RATING REPORT

Agro Processors & Atmospheric Gases Limited

REPORT DATE:

Mar 26, 2021

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	Positive		Stable	
Rating Action	Maintained		Initial	
Rating Date	*Mar 26'2021*		*Aug 22' 2019*	

COMPANY INFORMATION	
Incorporated in 1980	**External auditors:** BDO Ebrahim & Co. Chartered Accountants
Public Limited Company (Unlisted)	**Chief Executive Officer:** Ahmad Aziz Ghulam Hussain
Key Shareholders (with stake 5% or more):	**Chairman:** Abdul Aziz Rafiq
Ahmed Aziz Ghulam Hussain – 24.2% Abdul Aziz Rafiq – 20.7% Amyn Abdul Aziz Rafiq – 19.0% Naheed Ahmed Ghulam Hussain – 18.0%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria - Industrial Corporates (May 2019) ***https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf***

Agro Processors & Atmospheric Gases Limited

OVERVIEW OF THE INSTITUTION

Agro Processors & Atmospheric Gases Limited (APAG) was incorporated in 1980 as a private limited company. Subsequently, the status of the company has been changed from private to public limited company (unlisted) in 2021. The company is mainly engaged in business of manufacturing and selling of vegetable ghee, cooking oil and allied items and substances.

Profile of CEO

Ahmad Aziz Ghulam Hussain completed his bachelors in Economics and MPA from University of Southern California (USA). He joined the family business in 1990. His prior work experience includes working under the Mayor of Los Angeles in the City Economic Development Office.

Profile of Chairman

Abdul Aziz Rafiq started his career by joining the family business in 1975. He has served twice as the Executive Member of Pakistan Vanaspati Manufacturers Association and is currently a member of the same association. He completed his MBA from Institute of Business Administration Karachi.

RATING RATIONALE

Established in 1980, Agro Processors & Atmospheric Gases Limited (APAG) is engaged in the manufacture and sale of edible oil, banaspati & related products for both B2B (business-to-business) and B2C (business-to-consumer) markets. Soya Supreme, the flagship product of APAG, is one of the oldest cholesterol-free ultra-high temperature (UHT) treated edible oil brands in the country.

Majority shareholding and management control of the company is vested with Ghulam Hussain family, which has substantial experience in this business. In January 2021, a partnership agreement has been signed between the APAG Group and Private Equity Partner; as per the agreement, fresh equity injection will take place in the company with issuance of shares to the Private Equity Partner. The Partner is a well reputed business group in the country having management and supply chain expertise. According to the management, this arrangement will allow the company to further expand national reach of its brands.

APAG's manufacturing facility is located in SITE, Karachi. The company has an annual installed capacity of 90,000 MT for vegetable ghee, cooking and margarine and 18,000 MT for sauces. During FY20, capacity utilization levels for vegetable ghee, cooking and margarine segment and sauces segment decreased to 52.2% (FY19: 56.3%) and 1.9% (FY19: 2.1%), respectively due to COVID-19 related disruption. APAG holds ISO 9001:2008 certification and its products are Pakistan Standards and Quality Control Authority certified.

Investment in APAG Oil (Private) Limited

APAG has long term strategic investment to the tune of Rs. 575.0m in APAG Oil (Pvt.) Limited (AOL). AOL operates as a wholly owned subsidiary to undertake oil-seed crushing and solvent extraction, to produce crude oil, which is subsequently sold to APAG. AOL's seed crushing facility is capable of processing both canola and soybean oil seeds. The plant with a crushing capacity of 300MTPD caters to one-third of the APAG's crude oil requirement.

Product Portfolio

Major brands of APAG comprise Soya Supreme and Malta. Among all APAG products, Soya Supreme is most popular in retail segment with prominence in the South region. B2B brands comprise Champion (margarine), Malta (cooking oil & banaspati), Taqat (margarine) and Supremo (cooking oil). Across the product portfolio, there are variants for banaspati, cooking oil, canola oil and soybean oil and Ketchup and Mayonnaise items under the brand name of SMART catering to the HORECA (Hotels, Restaurants & Catering) segment.

