RATING REPORT

Faisalabad Oil Refinery (Pvt.) Limited (FORL)

REPORT DATE:
June 29, 2022

RATING ANALYSTS:
Arsal Ayub, CFA
arsal.ayub@vis.com.pk

M. Amin Hamdani
amin.hamdani@vis.com.pk

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	*June 29, 2022*		*April 12, 2021*	
Rating Outlook	Positive		Positive	

COMPANY INFORMATION

Incorporated in 1984-1985	External auditors: Zaheer Babar & Co. Chartered Accountants
Private Limited Company	Chairman of the Board/CEO: Muhammad Usman Saleem
Key Shareholders (with stake 5% or more):	
Mr. Muhammad Usman Saleem – 99.96%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (August 2021)
https://www.vis.com.pk/kc-meth.aspx

OVERVIEW OF THE INSTITUTION

Faisalabad Oil Refinery (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. Muhammad Usman Saleem has more than 10 years of experience in edible oils, sugar, steel, and education sectors.

RATING RATIONALE

Faisalabad Oil Refinery (Pvt) Limited ('FORL' or 'the Company') was incorporated in 1984-1985. The principal business of FORL is manufacturing and sale of banaspati ghee, cooking oil, spices, water, and by-products. The Company has numerous brands under its umbrella, with 'Kisan' being the flagship brand. Head office of the Company is located in Faisalabad. The Factory and Registered office is located at Port Qasim, Karachi. FORL also has a steel factory in Chiniot.

FORL is associated with the Madinah Group having business stake in various sectors including sugar, ethanol, power generation, steel, and mass media. It remains a family owned business with several years of rich experience of the industry. Mr. Muhammad Usman Saleem owns 99.96% of the shareholding and acts as a Chief Operating Officer (C.E.O.). Chairman of Madina Group, Mian Muhammad Hanif continues to provide strategic guidance to FORL.

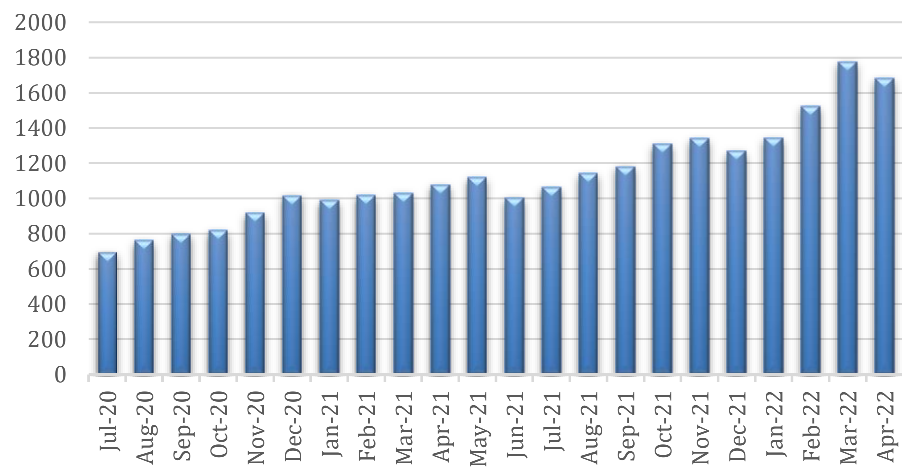
Rating Drivers

VIS classifies Edible Oil Industry as 'High' business risk, given its heavy reliance on imported raw material, fragmented market, low value addition & switching cost and thin sector margins

- Pakistan's edible oil industry majorly relies on imported palm oil and seeds in order to cater the local demand. Roughly, around three-quarters of the local demand is catered through imported palm oil.

- Prices of palm oil in international market witnessed a significant hike from USD 990/ton, as of Jan'21, to USD 1,777/ton as of Mar'22, up 79% during the 3-mont period. With the cost in its entirety, being passed on to the consumers, local edible oil pricing also increased. In Jun'22, sales price of edible oil through utility stores - wherein household staples are sold at controlled pricing – was increased by 30%.

Figure 1: Palm Oil Prices (USD/Ton*)*



- Demand side of palm oil remained strong and is expected to grow, as palm oil is a staple product, with wide variety of uses including its consumption as food and as a commercial raw material for the FMCG industry.

- In Pakistan, the edible oil sector comprises more than 200 registered cooking oil and ghee manufacturing companies in Pakistan, including around 50 ghee manufacturing unites, which collective product ~10,000 tons of oil and ghee on daily basis. Pakistan Vanaspati Manufacturers Association (PVMA) is representative body of around 125 ghee and oil manufacturers in the organized sector, which has installed capacity of over 4m MT.

