

RATING REPORT

Faisalabad Oil Refinery (Pvt.) Limited (FORL)

REPORT DATE:

August 16, 2024

RATING ANALYSTS:

Zainab Imran

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Date	August 16, 2024		June 23, 2023	
Rating Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Upgrade	

COMPANY INFORMATION

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

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates:

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Faisalabad Oil Refinery (Pvt.) Limited

OVERVIEW OF THE
INSTITUTION

RATING RATIONALE

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

Commitments and Contingencies

Company has filed a petition case for not releasing a lender amount of Rs. 4 million

Company Profile:

Faisalabad Oil Refinery (Pvt) Limited ('FORL' or 'the Company') is the part of Madina Group, the group Founded in 1946 by the visionary (Late) Haji Muhammad Saleem. Today, the Group has business interests in various sectors including edible oil, sugar, ethanol, detergent, plastics, power generation, steel, and mass media. The group is divided among three sons, the FORL, Madina Enterprises Limited and Mukhtar Saleem Ltd owned by the younger son Mian Muhammad Usman Saleem, Madina (Pvt.) Limited (MPL) separately owned by elder son Mian Muhammad Hanif and family and Madina Sugar Mills (Pvt.) Ltd. and Madina Oil Refinery Limited (MORL) separately owned by Mian Muhammad Rasheed and family. While group companies operate independently, support has been extended in terms of equity injection/directors' loan as and when required.

FORL was incorporated in 1986, the registered office is located in Karachi. Mian Muhammad Usman Saleem holds a 99.96% shareholding in the Company. The principal activity of the Company is manufacturing, and sale of vanaspati ghee, cooking oil, spices, water and by products. The Company is selling their brand under the name of 'Kisan', 'Data', 'Sartaj' and 'Taiba' all over Pakistan. The total plant power requirement of the Company for Veg. Ghee and Cooking Oil Section is 4MW, 1W is meet through K-Electric and 3W from Self Generation through STG. Additionally diesel generators are also available as alternative power in case of any disruptions. The Company's total plant capacity is 180,000 M. Ton with utilization 69% (FY22: 67%) in FY23.

During FY23, the Company successfully installed a manufacturing facility for packaging materials through the recycling of waste paper, which is now operational. In FY24, the Company also installed solar panels with a power generation capacity of 642 KW. Additionally, the Company is expanding its storage capacity in Karachi.

Industry Overview:

Pakistan's edible oil industry primarily depends on imported palm oil and seeds to meet local demand. During FY23, edible oil imports, predominantly palm oil, totaled USD 3.2 billion (FY22: USD 2.8 billion), representing an approximate increase of 14% year-on-year. More than 90% of these imports were palm oil and palm olein, while around 3% comprised soybean oil, with the remainder consisting of olive, canola, and sunflower oils. The total consumption of edible oil is approximately 4.5 million metric tons, with local production around 0.5 million metric tons. Pakistan's major sources of imported palm oil are Singapore and Malaysia. However, during 8MFY24, there was a noticeable drop in imports due to reduced consumer demand. Additionally, during FY24, international palm oil prices dropped by approximately 13.5%, averaging \$857 per metric ton compared to \$991 in FY23, due to lower global demand.

Table 1: Palm oil international pricing dollar per metric ton (Source: World Bank)



During FY23, despite a declining trend in international pricing, the domestic edible oil market in Pakistan exhibited an upward trajectory in prices, driven by inflation and elevated purchasing costs. Nevertheless, In FY24, vegetable ghee retail prices have consistently declined each month. Factors such as a stable currency, steady transportation costs, and weak international prices have likely contributed to this trend. Going forward, with higher global production expectations due to improved weather conditions and relaxed government policies, we expect commodity prices to remain fairly stable.

Table 2: Average Monthly Price of vegetable ghee per kg in PKR (Source: PBS)



Key Rating Drivers:

Topline improved on the back of increasing prices despite a decline in volumes

Topline of the Company increased in FY23 by ~40% on the back of higher product prices that prevailed throughout FY23. Since the Company is dependent on imported materials it remained affected by international edible oil prices which peaked in FY22. As a result of high-priced carryover stock, end prices in local markets remained high in FY23 despite international commodity prices declining in FY23. Volumes, remained fairly stable with meal sales being impacted due to shortage caused by a government ban on GMO soybean seeds. Vegetable

ghee sales remained intact despite the price increase, and continued to contribute 70% to gross sales.

The majority of sales are concentrated in the Punjab region, followed by Sindh, KPK, and Baluchistan, with contribution of 64%, 21%, 11%, and 5%, respectively. Export sales only accounted for a small portion in FY22, post which there has been no exports. Sale of steel segment discontinued in FY23 with no contribution in the topline.

In 9MFY24, while volumes are being maintained, prices have streamlined downwards in line with international prices, which is expected to impact the overall revenues in FY24.

Table 3: Product Wise Breakup of Sales in thousands

Item Description	9MFY24		FY23		FY22	
	Quantity (M.T)	Average Price	Quantity (M.T)	Average Price	Quantity (M.T)	Average Price
Vegetable Ghee	70	410	100	431	93	307
Cooking Oil	15	446	22	524	27	344
Soap	1	198	2	184	2	156
Meal	36	127	33	146	39	68
D. Bar (Steel)*	-	-	8	208	20	190
Others	-	-	-	-	-	-
Gross Sales	122	328	167	372	180	247

**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*

Improved operating margins

Albeit lower than peers, gross and operating margins depict improvement in FY23 and 9MFY24. Gross margins increased to 5.97% and 7.30% while operating margins recorded an uptick to (FY23: 4.87%) 5.96%. Higher end prices of the products for a prolong time led to inventory gains for the Company which is reflective in margin improvement.

