**VIS**
Credit Rating Company Limited

RATING REPORT

# FAISALABAD OIL REFINERY (PVT) LIMITED


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| RATING DETAILS | | | | |
|---|---|---|---|---|
| RATINGS CATEGORY | Latest Rating | | Previous Rating | |
| | Long-term | Short-term | Long-term | Short-term |
| ENTITY | A- | A2 | A- | A2 |
| RATING OUTLOOK/ WATCH | Stable | | Stable | |
| RATING ACTION | Reaffirmed | | Reaffirmed | |
| RATING DATE | Sep 16, 2025 | | August 16, 2024 | |

| Shareholding (5% or More) | Other Information |
|---|---|
| Mr. Mian Muhammad Usman Saleem – 99.97% | Incorporated in 1986 |
| | Private Limited Company |
| | Chief Executive/Chairman: Mr. Mian Muhammad Usman Saleem |
| | External Auditor: Zaheer Babar and Co Chartered Accountants |

## Applicable Rating Methodology

VIS Entity Rating Criteria Methodology – Corporates Ratings
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

## Rating Scale

https://docs.vis.com.pk/do cs/VISRatingScales.pdf

## Rating Rationale

Assigned ratings reflect high business risk of the edible oil industry, due to its dependence on imported raw materials, a lag in pass-through of costs to consumers, low entry barriers, and dominance of major players, making pricing strategy a challenge for smaller entities.

The ratings also incorporate the Company's financial risk profile. The Company's topline witnessed contraction in FY24 and 9MFY25, which is primarily due to lower volumetric offtake and price. On the other hand, gross margins have shown consistent improvement, supported by relatively favorable selling prices vis-à-vis raw material costs. Net margins of the Company remained stable in FY24, despite higher finance cost on the back of increase in profit from associate along with lower effective tax rate, and improved subsequently in 9MFY25 mainly due to lower financial charges on outcome of lower borrowings and monetary easing. The capital structure is considered adequate. With improved profitability, and slight recovery in tax refunds, debt coverage metrics depicted enhancement during 9MFY25. Liquidity profile remains adequate, while sales tax refunds continue to be a constraint.

## Company Profile

Faisalabad Oil Refinery Limited ('FORL' or 'the Company') was incorporated in 1986, with the registered office located in Karachi. The principal activity of the Company is manufacturing, and sale of Vegetable Ghee, Cooking Oil, and allied products. The Company is selling its brand under the name of 'Kisan', 'Data', 'Sartaj' and 'Taiba' all over Pakistan.

## Management and Governance

### SHAREHOLDERS/OWNERS/SPONSORS

FORL is part of Madina Group, which was founded in 1946 by Late Haji Muhammad Saleem. The Group encompasses advanced industrial entities including Madina (Pvt.) Limited separately owned by Muhammad Hanif Amin and family, Madina Sugar Mills Limited and Madina Oil Refinery Limited separately owned by Mian Muhammad Rasheed and family and Faisalabad Oil Refinery (Pvt) Ltd and Madina Medical University separately owned by Mian Muhammad Usman Saleem. The Group has business interest in various sectors including edible oil, sugar, ethanol, detergent, plastics, power generation, steel, and mass media. While group companies operate independently, support has been extended in terms of equity injection/directors' loan as and when required. Mr. Mian Muhammad Usman Saleem serves as the Chief Executive Officer of the company and holds 99.97% ownership stake and sits on the board as a director. Mukhtar Begum also has a minor ownership stake in the company.

### CORPORATE GOVERNANCE

The Company's Board of Directors consists of two members: Mr. Mian Muhammad Usman Saleem (CEO) and Mukhtar Begum. It currently does not have any board committees. However, the inclusion of independent and female directors, the formation of board committees, and the establishment of an independent internal audit function may significantly strengthen its overall corporate governance.

### MANAGEMENT, INTERNAL CONTROLS & IT

Mr. Mian Muhammad Usman Saleem, possesses more than 10 years of experience in edible oil, sugar, steel, and education sectors. Other key personnel include Mr. M. Naeem Malik (Group CFO), and Mr. M. Jamil (CFO).