- VIS characterizes the business risk profile of the sector by high competitive intensity, fragmentation with low barriers to entry, resulting in limited pricing power and thin profitability margins. While leading players are playing important part in catering to demand for packaged edible oils, fragmentation in the industry is evident from no single entity holding a double-digit market share.

- Recently, the Sindh High Court has imposed a ban on sale of loose edible oil in the province, with the objective to curtail adulteration of cooking oil i.e. a health hazard. The development bodes well for the organized sector.

Topline posted strong growth on the back of pricing increase; margins remained volatile

Table 1: P&L (Extract)

	FY19	FY20	FY21	H1'FY21	H1'FY22
Sales	16,442	17,461	20,894	8,807	14,006
Profit Before Tax	790	953	905	673	949
Profit After Tax	331	516	577	541	739
Gross Margin	*8.8%*	*9.8%*	*7.1%*	*11.7%*	*9.9%*
Net Margin	*2.0%*	*3.0%*	*2.8%*	*6.1%*	*5.3%*

- FORL's net sales increased by 20% YoY in FY21, mainly being driven by increase in pricing. Average product pricing was up 26% vis-à-vis average pricing in FY20. Given continuation of the commodity super cycle and significant increase in edible oil pricing, FORL's net revenues were up 59% in H1'FY22, vis-à-vis SPLY.

- Vegetable Ghee and Cooking Oil comprise major portion of sales and contributed 85% of the gross sales in H1'FY22. (FY21: 79%, FY20: 82%).

- The Company also has a small export portion (less than 1% of sales) wherein the main export product is Meal i.e. is a by-product of mustard oil production.

- Client concentration is considered to be moderate, given that top 10 and 50 clients account for 10.4% and 23.8% of net sales respectively. However, geographic concentration is relatively on the higher side, with more than 60% of the sales in Punjab. Concentration is not considered a major risk area for FORL, as Company's product suite comprises retail brands, which are sold through distributors.

- Gross margins contracted in FY21, mainly in the latter half due decline in international edible oil prices, which translated in inventory loss for FORL. However, given upswing in the international market pricing in H1'FY22, FORL's gross margin posted improvement.

Investment in associated companies continued to support bottom-line

Table 2: Long Term Investments

	Jun'20	Jun'21	Dec'21
Madina Sugar Mills Limited	2,112	2,302	2,302
Madina Enterprises Limited	-	498	498
Total	2,112	2,800	2,800

- FORL has a long-term investment in Madina Sugar Mills Limited, wherein the Company holds 31.05% stake as of Jun'21. (Jun'20: 31.05%). Madina Sugar Mills manufactures and sells crystalline sugar and ethanol.

- FORL receives a steady profit share from Madina Sugar Mills, as has been noted during the last 3-year period (FY19-21) (FY21: Rs. 188m, FY20: Rs. 292m, FY19: Rs. 215m).

- FORL has leased the steel division to associated company Madina Enterprise and extended a loan for revamping of steel division. FORL has an equity investment of Rs. 498m and loan of Rs. 102m as at Dec'21. The management has recently decided to divest in Madina Enterprise and eventually redeem its investment and loan amount.

Ratings incorporates prudent profit retention and financial risk indicators of the Company

- FORL's equity base continues to grow on the back of prudent profit retention. The Company has not made any dividend payments historically, as per review of the last 5-year period.

- However, FORL's financial risk indicators have depicted an increase, particularly on account of the significant increase in raw material prices lately, as a result of which running finance requirement is higher on a timeline.

- Resultantly, gearing and leverage of the Company was elevated at 1.13x and 1.32x as at Dec'21 (see historical ratios in Table 3 below).

- Going forward, management expects debt levels to come down at around Rs. 3-4b levels thorough efficient working capital management and use of internal cash generation while the Company has already improved its working capital cycle.

