

## RATING REPORT

## Agro Processors &amp; Atmospheric Gases Limited

**REPORT DATE:**

September 11, 2024

**RATING ANALYSTS:**

Zainab Imran

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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		Upgrade	
Rating Date	September 11' 2024		Aug 23' 2023	

## 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
<i>Abmad Aziz Ghulam Hussain ~18.37%</i> <i>Abdul Aziz Rafiq ~15.7%</i> <i>Amyr Abdul Aziz Rafiq ~14.46%</i> <i>Nabeed Ahmad Ghulam Hussain ~13.69%</i> <i>Danish Elabi ~24%</i>	

## APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates:

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

## Agro Processors &amp; Atmospheric Gases Limited

OVERVIEW  
OF THE  
INSTITUTION

## RATING RATIONALE

*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 bachelor's 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.*

**Company Profile:**

Established in 1980, Agro Processors & Atmospheric Gases Limited (APAG or "the Company") as private limited Company. On Feb 2021, the Company changed its status from private Company to public Company. The Company is mainly engaged in the manufacture and sale of edible oil, banaspati, margarine, industrial fats, sauces and related products.

APAG's core focus resides in the manufacturing and distribution of high-quality branded cooking oils, banaspati, margarine fats and sauces not just within Pakistan but globally as well. Renowned for its portfolio of esteemed brands, including Soya Supreme, Malta, Champion, Taqat, and Smart, APAG exemplifies excellence and reliability in the FMCG industry.

The major shareholders of the Company include Mr. Abdul Aziz Rafiq Family 32.69%, Mr. Ahmed Aziz Ghulam Hussain Family 32.67%, Mr. Danish Elahi 24% and Mr. Saleheen Siddique Family 10.64%. The Company's registered office and production plant are located in the Site Area, Karachi.

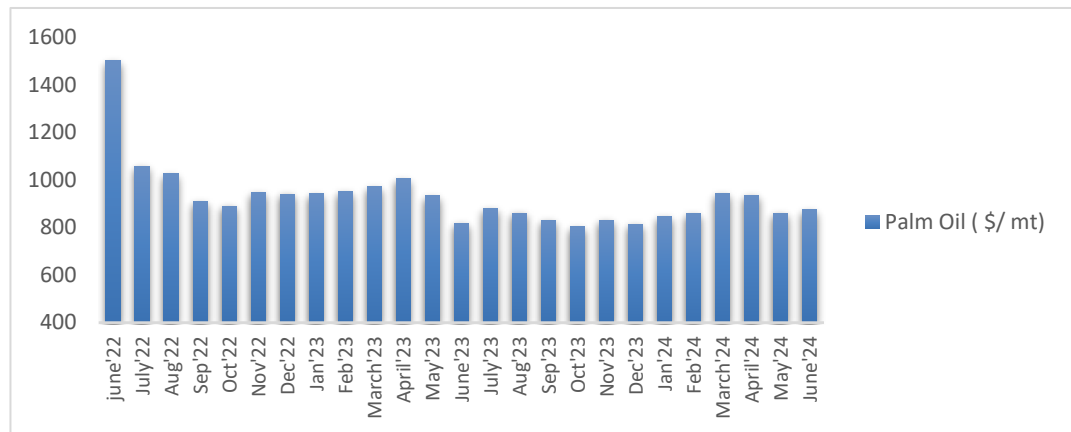
The Company's total installed capacity is 90,000 MT for vegetable ghee, cooking oil, and margarine, and 18,000 MT for sauces. In FY24, utilization dropped to 43.30% (FY23: 43.45%) for ghee, oil, and margarine, and to 3.53% utilization increased from% (FY23: 1.92%) for sauces due to increase in market demand. The total power requirement of the Company is met through K-Electric. The Company has initiated to install the solar panel of 545KW for power efficiency and it is expected to be completed in by end of November 2024.

Last year 2023, the Company publicly disclosed its plans for an IPO to support the expansion of its business operations in the Middle East and North Africa. However, no official timeline for the public IPO announcement has been provided at this time

**Industry Overview:**

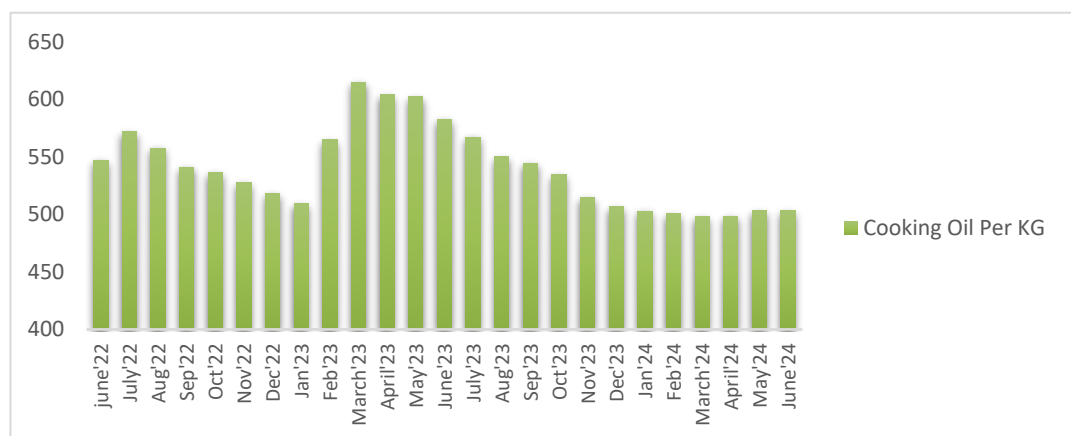
Pakistan's edible oil industry primarily depends on imported palm oil and seeds to meet local demand. More than 90% of these imports were palm oil and palm olein, while around 3% comprised soybean oil, with the remainder consisting of olive, canola, and sunflower oils. The total consumption of edible oil is approximately 4.5 million metric tons, with local production around 0.5 million metric tons. Pakistan's major sources of imported palm oil are Indonesia and Malaysia.

