RATING REPORT

Pan Asia Food Products (Private) Limited

REPORT DATE:
March 28, 2019

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	BBB+	A-2	BBB	A-2
Rating Outlook	Stable		Stable	
Rating Date	*March 28, 2019*		*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)

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

Pan Asia Food Products (Private) Limited

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.

The assigned ratings draw comfort from the commitment that no long term debt would be undertaken by the company and short term borrowings & trade payables in relation to net sales would be maintained at prudent levels over the rating horizon. Ratings also reflect adequate financial risk profile of the company as indicated by moderate capitalization and liquidity indicators. The ratings are, however, constrained by high business risk profile of the edible oil industry; room for improvement also exists in the product mix and governance structure of the company.

PFPL has been involved in the manufacture and sale of vegetable banaspati and cooking oil for over two decades. Ratings continue to derive strength from established track record of sponsors in the edible oil business and favorable demand prospects for edible oil in the domestic market. Going forward, ratings are dependent upon maintenance of leverage indicators and margins at current levels while improving trend in the same will be a positive rating sensitivity. Any deviation from communicated rating benchmarks would impact the ratings.

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.

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.

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.

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.

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	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.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
28-Mar-19	BBB+	A-2	Stable	Upgrade
12-Jul-18	BBB	A-2	Stable	Initial