RATING REPORT

Agro Processors & Atmospheric Gases Limited

REPORT DATE:

June 20, 2022

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		Positive	
Rating Action	Maintained		Maintained	
Rating Date	*June 20 '2022*		*Mar'26' 2021*	

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 ~18.37% *Abdul Aziz Rafiq ~15.7%* *Amyn Abdul Aziz Rafiq ~14.46%* *Naheed Ahmed Ghulam Hussain ~13.69%* *Danish Elahi ~24%*	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria - Industrial Corporates (Aug 2021) ***https://docs.vis.com.pk/docs/CorporateMethodology202108.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 was 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.

Major shareholding and management control of the Company rests with the Ghulam Hussain family, having significant experience in the business. In February 2021, the Company was converted into a public limited company with Elahi group injecting fresh equity into the company. Two members of Elahi family have been included in the Board of Directors of the Company as non-executive directors, taking the size to Seven.

APAG's manufacturing facility is located in SITE, Karachi. The company has an annual installed capacity of 90,000 MT for vegetable ghee, cooking oil and margarine and 18,000 MT for sauces. During FY21, capacity utilization levels for vegetable ghee, cooking and margarine segment and sauces segment increased to 55% (FY20: 52%) and 3% (FY20: 2%) respectively, albeit remaining on the lower side due to limited activity in hotels, restaurants and catering business segments on account of COVID slow down.
APAG holds ISO 9001:2008 certification and its products are Pakistan Standards and Quality Control Authority certified.

<u>Investment in APAG Oil (Private) Limited</u>

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.

<u>Product Portfolio</u>

The product lines of APAG include cooking oil, banaspati, margarine and sauces. Clientele is divided into retail and B2B segments. Major brands of APAG comprise Soya Supreme, Malta, Champion and Smart. Brand placement is according to a tier-based market segmentation, with Soya Supreme being the most popular tier-1 brand in retail segment with prominence in the South region. With growing awareness about health, the addition of "Soya Supreme cooking oil with olives" in February 2022 has added more potential in retail segment and is expected to contribute in future sales. 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 catering to the HORECA (Hotels, Restaurants & Catering) segment.

Key Rating Drivers:

Business risk of edible oil industry remains high

Edible oil sector exhibits high business risk as a result of low entry barriers, high competition, fragmentation of players and thin profit margins. The industry is also exposed to high risk of exchange rate fluctuations, as almost all of the raw material is imported. Pakistan is a leading importer of edible oil, adding excess of USD 3.1b in the import bill annually. Per capita consumption for FY21 was 22kg/year relative to the global average of 24 kg/year. The local industry is divided into organized and unorganized segments. Organized players cater to high and middle income segments, and enjoy strong brand equity. However, none of these players hold a market share in excess of 10%, which reflects the level of fragmentation in the industry. Based on pricing, the product portfolio of the industry is further divided into 3 tiers, with each manufacturer offering different brands for each tier. As per the estimates, retail segment generates 62% of the total demand, while the commercial segment generates the rest. Demand for this sector is inelastic and hence consistent in nature; however, the margins are thin due to high costs, exacerbated by limited pricing power and high fragmentation of the industry.

Sales have shown recovery on the back of stability in demand post pandemic

Net sales witnessed an uptick of 31% during FY21 from the previous year, primarily driven by higher product prices, and supported by higher sales volumes as the HORECA segment scaled up its activity post-lockdown. Highest proportion of sales emanates from Soya Supreme Cooking Oil (42%), followed by Supremo, Malta Banaspati and Champion. Soya Supreme Banaspati and Taqat make the minor contributions in the sales mix, while Ketchup and Mayonnaise make less than 1% of total sales. The demand of APAG products is likely to exhibit a positive trend following strong retail segment demand combined with pickup in economic activity post COVID-19 pandemic. Net sales during 1HFY22 were recorded at Rs. 5.9b (FY21: Rs. 10.4b, FY20: Rs. 7.9b). A surge in demand during Ramadhan and Eid seasons is expected to fuel growth further.

APAG holds a sizable market share in tier-1 segment, with Soya Supreme catering to approximately 10% of the market. While production increased from 47,000MT to 50,000MT during FY21, it remained below capacity due to market conditions.

Increasing prices of imported raw material, combined with rupee devaluation exerted pressure on margins

Profit margins continued to decline at gross and operational levels on timeline basis; however, net margins have turned positive after three years. The decline in gross margins is attributed to high raw material costs, which internationally registered a sizeable increase. Higher oil prices, combined with a depreciating local currency were the primary factors that pulled down the gross margins as almost all of the raw material is directly imported by the Company. The material is also locally available through other importers; however, direct import provides the company an option to take an advance tax benefit on its earnings, while no such concession is available on locally purchased raw material.

