RATING REPORT

Agro Processors & Atmospheric Gases Limited

REPORT DATE:

August 23, 2023

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 Action	Upgrade		Maintained	
Rating Date	*Aug 23' 2023*		*June 20 '2022*	

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)
Applicable Rating Criteria: Corporates (May 2023): **https://docs.vis.com.pk/docs/CorporateMethodology.pdf**

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale: **https://docs.vis.com.pk/docs/VISRatingScales.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. APAG holds ISO 9001:2008 certification and its products are Pakistan Standards and Quality Control Authority certified.

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 an unlisted public limited company with Mr. Danish Elahi injecting fresh equity into the company.

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 9MFY23, capacity utilization levels for vegetable ghee, cooking and margarine segment and sauces segment dropped to 46% (FY22: 46%; FY21: 55%) and 2% (FY22: 2%; FY21: 3%) respectively, due to raw material constraints, general economic recession and demand slowdown in the country due to inflationary pressure. Overall, the underutilization is also attributable to strong competition within the packaged oil market. With the Company's focus towards enhancing exports, production levels are expected to improve over the rating horizon.

Disposal of Subsidiary- APAG Oil (Private Limited)

APAG had a long-term strategic investment to the tune of Rs. 575.0m in APAG Oil (Pvt.) Limited (AOL). AOL used to operate as a wholly owned subsidiary to undertake oil-seed crushing and solvent extraction, to produce crude oil and meal, the oil used to be subsequently sold to APAG while the meal was sold in the local market. During FY22, APAG fully disposed off the long-term investment in AOL to Cargill Pakistan Holdings (Private) Limited by selling 99.99% holding of shares. As per management, disposal of investment was a cost-effective measure to meet working capital requirements with minimal reliance on bank borrowings.

Product Portfolio

The product lines of APAG include cooking oil, Vanaspati, margarine and sauces. Clientele is divided into retail, B2B, Industrial customers & export segments.. Major brands of APAG comprise Soya Supreme, Malta, Champion, Taqat 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 Southern region of the country. With growing awareness about health, the addition of "Soya Supreme Olive Oil" in February 2022 has added more potential in retail segment and is expected to contribute in future sales growth of the Company. B2B brands comprise Champion (margarine), Malta (cooking oil & banaspati), Taqat (margarine) and Supremo (cooking oil). Carrying the quality of existing products at higher values, APAG has secured contracts with industrial customers as well, whereby the Company has initiated the supply of customized industrial fats, butter chips, butter oil and other products to the important players of the FMCG industry. Adding further value to the topline, the export brands comprise of Taqat (margarine & Vanaspati), Champion (margarine & Vanaspati) & Malta (Vanaspati). Across the product portfolio, there are different 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:

VIS characterizes the business risk profile of the sector by high competitive intensity, high fragmentation with low barriers to entry, resulting in limited pricing power and thin profitability margins.

- Pakistan's edible oil industry majorly relies on imported oil seeds in order to cater the local demand. The total edible oilseed market is estimated at around 3m MT per annum having value of approximately $2b, out of which around four-fifth seed requirement is imported and the rest is procured from local production.
- During 7MFY23, Pakistan witnessed 9% increase in import quantities of Palm and Soybean oil as compared to FY22.
- Pakistan's import unit cost for palm oil in Oct'22 was recorded at $889/MT, lowest in the last 21-month period, dropping a 50% from $1,780/MT as of Mar'22. Palm Oil price as of end-April'23 was recorded at $1,010/MT.
- Edible oil market has been on a pirate ship throughout FY22 and FY23. The price hike was an outcome of the Russia-Ukraine War which resulted in shortage of crude oil. Meanwhile, the drop in international market may be attributable to improved supplies, ongoing global stagflation and recession induced squeezed demand. In addition, prices of palm oil are determined by looking at the value contracts for Palm Oil. Countries like Malaysia and Indonesia may play with the export ratio to influence price of the same since these two countries are solely the largest suppliers of palm oil.
- However, with the cost in its entirety, being passed on to the consumers, local edible oil pricing hasn't dropped in the same pace as international prices. The gain from decline in international edible oil prices was offset by constant rupee-dollar deterioration in the outgoing year.
- While industry demand remain stable with edible oil being a staple product, changes in raw material prices (inventory losses) and foreign exchange rate fluctuations are key risk factors resulting in volatility in margins.
- Ratings are dependent on ability to manage the same which is in turn correlated to the level of competition and operational efficiency.

