RATING REPORT

Faisalabad Oil Refinery (Pvt.) Limited (FORL)

REPORT DATE:
June 23, 2023

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	BBB+	A-2
Rating Date	*June 23, 2023*		*June 29, 2022*	
Rating Outlook	Stable		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)
Applicable Rating Criteria: Corporates (May 2023): **https://docs.vis.com.pk/docs/CorporateMethodology.pdf**

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale: **https://docs.vis.com.pk/docs/VISRatingScales.pdf**

Faisalabad Oil Refinery (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Faisalabad Oil Refinery (Pvt.) Limited (FORL) was established in 1986. 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 1986. The principal business of FORL is manufacturing and sale of banaspati ghee, cooking oil from canola seeds, 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. Steel unit of sister concern Company was under a lease arrangement with FORL, which expired on 30th June'2022.As per management, the lease agreement will not be extended after the expiry date.

FORL is associated with the Madinah Group of Industries 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 99.97% of the shareholding of FORL and acts as a Chief Operating Officer (C.E.O.). Chairman of Madina Group, Mian Muhammad Hanif continues to provide strategic guidance to FORL.

Power requirement of the manufacturing units is met through a combination of grid based power, diesel and gas generators. Installation of solar panels is currently in process (expected timeline- FY24) to provide efficiencies and energy cost savings.

Capacity Utilization

Capacity Utilization	FY21	FY22	HYFY23 (annualized)
Oil Refinery			
No. of Days Worked	321	351	348
Plant Capacity (MT)	125,000	180,000	180,000
Actual Production (MT)	96,306	119,964	118,149
	77%	**67%**	**66%**

During FY22, the company's expansion plan successfully commenced operations. The plan encompassed replacement of the seed crushing solvent plant to increase the capacity by 500 M.T. /day from 300 M.T. /day, replacement of diesel based power generation to coal and bagasse, and construction of a neutralization plant for refining canola oil. Despite elevated production levels in FY22 and HYFY23, overall capacity utilization were reported lower as compared to FY21 due to enhanced capacity. Going forward, management plans to further improve cost efficiencies by adding value chain into manufacturing of packaging materials (corrugated boxes) through recycling of waste paper. Total cost of this project is estimated at around Rs. 1.0-1.5b, which shall be financed through internal cash generation. The expected COD timeline is end of FY24.

Rating Drivers

VIS characterizes the business risk profile of the sector by high competitive intensity, high fragmentation with low barriers to entry, resulting in limited pricing power and thin profitability margins.

- Pakistan's edible oil industry majorly relies on imported oil seeds in order to cater the local demand. The total edible oilseed market is estimated at around 3m MT per annum having value of approximately $2b, out of which around four-fifth seed requirement is imported and the rest is procured from local production.
- During 7MFY23, Pakistan witnessed 9% increase in import quantities of Palm and Soybean oil as compared to FY22.
- Pakistan's import unit cost for palm oil in Oct'22 was recorded at $889/MT, lowest in the last 21-month period, dropping a 50% from $1,780/MT as of Mar'22. Palm Oil price as of end-April'23 was recorded at $1,010/MT.
- Edible oil market has been on a pirate ship throughout FY22 and FY23. The price hike was an outcome of the Russia-Ukraine War which resulted in shortage of crude oil. Meanwhile, the drop in international market may be attributable to improved supplies, ongoing global stagflation and recession induced squeezed demand. In addition, prices of palm oil are determined by looking at the value contracts for Palm Oil. Countries like Malaysia and Indonesia may play with the export ratio to influence price of the same since these two countries are solely the largest suppliers of palm oil.
- However, with the cost in its entirety, being passed on to the consumers, local edible oil pricing hasn't dropped in the same pace as international prices. Around Sept'22, the top A-grade brands sold oil at Rs. 570/kg, which was previously priced at Rs. 600/kg, depicting a decrease of only 5%. Likewise, the B-grade local brands have only dropped their prices by nearly 17%.
- The limited decrease in edible oil prices is mainly linked to the constant deterioration in rupee-dollar exchange rates in the outgoing year.
- While industry demand remain stable with edible oil being a staple product, changes in raw material prices (inventory losses) and foreign exchange rate fluctuations are key risk factors resulting in volatility in margins.
- Ratings are dependent on ability to manage the same which is in turn correlated to the level of competition and operational efficiency.