Key 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 margins. The industry is divided into two segments; a few large national level players in the organized sector who target the middle and high income groups and enjoy strong brand equity by quality and advertisement campaigns. The other but larger segment is highly fragmented and caters to middle and lower income groups. Demand outlook of edible oil is stable as the product is demand inelastic with rising sales trend during the Ramadan time period. Also, Pakistan is one of the leading importers and consumers of edible oil. Current per capita consumption in Pakistan stands at 20 kg per annum, which is lower than the global average of 28kg per year. The sector is highly dependent on imported oil seeds and palm oil to meet local demand. Hence, the exposure to exchange rates and international oil price fluctuation is high. Ability to manage margins depends on efficient inventory planning and transfer of increase in raw material prices to consumers, which in turn, is linked to degree of competition and operational efficiency.

Sizable financial charges coupled with reduction in bulk sales on account of COVID-19 resulted in lower profitability during FY20; Recovery in margins has been observed during Q1'FY21
Net sales of the company decreased to Rs. 7.9b (FY19: Rs. 8.3b) in FY20. Volumetric reduction was witnessed in bulk sales due to COVID-19 as the HORECA segment clients were affected due to lockdown. Product sales mix illustrates that 46% sales emanate from Soya Supreme brand (Cooking Oil and Banaspati), while the Malta Brand (Oil and Banaspati) and Supremo contribute 17% and 13% of sales, respectively. Remaining sales emanate from B2B products (14%) and other products targeted towards mid-tier customers. More than one-half of sales are directed towards retail consumers and the remaining portion is dedicated to B2B market. Crude oil constitutes ~85% of APAG's cost of sales. The company has three sources of oil: local importers, self-import and local purchase. Around 80% of the raw material is met through local procurement while remaining through the import. The edible oil prices have seen a rising trend during the last calendar year that helped provide cushion to the thin industry margins. Resultantly, gross margins of the company improved to 12.1% (FY19: 11.7%). Gross margins of the company compare favorably to peers.

Administrative expenses decreased by 23% on an annual basis mainly on account of reduction in salaries and wages expense. Selling and Distribution cost also decreased by 9.4% during the same period owing to decline in salaries and wages and lower advertisement expenses. Despite reduction in expense base, profit before tax (PBT) declined to Rs. 55m (FY19: Rs. 59m) on account of sizeable financial charges (FY20: Rs. 364.0m; FY19: Rs. 258.9m). As per management, the company did not benefit from the decrease in interest rates during FY20 as majority of the company's borrowing was on 6-month KIBOR basis. So, the benefit of lower rates would be experienced by the company during FY21. Given the high taxation regime that the overall edible oil sector is subjected to, high effective tax rate continues to act as a drag on net profitability of the company. APAG reported loss of Rs. 15.1m (FY19: Profit of Rs. 3m) in FY20.

During Q1'FY21, the company registered a profit after tax of Rs. 29mn. As per management, recovery in bulk sales post COVID-19 lockdown and benefit of lower rates in financial charges has contributed to improvement in profitability. Management is forecasting similar improvement trend to continue in FY21.

Equity injection is expected to result in improvement in elevated leverage indicators going forward

Equity base has remained largely stagnant since FY18 due to low profitability. In FY20, the company issued bonus shares to the tune of Rs. 147.3m which resulted in increased in paid up capital to Rs. 500m (FY19: Rs. 353m), while decreasing the un-appropriated profit by the same amount. The company has signed a partnership agreement with Private Equity Partner to further support the business prospects. As per the agreement, fresh equity injection of Rs. 700m will take place in the company with issuance of shares to the partner. In this regard, the company has acquired approval to increase the authorized capital from Rs. 500m to Rs. 1b in January 2021. Overall equity base (excluding revaluation surplus) is likely to increase to Rs. 1.2b post the equity injection. As per management, these funds will be partly utilized for working capital requirements, which will reduce reliance on short-term borrowings, and partly for further increasing product penetration in Punjab province as APAG has a strong foothold within Sindh province.