Table 3: Balance Sheet (Extract)

	FY19	FY20	FY21	HY'FY22
Equity (Exc. Surplus)	4,943	5,446	6,013	6,753
Liabilities	8,916	7,080	4,868	8,896
- **Debt**				
Assets	15,707	14,259	12,514	17,282
Gearing (x)	*1.61*	*1.12*	*0.57*	*1.13*
Leverage (x)	*1.80*	*1.30*	*0.81*	*1.32*
-DOI	*49*	*44*	*18*	*32*
-DOR	*99*	*102*	*66*	*38*
-DOP	*4*	*4*	*5*	*4*
Cash Conversion Cycle (days)	*144*	*141*	*79*	*66*

Ratings incorporate cash flow coverage indicators of the entity, which are expected to improve

Table 4: Liquidity & Cashflow Indicators

	FY19	FY20	FY21	H1'FY22
Funds from operations (FFO) (Rs. M)	138	173	1,501	261
Debt service coverage ratio (DSCR) (x)	*1.25*	*1.22*	*4.33*	*1.23*
FFO to Total Debt (x)	*0.02*	*0.03*	*0.44*	*0.03*
Current ratio (x)	*1.28*	*1.39*	*1.68*	*1.44*

- During FY21, FFO of the Company grew notably to Rs. 1.5b, which was mainly due to the tax refund. With the increase in FFO in FY21, DSCR rose 4.3x in FY21. In HY'FY22, DSCR posted a normalization trend.

- DSCR is expected to remain under stress in FY22 due to comparatively higher repayments due. FFO and DSCR is expected to improve subsequently.

- FORL has significantly improved its inventory and receivable days in order to efficiently manage its working capital cycle. The Working Capital Cycle of the Company has improved to 79 days in FY21. (FY20: 141 days).

- Current ratio of the Company historically remained above 1x, while stock of trade debts and inventory have historically covered the short term debt, which bodes well for the short term rating of the Company.

FINANCIAL SUMMARY				*(amounts in PKR millions)*		
BALANCE SHEET		**FY18**	**FY19**	**FY20**	**FY21**	**H1'FY22**
Non-Current Assets		3,483	5,085	5,536	6,214	6,100
Stock-in-Trade		1,327	2,666	1,124	801	3,634
Trade Debts		4,016	4,913	4,832	2,748	3,112
Advances, Prepayments and other Receivables		1,840	2,349	2,015	1,776	3,656
Cash & Bank Balances		12	395	430	557	323
Other Assets		131	299	321	418	456
Total Assets		10,809	15,707	14,259	12,514	17,282
Trade and Other Payables		201	134	240	303	242
Short Term Borrowings		5,246	7,937	5,899	2,759	7,023
Long-Term Borrowings *(Inc. current maturity)*		2	43	222	653	580
Paid Up Capital						
Tier-1 Equity		4,114	4,943	5,446	6,013	6,753
Total Equity		5,028	6,791	7,180	7,646	8,386
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**FY21**	**H1'FY21**	**H1'FY22**
Net Sales	16,194	16,442	17,461	20,894	8,807	14,006
Gross Profit	1,170	1,440	1,703	1,487	1,029	1,382
Operating Profit	890	1,118	1,384	1,154	852	1,139
Profit Before Tax	702	790	953	905	673	949
Profit After Tax	338	331	516	577	541	739
RATIO ANALYSIS		**FY18**	**FY19**	**FY20**	**FY21**	**H1'FY22**
Gross Margin (%)		7.2%	8.76%	9.75%	7.11%	9.87%
Net Working Capital		1,805	2,355	2,453	2,547	3,395
Current Ratio (x)		1.33	1.28	1.39	1.68	1.44
FFO		178	138	173	1,501	261
FFO to Long-Term Debt		85.94	3.18	0.78	2.30	0.45
FFO to Total Debt (%)		0.03	0.02	0.03	0.44	0.03
Debt Servicing Coverage Ratio (x)		1.51	1.25	1.22	4.33	1.23
ROAA (%)		3.44%	2.50%	3.44%	4.31%	4.96%
ROAE (%)		8.51%	7.31%	9.92%	10.07%	11.58%
Gearing (x)		1.28	1.61	1.12	0.57	1.13
Leverage (x)		1.41	1.80	1.30	0.81	1.32
(Stock in Trade + Trade Debts) to Net Short-term Borrowings (x)		1.02	0.95	1.01	1.29	0.96

**Annualized*

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	Faisalabad Oil Refinery (Pvt.) Ltd
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	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. Copyright 2022 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
June xx, 2022	BBB+	A-2	Positive	Maintained
April 12, 2021	BBB+	A-2	Positive	Maintained
April 08, 2020	BBB+	A-2	Stable	Reaffirmed
June 28, 2019	BBB+	A-2	Stable	Reaffirmed
June 29, 2018	BBB+	A-2	Stable	Initial

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. M. Naeem Malik	Finance Manager	20-May-2022