Topline growth in FY22 and 9MFY23 contributed by higher average selling prices

- Topline of the Company witnessed a sizeable jump of 33% and was reported at Rs. 13.8b (FY21: Rs. 10.3b; FY20: Rs. 7.9b) in FY22 driven mainly by higher average selling prices and change in sales mix towards premium products.
- Sales mix predominantly comprised Edible Oil Products (including Cooking Oil, Olive Oil, Vanaspati and Margarine) which accounted for 99% (FY21: 99%) of net sales respectively during FY22. The Sauces segment contributed a meager 1% of the sales mix.
- Among the top contributors of revenue, Soya Supreme Cooking Oil generated 62% of APAG's topline in FY22, followed by Malta Vanaspati (13%), Champion Margarine (9%) and Soya Supreme Vanaspati (6%). Despite drop in volumetric sales of the same products, higher average selling prices boosted the topline of each product category. Management expects the sales mix to remain similar over the rating horizon.
- Net sales of APAG mainly (96%) comprises of local sales with remaining contributed by the export clientele in FY22.
- Customer concentration is fairly on the moderate side with top 10 customers accounting for around 32% of total sales in FY22.
- Geographic concentration is relatively on the higher side, with more than 50% of the sales in Karachi & Hyderabad, followed by Islamabad (25%) & Sukkur (7%). Currently, export sales are only directed towards Afghanistan. As per management, more countries are added to the portfolio in the ongoing year.
- During 9MFY23, revenue of the Company was recorded at Rs. 14.0b with the growth contributed by higher prices. As per management, with extensive focus towards exports and adequate number of orders in hand, revenue is expected to increase in all categories going forward. However, Soya Supreme Cooking Oil will continue to remain the major revenue contributor.

Positive trend in margins

- Gross profit of the Company increased in absolute terms to Rs. 1.7b (FY21: Rs. 0.9b; FY20: Rs. 0.9b) in FY22. Subsequently, gross margins inclined on a timeline basis and were reported at 13.9% (FY22: 12.5%; FY21: 9.0%) in 9MFY23 due to inventory gains.
- Administrative expenses in FY22 increased primarily due to higher remuneration and benefits expensed during the year. Selling expenses escalated due to promotional expenses for the launch of new products.
- Finance charges were reported higher at Rs. 269.1m (FY21: Rs. 242.8m; FY20: Rs. 364.0m) mainly due to high benchmarks rates during FY22.

- Net margin of the Company also depicted an uptick on a timeline basis on account of revenue and gross margin increment. The same were reported at 4.2% for 9MFY23 (FY22: 2.6%; FY21: 1.8%).
- Given uncertain macroeconomic environment, maintenance of margins will be important from a ratings perspective.

Liquidity profile depict improvement during the review period

- FFO to Total Debt and FFO to Long-Term Debt increased to 15% (FY21: 2%; FY20: 3%) and 116% (FY21: 10%; FY20: 9%) respectively during FY22. In addition, the same further strengthened in 9MFY23 due to limited additional debt drawdown and improvement in profitability.
- Debt Servicing ratio (DSCR) also showcased improvement to 2.82x (FY22: 1.38x; FY21: 1.12x) during 9MFY23 in line with higher profitability.
- Current ratio as of 9MFY23 end stood at 1.33x, which is deemed adequate. Similarly, Short-term borrowing coverage is considered strong at 219% at end-Mar'23. Maintenance of the same is important going forward.
- Ratings draw some comfort from manageable aging profile of trade debts with 83% of outstanding trade receivables due within two months.
- Exposure in TDRs to the tune of Rs. 234.2m at end-9MFY23 provides additional support to the liquidity profile.