Total debt of the company was reported at Rs. 2,986.8m (FY20: Rs. 2,896.6m; FY19: Rs. 2,983.7m) at end-September 2020. More than two-thirds of APAG's debt is short-term in nature. In Q1'FY21, the company availed SBP's refinance scheme to support employment and prevent layoff of workers. The same resulted in an increase in long term borrowings to Rs. 815.0m (FY20: 739.1m; FY19: Rs. 746.2m) at end-Q1'FY21. Leverage and gearing were reported are elevated at 7.85x (FY20: 7.31x; FY19: 7.14x) and 5.65x (FY20: 5.65x; FY19: 5.75x) at end-Q1'FY21, respectively. Going forward, leverage indicators are projected to improve on account of reduction in short term borrowings and increase in equity base.

Overall liquidity profile remain constrained due to limited funds generated from operations and extended working capital cycle which entails use of short term borrowings

Funds From Operations (FFO) have remained on the lower side due to low profitability. FFO in relation to long term debt and total debt stood at only 10.0% (FY19: 9.4%) and 2.6% (FY19: 2.3%) at end-FY20, respectively. Debt servicing coverage ratio remains adequate at 1.1x (FY19: 1.2x). Stock in Trade and Trade Debts provide sufficient coverage for short term borrowings (FY20: 115.7%; FY19: 110.2%), while current ratio is also considered satisfactory at 1.1x (FY20: 1x; FY19: 1x).

Agro Processors & Atmospheric Gases Limited — Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**Q1'FY21**
Fixed Assets	625.3	817.3	865.5	965.3
Long term Investments	250.0	575.0	574.9	574.9
Stock-in-Trade	924.3	1007.4	797.5	922.0
Trade Debts	1,037.2	1,401.6	1,645.9	1,756.0
Cash & Bank Balances	37.7	20.3	21.1	34.0
Total Assets	**3,566.5**	**4,489.1**	**4,523.4**	**4,946.0**
Trade and Other Payables	507.4	550.1	679.2	985.0
Long Term Debt	813.2	746.2	739.1	815.3
Short Term Borrowings	1,356.1	2,186.1	2,112.3	2,154.0
Total Debt	2,169.3	2,983.7	2,896.6	2,986.8
Paid up Capital	352.7	352.7	500.0	500.0
Total Equity (excluding surplus)	**515.0**	**519.1**	**512.8**	**512.7**
Surplus on Revaluation of Assets – Net	265.2	265.0	262.3	262.3
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**Q1'FY21**
Net Sales	8,222.4	8,318.7	7,880.1	2,074.8
Gross Profit	952.2	972.7	951.2	324.9
Administrative Expense	172.2	174.1	133.7	33.0
Marketing, Sales and Distribution Expense	547.7	442.3	400.8	171.0
Finance Cost	128.7	258.9	364.0	62.0
Profit (Loss) Before Tax	135.3	94.4	59.1	55.0
Taxation	185.0	91.0	74.0	26.2
Profit (Loss) After Tax	-49.7	3.0	-15.0	28.7
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**Q1'FY21**
Gross Margin (%)	11.58%	11.69%	12.07%	15.67%
Net Margin (%)	-0.60%	0.04%	-0.19%	1.40%
Current Ratio (x)	1.2	1.0	1.0	1.1
(Stock in Trade + Trade debt)/ST Borrowings (%)	145%	110%	116%	124%
FFO	9	70	74	42
FFO to Long Term Debt (%)	1.10%	9.36%	10.01%	5.1%*
FFO to Total Debt (%)	0.41%	2.34%	2.56%	1.4%*
Debt Servicing Coverage Ratio (x)	0.9	1.2	1.1	1.4*
Gearing (x)	4.21	5.75	5.65	5.65
Leverage (x)	5.41	7.14	7.31	7.85
ROAA (%)	-1.53%	0.08%	-0.33%	2.46%*
ROAE (%)	-8.94%	0.58%	-2.93%	22.3%*
**** Annualized numbers***				

RATING SCALE & DEFINITION Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

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

'SD' Rating: An 'SD' rating is assigned when 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	Agro Processors & Atmospheric Gases Limited
Sector	Edible Oil
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.
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.
Due Diligence Meetings Conducted	

Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
26/03/2021	BBB-	A-2	Positive	Maintained
18/11/2020				Suspended
22/08/2019	BBB-	A-2	Stable	Initial

Due Diligence Meetings Conducted:

S.No.	Name	Designation	Date
1.	Muhammad Fahad	Manager Finance	March 2, 2021