The Company's organizational structure progresses from junior and senior officers through assistant and deputy managers to managers, with department heads reporting directly to the CEO.

From an IT perspective, the Company maintains a dedicated in-house team led by Head of IT. A local customized software system is currently in use for operational and reporting needs. Additionally, the Company has procured SAP Business One (SAP B1) and is in the process of implementing it. The ERP integration is expected to be completed within the next six months. Management expects this transition to improve production planning, inventory control, and overall operational efficiency once fully operational.

## Business Risk

### INDUSTRY

The edible oil industry in Pakistan is a highly competitive sector, shaped by essential consumer demand and significant reliance on imports. Due to its staple nature, consumption remains steady throughout the year, even during economic downturns. However, external factors such as import dependencies and weather conditions introduce periodic instability, particularly for palm and soybean oils. While barriers to entry are low, regulatory compliance and economies of scale favor established players.

Capital intensity is low, as most businesses focus on importing, processing, and packaging rather than large-scale production. Technological advancements are gradually improving efficiency, but high costs and limited access hinder widespread adoption. Regulatory policies, including tariffs and food safety standards, significantly impact pricing and profitability, while abrupt policy shifts can disrupt market stability.

Overall, while the industry benefits from steady demand supported by population growth and rising food consumption, its business risk profile remains elevated. This is primarily due to high dependence on imported raw materials, vulnerability to global commodity price fluctuations and exchange rate movements, and exposure to abrupt regulatory changes. These factors, coupled with intense competition, continue to weigh on the industry, despite gradual efficiency gains and technological improvements. During FY25, imports of palm oil recorded an increase of ~7%, reaching 3.2 million metric tons (FY24: 3.0 million MT), while soybean oil imports increased significantly to 0.32 million MT (FY24: 0.12 million MT) mainly due to lower base effect, according to data from the Pakistan Bureau of Statistics. In terms of value, Pakistan spent USD 3.39 billion on palm oil imports during FY25, compared to USD 2.78 billion in the same period last year—reflecting a ~22% increase. A major share of palm oil imports originates from Malaysia and Indonesia, which together account for over 75% of global palm oil production. However, the presence of aging trees, limited replantation initiatives, and Indonesia's increased biodiesel mandates are expected to constrain global supply. This is expected to drive palm oil prices upward, exerting pressure on Pakistan's import bill, going forward. In addition, exchange rate volatility and weather unpredictability continue to pose risks to the industry.

### OPERATIONAL UPDATE:

During FY24, actual production declined by ~12% to 109,135 MT (FY23: 123,713 MT), primarily due to reduced demand. Consequently, capacity utilization dropped to 61% (FY23: 69%). In 9MFY25, actual production decreased further to 92,101 MT on an annualized basis, translating into a capacity utilization of ~51%.

Notably, Property, Plant and Equipment increased significantly to PKR 12.74b as at June 24 (June 23: PKR 4.89b) primarily due to revaluation gains

| Plant Capacity and Production | FY24 | 9MFY25 |
|---|---|---|
| Production Capacity (Metric Tons) | 180,000 | 180,000 |
| Actual Production (Annualized Basis) (Metric Tons) | 109,135 | 92,101 |
| Capacity Utilization | 61% | 51% |

## Financial Risk

### CAPITAL STRUCTURE

As at March'25, the Company's equity base (excluding revaluation surplus) experienced a decline to PKR 6.44b (Jun'24: PKR 8.67b, Jun'23: PKR 7.95b). The decrease primarily stemmed from the scheme of arrangement filed by the Company, under which shares of Madina Sugar Mills held by the Company was transferred to the shareholders of Madina Sugar Mills, leading to a sharp reduction in long term investments to PKR 403.7m as at Mar'25 (Jun'24: PKR 3,269.65m, Jun'23: PKR 3,037.8m). Since the transaction took place through a gift deed, unappropriated profits in the equity was reduced. The purpose of this transaction was to avoid additional layer of taxation as well as for restructuring of family business. Total debt stood at PKR 1.33b as at Mar'25 (Jun'24: PKR 3.56b; Jun'23: PKR 4.85b), with short-term borrowings accounting for ~62% of the debt mix. These facilities are primarily utilized for working capital needs and retirement of LC obligations. The gearing ratio of the Company has shown consistent improvement, declining to 0.21x as at Mar'25 (Jun'24: 0.41x; Jun'23: 0.61x), primarily on account of settlement of short-term debt, which outweighed the impact of lower equity. On the other hand, leverage increased to 1.22x (Jun'24: 0.94x; Jun'23: 0.80x), mainly due to the reduction in equity along with higher advances received from customers, as the Company revised its credit policy to limit credit exposures. However, it continues to remain at a manageable level.

