700	1,500	1,500
Tier-1 Equity	3,827	4,196	5,013	5,575
<b>Total Equity</b>	<b>4,940</b>	<b>5,253</b>	<b>6,861</b>	<b>7,422</b>
<b>INCOME STATEMENT</b>	<b>June 30, 2017</b>	<b>June 30, 2018</b>	<b>June 30, 2019</b>	<b>Dec 31, 2019</b>
Net Sales	10,341	16,263	16,442	8,512
Gross Profit	986	1,170	1,440	1,127
Operating Profit	756	929	1,118	930
Profit Before Tax	626	702	790	582
Profit After Tax	336	338	363	385
FFO	229	178	138	198
<b>RATIO ANALYSIS</b>	<b>June 30, 2017</b>	<b>June 30, 2018</b>	<b>June 30, 2019</b>	<b>Dec 31, 2019</b>
Gross Margin (%)	9.5	7.2	8.8	13.2
Net Working Capital	2,031	1,805	2,355	2,947
Current Ratio (x)	0.97	1.33	1.28	1.50
FFO to Long-Term Debt	-	85.94	3.18	10.40
FFO to Total Debt (%)	0.06	0.03	0.02	0.07
Debt Servicing Coverage Ratio (x)	2.16	1.59	1.30	1.38
ROAA (%)	3.5	3.4	2.6	5.2
ROAE (%)	7.0	8.4	7.7	14.5
Gearing (x)	0.97	1.25	1.59	1.02
Debt Leverage (x)	1.01	1.32	1.67	1.06
(Stock in Trade+Trade Debts) to Short-term Borrowings (x)	1.09	1.02	0.95	1.08

*\*Annualized*

**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](http://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](http://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](http://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			
<b>Name of Rated Entity</b>	Faisalabad Oil Refinery (Pvt.) Ltd				
<b>Sector</b>	Consumer Goods				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	April 08, 2020	BBB+	A-2	Stable	Reaffirmed
	June 28, 2019	BBB+	A-2	Stable	Reaffirmed
	June 29, 2018	BBB+	A-2	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>		<b>Name</b>	<b>Designation</b>	<b>Date</b>	
	1	Mr. Naeem Malik	Senior Manager	27-Feb-2020	