Improving gearing levels but leverage ratio remain elevated

- Tier- I Equity base of the company accumulated to Rs. 2.3b (FY22: 1.7b; FY21: Rs. 1.4b) by end-Mar'23 through profit retention.
- The debt profile comprises a mix of short-term (92%) and long-term borrowings (8%). The outstanding balance of long-term borrowings, inclusive of current maturity, reduced to Rs. 236.6m (FY22: Rs. 334.5m, FY21: Rs. 799.5m) at end-Mar'23 on account of repayment of debt employed. Quantum of short-term borrowings was reported higher at Rs. 2.7b (FY22: Rs. 2.3b, FY21: Rs. 2.4b) at end-9MFY23 to meet higher working capital requirements in lieu of growth in export clientele.
- Gearing ratio improved on a timeline basis and was reported at 1.3x (FY22: 1.5x; FY21: 2.3x) at end-9MFY23.
- Leverage ratio remain elevated at 2.3x (FY22: 2.3x; FY21: 2.9x) at end-9MFY23 due to high trade and other payables.
- The Company recorded a dividend payout ratio of 13% in 9MFY23 and will continue to follow the same over the rating horizon.
- In addition, going forward no major capital investment is forecasted for the rating horizon, only normal BMR expenditure is expected to be carried out. The same will be financed through internal cash generation.
- However, given the challenging market dynamics, maintenance of financial risk profile over the rating horizon will remain critical for ratings.

Agro Processors & Atmospheric Gases Limited — Appendix I

FINANCIAL SUMMARY (RUPEES IN MILLIONS)					
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**
Fixed Assets	1,025.9	973.1	953.0	1,377.1	1,354.7
LT Investments	575.0	574.9	574.9	-	-
Stock-in-Trade	1,007.4	797.5	945.9	2,052.0	2,840.9
Trade Debts	1,401.6	1,645.9	2,255.4	1,791.7	3,059.8
Cash & Bank Balances	20.3	21.1	48.9	184.9	52.3
Total Assets	4,489.1	4,523.4	5,716.9	6,347.0	8,115.5
Trade and Other Payables	550.1	679.2	725.8	1,215.5	2,074.5
Long Term Debt (including current maturity)	797.6	784.2	799.5	334.5	236.6
Short Term Debt	2,186.1	2,112.4	2,408.6	2,265.9	2,688.6
Total Debt	2,983.7	2,896.6	3,208.1	2,600.4	2,925.2
Paid up Capital	352.7	500.0	657.9	657.9	657.9
Total Equity (Without surplus revaluation)	519.1	512.8	1,383.6	1,739.7	2,295.5
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**
Net Sales	8,318.7	7,880.1	10,339.8	13,750.7	14,015.6
Gross Profit	972.7	951.2	926.3	1,717.7	1,942.5
Profit Before Tax	94.4	59.1	104.1	436.4	804.2
Profit After Tax	3.0	(15.1)	185.3	355.3	592.9
				0.32987781	
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**
Gross Margin (%)	11.7%	12.1%	9.0%	12.5%	13.9%
Net Margin	0.0%	-0.2%	1.8%	2.6%	4.2%
FFO	70	74	80	389	708
FFO to Total Debt (%)	2.34%	2.56%	2.49%	14.94%	32.20%
FFO to Long Term Debt (%)	8.76%	9.44%	9.97%	116.17%	398.11%
Current Ratio (x)	1.00	1.02	1.17	1.30	1.33
(Stock+ Trade Debts)/ Short-term Debt	1.10	1.16	1.33	1.70	2.19
Debt Servicing Coverage Ratio (x)	1.23	1.05	1.12	1.38	2.82
Gearing (x)	5.75	5.65	2.32	1.49	1.27
Leverage (x)	7.14	7.31	2.94	2.27	2.25
ROAA (%)	0.10%	-0.33%	3.62%	5.89%	10.91%
ROAE (%)	0.60%	-2.93%	19.54%	22.75%	39.08%

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Agro Processors & Atmospheric Gases Limited
Sector	Edible Oil
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	(see table below)

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
23/08/2023	BBB	A-2	Stable	Upgrade
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.
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Due Diligence Meetings Conducted	(see table below)

S. No.	Name	Designation	Date
1.	Adnan Owais	Deputy GM-Finance	June 23, 2023
2.	Muhammad Burhan	Manager Finance & Taxation	June 23, 2023
3.	Salman Qurban	Costing Officer	June 23, 2023