Lower contribution from associated concerns

Net margins of the Company were impacted due to lower share of associates. Associate investments in Madina enterprise remained subdued due to losses faced by the Company on account of demand pressure in the steel sector. However, Madina Sugar, another associate continued to perform well. We expect the share of profits from associates to remain impacted in FY24, given the challenges in the steel sector and the lower profitability anticipated in the sugar industry

Capitalization profile remains sound

During FY23, debt levels increased to 7.46x (FY23: Rs. 4,849 million, FY22: Rs .572 million), primarily on account of increase in short term borrowing. Short term lines were utilized to fund increased working capital requirements as well as capital expenditure for the expansion in storage capacity. Consequently, gearing increased to 0.61x from 0.08x, nevertheless remain

within reasonable levels. In 9MFY24, leverage has inched up but is projected to improve over time. The maintenance of gearing and leverage indicators will remain important.

Adequate liquidity and coverage profile

Despite a healthy current ratio of 1.37x, albeit declining from 1.60x, liquidity is considered adequate, as short-term debt coverage declined significantly to 0.58x during FY23 from 7.50x. Liquidity of the Company is also impacted by increased outstanding tax receivables against the GoP, recovery of the same remains vital.

The coverage profile remains comfortable with debt servicing recorded at 1.50x (FY22: 1.18x) in FY23. However, during 9MFY24, it has declined to 1.13x due to higher financial charges, nevertheless, remains adequate.

Faisalabad Oil Refinery (Pvt.) Limited
Appendix I

Financial Summary						
Balance Sheet (PKR Millions)	FY21A	FY22A	FY23A	9MFY24M	FY24P	FY25P
Property, plant and equipment	3,269.44	3,389.38	4,886.56	4,819.16	4,557.73	4,428.67
Stock-in-trade	801.21	1,765.09	852.45	2,406.91	957.31	874.18
Trade debts	2,748.46	1,022.64	1,453.70	824.48	1,636.63	1,430.00
Cash & Bank Balances	556.76	1,766.64	349.07	387.58	559.00	165.30
Other Assets	5,138.06	6,176.74	8,251.84	9,494.62	8,075.64	5,249.55
Total Assets	12,513.93	14,120.49	15,793.62	17,932.75	15,786.31	12,147.70
Creditors	61.74	57.92	76.45	81.95	950.00	790.00
Long-term Debt (incl. current portion)	653.07	572.87	578.36	543.75	117.65	38.36
Short-Term Borrowings	2,758.77	0.00	4,270.98	4,217.29	2,997.01	2,500.00
Total Debt	3,411.84	572.87	4,849.34	4,761.04	3,114.65	2,538.36
Other Liabilities	1394.06	5,065.24	1,464.35	3,220.54	1,445.54	1,480.04
Total Liabilities	4,867.64	5,696.03	6,390.14	8,063.53	5,510.19	4,808.40
Paid up Capital	1,500.00	1,500.00	2,500.00	2,500.00	2,500.00	2,500.00
Equity (excl. Revaluation Surplus)	6,013.33	6,883.96	7,945.39	8,411.09	8,831.54	5,906.92
Income Statement (PKR Millions)						
Net Sales	20,894.26	38,292.16	53,572.93	34,699.49	50,090.31	56,351.60
Gross Profit	1,486.58	2,123.19	3,199.15	2,531.76	3,305.96	3,532.07
Operating Profit	1,341.90	1,723.05	2,607.56	2,069.55	2,668.50	2,814.44
Finance Costs	436.48	375.68	623.79	853.02	993.79	893.79
Profit Before Tax	905.42	1,347.37	1,983.77	1,216.53	1,763.77	1,920.65
Profit After Tax	576.97	863.43	977.34	605.51	1,012.41	1,075.38
Ratio Analysis						
Gross Margin (%)	7.11%	5.54%	5.97%	7.30%	6.60%	6.27%
Operating Margin (%)	6.42%	4.50%	4.87%	5.96%	5.33%	4.99%
Net Margin (%)	2.76%	2.25%	1.82%	1.75%	2.02%	1.91%
Funds from Operation (FFO) (PKR Millions)	1,501.39	551.00	1,158.12	489.03	1,880.91	3,051.06
FFO to Total Debt* (%)	44.01%	96.18%	23.88%	13.70%	60.39%	120.20%
FFO to Long Term Debt* (%)	229.90%	96.18%	200.24%	119.92%	1598.76%	7953.57%
Gearing (x)	0.57	0.08	0.61	0.57	0.35	0.43
Leverage (x)	0.81	0.83	0.80	0.96	0.62	0.81
Debt Servicing Coverage Ratio* (x)	2.30	1.18	1.50	1.13	2.59	4.23
Current Ratio (x)	1.68	1.60	1.37	1.36	1.62	1.05
(Stock in trade + trade debts) / STD (x)	1.27	7.50	0.58	0.78	0.95	1.01
Return on Average Assets* (%)	4.31%	6.48%	6.53%	4.79%	6.01%	7.70%
Return on Average Equity* (%)	10.07%	13.39%	13.18%	9.87%	11.74%	14.59%
Cash Conversion Cycle (days)	84.38	31.57	19.25	24.56	19.84	11.73

*Annualized, if required

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

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	Rating Date	Medium to Long Term	Short Term	Rating Outlook/ Rating Watch	Rating Action
<u>RATING TYPE: ENTITY</u>					
	Aug 16, 2024	A-	A-2	Stable	Reaffirmed
	June 23, 2023	A-	A-2	Stable	Upgrade
	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
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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Due Diligence Meetings Conducted		Name	Designation	Date	
	1	Mr. M. Naeem Malik	Group CFO	26-July-2024	
	2	Mr. M. Jamil	CFO		