### PROFITABILITY:

During FY24, revenue declined by ~16% to PKR 45.07b (FY23: PKR 53.57b), driven by reductions in both volumes and selling prices. Pressure on the topline persisted in 9MFY25, with net sales recorded at PKR 25.93b, reflecting continued weakness in volumes and prices. Vegetable ghee remains the flagship product, contributing ~76% to gross sales, while cooking oil, canola, soybean meal, and soap collectively accounted for ~22% of revenue, with soap representing only ~1%.

Although overall selling prices decreased in FY24 and 9MFY25, these remained relatively favorable due to the essential and inelastic nature of the products, which allowed the Company to retain pricing power. Consequently, with raw material costs, particularly palm oil, declining more sharply than selling prices, gross margins depicted consistent uptick., reaching 6.68% in 9MFY25 (FY24: 6.33%; FY23: 5.97%). Despite higher finance cost in FY24, the net margins remained at similar levels at 1.80% (FY24:1.82%) owing to significant increase in profit from associates, along with lower effective tax rate. Subsequently, aided by lower financial charges, net margins improved to 2.44% in 9MFY25.

Going forward, international palm oil prices are expected to rise. This, combined with heightened sector competition, may exert pressure on profitability margins. However, given the inelastic demand for the Company's products, some cost pressures are expected to be passed on to customers, providing some support to margins.

## DEBT COVERAGE & LIQUIDITY:

The Company's Debt Service Coverage Ratio (DSCR) improved significantly, rising to 4.01x in 9MFY25 (FY24: 1.13x; FY23: 1.50x). This improvement was primarily supported by higher Funds from Operations (FFO) mainly amid realization of tax refund. Short-term debt coverage also strengthened, increasing to 2.35x as at Mar'25 (Jun'24: 0.44x; Jun'23: 0.65x). The Company continued to maintain a healthy current ratio of 1.43x as at Mar'25 (Jun'24: 1.20x; Jun'23: 1.37x). However, sales tax receivables, albeit recorded some recovery during 9MFY25, continues to weigh on the Company's liquidity. The Company extends limited credit to its customers, resulting in a low cash conversion cycle, which stood at 8 days in 9MFY25 (FY24: 10 daysFY23: 17 days, FY22: 29 days).

The Company revised its credit policy, implementing more stringent measures for extending credit limits to customers. Leveraging its established brand, the Company has begun securing advance payments from customers. As a result, trade receivables dropped sharply in FY24, declining to PKR 235.4m as at Jun'24 (Jun'23: PKR 1,453.7m). With tighter credit controls, the cash conversion cycle also contracted, standing at 8 days in 9MFY25 (FY24: 10 days; FY23: 17 days; FY22: 29 days).