Administrative, selling, distribution and other expenses recorded nominal increase. However, as the impact of gross margins trickled down, the operating margins constricted from 5.4% in FY20 to 3.4% in FY21. Net margin however recorded an uptick from last year, on account of a deferred tax credit arising from previous year losses, leading to positive profitability in FY21.

In 1HFY22, topline remained strong, driving the gross margin to 11.2% (FY21: 9%, FY20: 12.1%). This effect trickled all the way down to the bottom line which improved to 2% (FY21: 1.8%, FY20: -0.2%). As per the management's projections, the revenue is expected to touch Rs. 20b (2x of FY21 sales) by end-FY24, while pushing the margins higher. With the deleveraging of the balance sheet post equity injection, we expect drag on profitability to reduce going forward.

Capitalization indicators have shown improvement, but remain on the higher side

Debt constitutes half of the company's current capital structure. Total debt of the Company was reported at Rs. 3.2b at end-FY21 (FY20: Rs. 2.89b). Three-fourths of the APAG's outstanding loans are short term running finance facilities of Rs. 1.15b and Rs. 1.25b. The credit lines for these facilities have been fully utilized as of end-March'22. For the time being, the internal cash generation suffices for the working capital obligations. Meanwhile, new credit lines are being obtained from banks. Long term debt of Rs. 594m (FY20: 725m) is outstanding after retiring Rs. 202.6 (FY20: 38m) in FY21. Going forward the capital structure as depicted in management projections for next three years, trends downward to 45%.

Gearing and leverage ratios stand at 2.32x (FY20: 5.65x) and 2.94x (FY20: 7.31x), which as a result of equity injection during the year, have shown improvement; although trailing the peer average. 1HFY22 shows slight improvement in the same, while management also expects stabilization in both the indicators going forward on account of higher projected profitability. Equity, post injection and profit retention was recorded at Rs. 1,383.6m (FY20: Rs. 512.8) Management expects total equity to reach close to Rs. 2.7b mark by end-FY24, on the back of retained profits.

Ratings are constrained on account of low cash flow coverages

Funds From Operations (FFO) have consistently remained limited owing to low profitability. FFO in relation to long term debt and total debt stood lower at 10.0% (FY20: 9.4%) and 2.5% (FY20: 2.6%) at end-FY21, respectively. Debt servicing coverage ratio remains adequate at 1.12x (FY20: 1.05x). Liquidity profile also remains adequate with current ratio of 1.17x (FY20: 1.02x) and stock in Trade and Trade Debts providing 133% coverage for short term borrowings. Cash conversion cycle has slightly improved, however over the last five year trend shows a negative trajectory of the same.

Agro Processors & Atmospheric Gases Limited Appendix I

FINANCIAL SUMMARY (RUPEES IN MILLIONS)			
BALANCE SHEET	**FY19**	**FY20**	**FY21**
Fixed Assets	1,029	975	953
LT Investments	575	575	575
Stock-in-Trade	1,007	797	946
Trade Debts	1,402	1,646	2,255
Cash & Bank Balances	20	21	49
Total Assets	4,489	4,523	5,717
Trade and Other Payables	550	679	726
Long Term Debt (including current maturity)	725	725	594
Short Term Debt	2,186	2,112	2,409
Total Debt	2,911	2,837	3,003
Paid up Capital	353	500	658
Total Equity (Without surplus revaluation)	519	513	1,384
INCOME STATEMENT	**FY19**	**FY20**	**FY21**
Net Sales	8,319	7,880	10,340
Gross Profit	973	951	926
Profit Before Tax	94	59	104
Profit After Tax	3	(15)	185
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**
Gross Margin (%)	11.7%	12.1%	9.0%
Net Margin	0.0%	-0.2%	1.8%
FFO	70	74	80
FFO to Total Debt (%)	2.3%	2.6%	2.5%
FFO to Long Term Debt (%)	8.8%	9.4%	10.0%
Current Ratio (x)	1.00	1.02	1.17
(Stock+ Trade Debts)/ Short-term Debt	1.10	1.16	1.33
Debt Servicing Coverage Ratio (x)	1.23	1.05	1.12
Gearing (x)	5.75	5.65	2.32
Leverage (x)	7.14	7.31	2.94
ROAA (%)	0.1%	-0.3%	3.6%
ROAE (%)	0.6%	-2.9%	19.5%

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

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
20/06/2022	**BBB-**	**A-2**	**Stable**	**Maintained**
26/03/2021	BBB-	A-2	Positive	Maintained
18/11/2020				Suspended
22/08/2019	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.
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. 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. Copyright 2022 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Due Diligence Meetings Conducted

S. No.	Name	Designation	Date
1.	Muhammad Fahad	Manager Finance	March 24, 2022