Topline growth in FY22 and HYFY23 contributed by both prices and volumes

- Topline of the Company witnessed a sizeable jump of 83% and were reported at Rs. 38.3b (FY21: Rs. 20.9b; FY20: Rs. 17.5b) in FY22 driven by a 12% growth in volumes and 65% increase in prices.
- Sales mix predominantly comprised Vegetable Ghee and Cooking Oil which accounted for 64% (FY21: 52%) and 21% (FY21: 27%) of net sales respectively during FY22. Ghee sales increased to Rs. 28.5b (FY21: Rs. 12.4b) on account of higher volumetric sales of 92,850 MT (FY21: 62,801 MT) along with higher average selling prices during the year. Meanwhile, Cooking Oil sales amounted to Rs. 9.4b

(FY21: Rs. 6.6b) owing to 62% increase in the average selling price. Other products in the mix include Soap, Meal and Steel Bar as indicated in the table below.

Product Mix	FY21	FY22	HY23
Vegetable Ghee	52%	64%	79%
Cooking Oil	27%	21%	15%
Soap	2%	1%	1%
Meal	13%	6%	2%
Steel Bar	6%	8%	4%
	100%	**100%**	**100%**

- Net sales of FORL mainly comprises of local sales.
- Customer concentration is fairly on the lower side with top 10 customers accounting for around 12% of total sales in FY22.
- 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 numerous distributors. FORL product portfolio also consists of brands namely Kisan, Data, Sartaj and Taiba. Kisan is the most popular brand in the list contributing 60% to the total revenue of the Company.
- During 9MFY23, revenue of the Company was recorded at Rs. 41.1b. As per management, with ease in LC constraints and access to seed inventory from April'23 onwards, revenue is expected to increase in all categories going forward. However, vegetable ghee will continue to remain the major revenue contributor.

High sensitivity of exchange rate volatility on margins due to dependence on imports

- Gross profit of the Company increased in absolute terms to Rs. 2.1b (FY21: Rs. 1.5b; FY20: Rs. 1.7b), albeit gross margins dipped in FY22 and were reported at 5.5% (FY21: 7.1%; FY20: 9.8%) due to decline in international edible oil prices, which translated into inventory loss for FORL. In addition, exchange rate deteriorations and inflationary pressures on cost of inventory couldn't be fully transferred to the final sales price.
- However, gross margin picked up pace during 9MFY23 on account of inventory gains and were reported at 6.3%.
- Administrative expenses in FY22 increased primarily due to higher remuneration and benefits expensed during the year. Finance charges were reported lower at Rs. 376m (FY21: Rs. 436m; FY20: Rs. 723m) mainly due to significant decline in borrowing levels in FY22.
- Net margin of the Company declined in FY22 on account of lower margins and income from investment (share of profit from associates- Madina Sugar Mills and Madina Enterprises) with the same reported at 2.3% (FY21: 2.8%; FY20: 3.0%). Net margins slightly improved in 9MFY23 (2.5%) due to revenue and gross margin increment.
- Going forward, management expects profitability of the company to remain stable in view of conservative projections.

- However, successful commencement of in-house packaging plant in FY24 is expected to yield operational efficiencies to the Company.
- Given uncertain macroeconomic environment, maintenance of margins will be important from a ratings perspective.

Investment in associated companies continued to support bottom-line

	Jun'21	Jun'22	Mar'23
Madina Sugar Mills Limited	2,302	2,506	2,503
Madina Enterprises Limited	498	451	416
Total	2,800	2,957	2,919

- FORL has a long-term investment in Madina Sugar Mills Limited (MSML), wherein the Company holds 31.05% stake as of Jun'22. (Jun'21: 31.05%). It manufactures and sells crystalline sugar and ethanol.
- FORL receives a steady profit share from MSML, as has been noted during the last 3-year period (FY20-22) (FY22: Rs. 203m; FY21: Rs. 88m, FY20: Rs. 394m). Going forward, management expects steady income to continue.
- Madina Enterprises Limited (MEL) has been operating in losses thereby subduing bottom-line support for FORL. Share of loss from MEL was reported at Rs. 46m (FY21: Rs. 2m) in FY22.
- FORL extended a loan to MEL for revamping of the Steel division. . FORL has an equity investment of Rs. 416m and loan of Rs. 159m as at Mar'23.
- Going forward, over the rating horizon, management envisages to divest shareholding in both associates.

Sufficient cash flow coverages.