## Financial Summary

| Balance Sheet (PKR Millions) | FY23A | FY24A | 9MFY25M |
|---|---|---|---|
| Property, plant and equipment | 4,886.56 | 12,740.71 | 12,221.84 |
| Intangible Assets | 8.30 | 6.24 | 4.69 |
| Long-term Investments | 3,037.82 | 3,269.65 | 403.75 |
| Stock-in-trade | 852.45 | 103.67 | 842.51 |
| Trade debts | 1,453.70 | 235.39 | 396.09 |
| Cash & Bank Balances | 349.07 | 395.30 | 320.66 |
| Other Assets | 5,205.72 | 5,950.44 | 5,975.12 |
| Total Assets | 15,793.62 | 22,701.40 | 20,164.66 |
| Creditors | 76.45 | 73.90 | 73.90 |
| Long-term Debt (incl. current portion) | 578.36 | 536.67 | 504.70 |
| Short-Term Borrowings | 4,270.98 | 3,027.06 | 828.04 |
| Total Debt | 4,849.34 | 3,563.73 | 1,332.74 |
| Other Liabilities | 1,464.35 | 4,499.11 | 6,427.52 |
| Total Liabilities | 6,390.14 | 8,136.74 | 7,834.16 |
| Paid up Capital | 2,500.00 | 2,500.00 | 2,500.00 |
| Revenue Reserve | 5,305.58 | 6,174.99 | 3,940.84 |
| Other Equity (excl. Revaluation Surplus) | 139.81 | 0.00 | 0.00 |
| Sponsor Loan | 139.81 | 0.00 | 0.00 |
| Equity (excl. Revaluation Surplus) | 7,945.39 | 8,674.99 | 6,440.84 |

| Income Statement (PKR Millions) | FY23A | FY24A | 9MFY25M |
|---|---|---|---|
| Net Sales | 53,572.93 | 45,069.16 | 25,926.10 |
| Gross Profit | 3,199.15 | 2,850.67 | 1,732.42 |
| Operating Profit | 2,607.56 | 2,194.94 | 1,261.63 |
| Finance Costs | 623.79 | 971.04 | 235.75 |
| Profit Before Tax | 1,983.77 | 1,223.90 | 1,025.88 |
| Profit After Tax | 977.34 | 811.23 | 631.75 |

| Ratio Analysis | FY23A | FY24A | 9MFY25M |
|---|---|---|---|
| Gross Margin (%) | 5.97% | 6.33% | 6.68% |
| Operating Margin (%) | 4.87% | 4.87% | 4.87% |
| Net Margin (%) | 1.82% | 1.80% | 2.44% |
| Funds from Operation (FFO) (PKR Millions) | 1,158.12 | 621.13 | 2,019.77 |
| FFO to Total Debt* (%) | 23.88% | 17.43% | 202.07% |
| FFO to Long Term Debt* (%) | 200.24% | 115.74% | 533.59% |
| Gearing (x) | 0.61 | 0.41 | 0.21 |
| Leverage (x) | 0.80 | 0.94 | 1.22 |
| Debt Servicing Coverage Ratio* (x) | 1.50 | 1.13 | 4.01 |
| Current Ratio (x) | 1.37 | 1.20 | 1.43 |
| (Stock in trade + trade debts) / STD (x) | 0.65 | 0.44 | 2.35 |
| Return on Average Assets* (%) | 6.53% | 4.21% | 3.93% |
| Return on Average Equity* (%) | 13.18% | 9.76% | 11.15% |
| Cash Conversion Cycle (days) | 17.43 | 10.32 | 7.85 |

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts as per company's management

M - Management Accounts

# VIS
Credit Rating Company Limited

RATING REPORT

## REGULATORY DISCLOSURES — Appendix II

| | |
|---|---|
| **Name of Rated Entity** | Faisalabad Oil Refinery Private Limited |
| **Sector** | Vanaspati and Allied Industries |
| **Type of Relationship** | Solicited |
| **Purpose of Rating** | Entity Ratings |

**Rating History**

| Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
|---|---|---|---|---|
| RATING TYPE: ENTITY | | | | |
| 09/16/2025 | A- | A2 | Stable | Reaffirmed |
| 08/16/2024 | A- | A2 | Stable | Reaffirmed |
| 06/23/2023 | A- | A2 | Stable | Upgrade |
| 06/29/2022 | BBB+ | A2 | Positive | Maintained |
| 04/12/2021 | BBB+ | A2 | Positive | Maintained |
| 04/08/2020 | BBB+ | A2 | Stable | Reaffirmed |
| 06/28/2029 | BBB+ | A2 | Stable | Reaffirmed |
| 06/29/2018 | BBB+ | A2 | 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. |
| **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. |
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**Due Diligence Meetings Conducted**

| Name | Designation | Date |
|---|---|---|
| Mr. M. Naeem Malik | Group CFO | 08/15/2025 |
| Mr. M. Jamil | CFO | 08/15/2025 |