RATING REPORT

Pan Asia Food Products (Private) Limited

REPORT DATE:
July 12, 2018

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	BBB	A-2
Rating Outlook	Stable	
Rating Date	*July 12, 2018*	

COMPANY INFORMATION

Incorporated in 1994	**External auditors:** Shahzad Qazi & Co. Chartered Accountants
Private Limited Company	**Chairman of the Board:** Mr. Qamar Zaman
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Qamar Zaman
Family Group of Industries	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria Methodology – Industrial Corporates (May 2016)
http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf

Pan Asia Food Products (Private) Limited

OVERVIEW OF THE INSTITUTION

In 1994, Pan Asia Food Products Private Limited (PFPL) was established as part of the Family Group of Industries. Other associated businesses of the group comprise an edible oil manufacturing company, four other ghee manufacturing companies, packaged juice producer and disposable syringe manufacturer.

Profile of CEO and Chairman

Mr. Qamar Zaman is the Chief Executive Officer (CEO) of the company and Chairman of the Board. He has been associated with PFPL since inception. He is involved in overseeing all operations of PFPL including strategy, marketing, operations and general management.

RATING RATIONALE

Pan Asia Food Products (Private) Limited (PFPL) has been engaged in manufacture and sale of vegetable banaspati, cooking oil and related products for over two decades. The company is owned and managed by Family Group of Industries, which has substantial experience in this business. Apart from edible oil manufacturing, the sponsors also own packaged juice and disposal syringe manufacturing businesses.

The company's product portfolio primarily comprises two brands namely Lajawab and Family which are targeted towards middle to lower income segment of retail market. Within aforementioned brands, there are variants for banaspati and cooking oil. In addition, the company has launched several new products under various brand names. Products are supplied to retailers through a network of distributors covering Northern region of the country.

PFPL is headquartered in Islamabad while its manufacturing facility is situated in Industrial Estate Hattar, Khyber Pakhtunkhwa (KPK). It comprises a refinery with cumulative production capacity of 140 metric tonnes per day (MTPD). Given increased production levels, capacity utilization of the company has increased from 71.4% in FY15 to 100.0% in FY17. The company holds ISO certifications for quality management, food safety management and environmental management systems and its products are Pakistan Standards & Quality Control Authority (PSQCA) certified.

Capacity Expansion Project

Currently, the company is in process of expanding its aggregate capacity to 250 MTPD. Total cost will be Rs. 21.2m. In order to fund the project, the sponsors injected fresh capital of Rs. 21.2m during 2HFY18. Expected date of completion is December 2018. As per management, the project is envisaged to improve profitability by enabling the company to cater to rising demand for edible oil and avail tax benefits under Section 65E of Income Tax Ordinance.

Rating Drivers

Highly fragmented industry characterized by intense competition though supported by favorable demand prospects

Pakistani edible oil industry is characterized by high competitive intensity due to fragmentation and low barriers of entry which result in limited pricing power and inherently thin profitability. However, several large players have been operating for a long period of time and thus enjoy stronger brand equity in relation to other firms. Pakistan is amongst the leading importers and consumers of edible oil. Current per capita consumption level of Pakistan stands at ~23 kg/year for 2016 compared to global average of ~28.0 kg/year (2015-16). Over the medium to long-term, demand is expected to increase in line with GDP growth which is further supported by positive demographic fundamentals. However, changes in regulatory regime may have an adverse impact on the sector. Moreover, variation in raw material prices (resulting in inventory losses) and foreign exchange rate fluctuations are key risk factors resulting in volatility in margins. Ability to manage the same depends on pass through to consumers, which in turn, is linked to degree of competition and operational efficiency.

Governance framework depicts significant room for improvement in terms of board oversight and internal controls

In line with best practices, board composition and oversight has room for improvement. The company uses an off-the shelf software for its IT related needs. PFPL's financial statements are audited by Shahzad Qazi & Co. Chartered Accountants. The external auditors are neither Quality Control Review rated from Institute of Chartered Accountants of Pakistan nor are they present on panel of auditors maintained by State Bank of Pakistan. While management has implemented control procedures, further enhancement in the same is considered important.

Established track record of sponsors in the edible oil business
As per management, PFPL primarily sells products in KPK and Punjab; in the former region, the company holds market share of ~70% in the organized edible oil sector. Alongside, PFPL benefits from extensive managerial experience of its sponsors in the edible oil business.

Earnings burdened by sizeable taxation; profitability expected to improve post expansion
Sales revenue of the company has increased at CAGR of 37.3% over FY14-17. Growth in sales was largely a function of volumes while prices varied in line with market dynamics. The company's sales mix in terms of banaspati vs. cooking oil is ~85:15 in KPK and ~70:30 in Punjab. On a timeline basis, gross margins have trended upwards. Imported raw palm oil constitutes at-least 90% of PFPL's cost of sales. Accordingly, margins may be adversely impacted by inventory loss resulting from variation in import rates and rupee depreciation. To manage the same, management passes on increase/decrease in input prices to consumers while efficient procurement is also considered important.