- FFO to Total Debt and FFO to Long-Term Debt increased to 10% (FY21: 6%; FY20: -7%) and 53% (FY21: 21%; FY20: -24%) respectively during FY22. However, the same was insufficient in HYFY23 due to losses incurred.
- Although liquidity indicators declined in FY22, the same remain sufficient for the assigned ratings.
- Debt Servicing ratio (DSCR) dipped to 1.26x (FY21: 3.79x; FY20: 1.20x) during FY22. However, in 9MFY23, DSCR increased to 4.24x in line with higher profitability.
- FFO to Total Debt and FFO to Long-term Debt remain sufficient at 54% (FY22: 96%, FY21: 44%) and 553% (FY22: 96%, FY21: 230%) in 9MFY23.
- Current ratio as of 9MFY23 end stood at 1.63x, which is deemed adequate. However, Short-term borrowing coverage is low at 91% at end-Mar'23. Improvement in the same will be important.

Conservative capitalization profile

- Tier-I Equity base of the company accumulated to Rs. 7.9b (FY22: 6.9b; FY21: Rs. 6.0b) by end-Mar'23 through profit retention.
- The debt profile comprises a mix of long-term (10%) and short-term borrowings (90%). The outstanding balance of long-term borrowings, inclusive of current maturity, reduced to Rs. 572.9m (FY21: Rs. 653.1m) on account of repayment of debt employed.
- Gearing and leverage levels of the company depict conservative financial policy during the review period with the same reported at 0.56x (FY22: 0.08x; FY21: 0.57x) and 0.80x (FY22: 0.68x; FY21: 0.81x) respectively, at end-9MFY23.
- Given no plans to hire additional debt for expansion, capitalization indicators are expected to remain at similar levels.
- However, given the challenging market dynamics and pressure on margins, maintaining financial risk profile over the rating horizon will remain critical for ratings.

Faisalabad Oil Refinery (Pvt.) Limited — Appendix I

FINANCIAL SUMMARY					*(amounts in*
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**FY22**	**9M23**
Non-Current Assets	5,085	5,536	6,214	6,509	7,150
Stock-in-Trade	2,666	1,124	801	1,765	1,236
Trade Debts	4,913	4,832	2,748	0	2,420
Advances, Prepayments and other Receivables	2,349	2,015	1,776	2,807	3,365
Cash & Bank Balances	395	430	557	1,767	1,411
Other Assets	299	321	418	251	226
Total Assets	15,707	14,259	12,514	13,098	15,809
Trade and Other Payables	134	240	303	2,847	366
Short Term Borrowings	7,937	5,899	2,759	0	4,030
Long-Term Borrowings *(Inc. current maturity)*	43	222	653	573	439
Total Debt	7,980	6,121	3,412	573	4,469
Paid Up Capital	1,500	1,500	1,500	1,500	1,500
Tier-1 Equity (w/o surplus)	4,943	5,446	6,013	6,884	7,945
Total Equity	6,791	7,180	7,646	8,424	9,443
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**FY22**	**9M23**
Net Sales	16,442	17,461	20,894	38,292	41,104
Gross Profit	1,440	1,703	1,487	2,123	2,602
Operating Profit	1,118	1,384	1,154	1,567	1,986
Profit Before Tax	790	953	905	1,347	1,717
Profit After Tax	331	516	577	863	1,018
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**FY22**	**9M23**
Gross Margin (%)	8.8%	9.8%	7.1%	5.5%	6.3%
Net margin	2.0%	3.0%	2.8%	2.3%	2.5%
Net Working Capital	2,355	2,453	2,547	2,845	3,349
Current Ratio (x)	1.28	1.39	1.68	1.76	1.63
FFO	138	173	1,501	551	1,823
FFO to Long-Term Debt	318%	78%	230%	96%	553%
FFO to Total Debt (%)	2%	3%	44%	96%	54%
Debt Servicing Coverage Ratio (x)	1.25	1.20	3.79	1.26	4.24
ROAA (%)	2.50%	3.44%	4.31%	6.74%	9.39%
ROAE (%)	7.31%	9.92%	10.07%	13.39%	18.30%
Gearing (x)	1.61	1.12	0.57	0.08	0.56
Leverage (x)	1.80	1.30	0.81	0.68	0.80
(Stock in Trade+Trade Debts) to Net Short-term Borrowings (x)	0.95	1.01	1.29	NA	0.91

**Annualized*

REGULATORY DISCLOSURES	**Appendix II**
Name of Rated Entity	Faisalabad Oil Refinery (Pvt.) Ltd
Sector	Consumer Goods
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	
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.
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Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
June 23, 2023	A-	A-2	Stable	Upgraded
June 29, 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	CFO	16-May-2023