Over 6MFY18, PFPL reported profit before tax of Rs. 171.8m (FY17: Rs. 259.4m; FY16: Rs. 170.2m). Given low utilization of on-balance sheet financing, financial charges have represented less than 1% of net sales over the years. However, PFPL is subject to high taxation regime with 5.5% tax applicable on import of oil. As a result, the company reported sizeable effective tax rate of 65.2% in FY17. Going forward, expects tax benefits and growth in profitability from expansion project to materialize from FY19 onwards.

Low gearing levels due to conservative capital structure
During FY14-17, total equity of PFPL increased at CAGR of 36.3% on the back of profit retention. Over past five fiscal years, the company has not paid out any dividend. Given capital injection of Rs. 21.2m by sponsors during 2HFY18, paid-up capital of the company has now increased to Rs. 42.4m. Debt profile is conservative in nature, comprising low quantum of short term borrowings only. These borrowings are mobilized from three commercial banks. For working capital, PFPL primarily utilizes LC facilities while running finance (RF) is employed on need basis. As a result, gearing of the company stands on the lower side at less than 1(x). However, debt leverage increased to 0.94x (FY16: 0.72x) at end-FY17 on account of increase in trade creditors; the same decreased to 0.61x by end-1HFY18. To date, the company has no plans for mobilizing fresh long term borrowings in near future.

Adequate liquidity profile as indicated by satisfactory cash flows in relation to debt obligations
In the outgoing fiscal year, current ratio weakened to 1.91x (FY16: 2.12x; FY15: 2.95x) on account of increase in trade payables, though improving to 2.43x by end-1HFY18. Cash conversion cycle has improved on a timeline basis on account of lower inventory days and higher creditor days. Overall liquidity profile is considered adequate as indicated by satisfactory cash flows in relation to debt obligations and adequate current ratio. Ageing profile of trade debts is considered manageable with a limited proportion of receivables being overdue for over three months. Given ongoing expansion being funded entirely with equity, cash flows are expected to improve over the ratings horizon while the company is projected to have sufficient cash flows to make its debt payments.

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**FY15**	**FY16**	**FY17**	**6MFY18**
Fixed Assets	25.0	27.7	28.9	27.3
Long term deposits	-	11.3	13.7	17.2
Stock-in-Trade	27.6	23.9	61.9	221.2
Trade Debts	104.1	24.5	281.2	203.9
Cash & Bank Balances	4.7	7.7	18.2	50.2
Total Assets	212.2	326.5	541.8	562.3
Trade and Other Payables	25.5	83.5	184.4	142.2
Short Term Debt	37.9	14.7	76.3	70.1
Total Debt	37.9	16.7	77.5	70.9
Total Equity	148.7	189.6	279.9	349.2
Surplus on Revaluation of Assets - Net	-	-	-	-
INCOME STATEMENT	**FY15**	**FY16**	**FY17**	**6MFY18**
Net Sales	2,109.1	2,710.9	4,462.9	2,372.2
Gross Profit	134.6	193.1	421.1	268.3
Operating Expense	15.2	20.4	159.7	94.5
Finance Cost	2.6	2.6	2.1	2.0
Profit (Loss) Before Tax	116.8	170.2	259.4	171.8
Profit (Loss) After Tax	38.2	40.8	90.4	69.2
RATIO ANALYSIS	**FY15**	**FY16**	**FY17**	**6MFY18**
Gross Margin (%)	6.4%	7.1%	9.4%	11.3%
Net Margin (%)	1.8%	1.5%	2.0%	2.9%
Net Working Capital	123.7	151.7	237.8	304.7
Trade debts/Sales (%)	4.9%	0.9%	6.3%	1.0%
FFO	48.3	51.8	104.8	77.6
FFO to Total Debt (%)	1.27	3.10	1.35	1.09
Current Ratio (x)	2.95	2.12	1.91	2.43
Debt Servicing Coverage Ratio (x)	19.75	21.25	36.08	33.26
Gearing (x)	0.26	0.09	0.28	0.20
Debt Leverage (x)	0.43	0.72	0.94	0.61
ROAA (%)	18.3%	15.2%	20.8%	25.1%
ROAE (%)	29.4%	24.1%	38.5%	44.0%

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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	Pan Asia Food Products (Private) Limited				
Sector	Edible Oil Manufacturing				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: ENTITY				
	12-Jul-18	BBB	A-2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	JCR-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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