Figure 1: International Palm Oil Pricing Trend in USD (Source: World Bank)



During FY23, despite a declining trend in international pricing, the domestic edible oil market in Pakistan exhibited an upward trajectory in prices, driven by inflation and elevated purchasing costs. Nevertheless, In FY24, vegetable ghee retail prices have consistently declined each month. Factors such as a stable currency, steady transportation costs, and weak international prices i.e., dropped by approximately 13.5%, averaging \$857 per metric ton compared to \$991 in FY23, have likely contributed to this trend. Going forward, with higher global production expectations due to improved weather conditions and relaxed government policies, we expect commodity prices to remain fairly stable.

Figure 2: Domestic Per Kg Retail Cooking Oil Price in PKR (Source: PBS)



Looking ahead, the Edible Oil market in Pakistan is projected to grow at an annual rate of 7.36% (CAGR 2024-2029), with 1.6% growth forecasted for FY25 according to Statista.

**Key Rating Drivers:****Ratings incorporate high business risk**

Ratings incorporate high level of business risk of the edible oil industry, mainly stemming from the sensitivity of its profit margins to fluctuations in foreign exchange rates and international commodity prices. Furthermore, the sector exhibits a high level of competition, characterized by fragmentation and low barriers to entry. This has resulted in limited pricing power and narrow profitability margins for participants within the industry.

**Shifting pricing trends impacting topline**

The net sales increased by 10% in FY23 (FY23: 17.4 billion FY22: Rs. 15.9 billion), driven primarily by rising prices despite a slight 5.5% decline in volumes. However, volumes rebounded in FY24. Excluding the one-off tender business of World Food Programme (WFP) recorded in FY23, volumes grew by 6% in FY24. Export volumes nearly doubled in FY24, prices have been trending downwards in FY24 and therefore despite volume increase, FY24 revenues were down to Rs. 15.3b from Rs. 17.4b in FY23.

The majority of revenue in FY23 is generated from edible oil and ghee, contributing 88%, followed by, margarine at 11%, and sauces at 1% of total sales value. Soya Supreme remains the flagship brand, followed by Malta, Smart, Taqat and Champion sales concentration also remains relatively low.

**Gross margins depict an incline**

Gross margins depict an inclining trend, primarily due to product mix optimization. The Company as a strategy has been focusing on relatively higher margin products which has yielded improved margins for the Company. Inflationary pressures along with higher financial charges has dampened the increase in margins to some extent. net margins were recorded nominally higher at 3% in FY23 (FY22: 2.58%). However, in FY24, the cost pressure includes financial charges and higher taxes to impact net margin reducing then to 1.38%.

**Improving capitalization profile**

Capitalization indicators depict an improving trend with leverage and gearing reducing to 1.64x and 0.56x in FY24 from 1.99x and 1.01x respectively in FY23. This was primarily as a result of higher profitability in FY23 and better working capital management resulting in lower short-term borrowings. The Company has negotiated improved terms with suppliers, creating room in working capital. However, any buildup of payables more than reasonable levels will remain a concern. Overall, the capitalization profile continues to strengthen, despite dividend payments in FY23 and FY24. Maintenance of capitalization profile will remain important for ratings, going forward.

**Improved liquidity metrics**

FY24, the liquidity profile also depicts an improving trend with current ratio of 1.48x (FY23: 1.38x) and short-term debt coverage at 3.97x (FY23 2.33x. However, increase in receivable cycle has been noted. Slowdown in receivables given market challenges will remain an important consideration. Debt coverages however remain adequate 1.60x.

**Agro Processors & Atmospheric Gases Limited**
**Appendix I**

<u>Financial Summary</u>				
<b>Balance Sheet (PKR Millions)</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23A</b>	<b>FY24M</b>
Property, plant and equipment	952.97	1,377.11	1,358.78	1,350.69
Stock-in-trade	945.94	2,051.96	2,672.02	2,557.64
Trade debts	2,255.44	1,791.71	2,246.39	2,481.13
Cash & Bank Balances	48.85	184.88	159.11	32.66
Other Assets	1,513.84	941.31	777.02	531.44
<b>Total Assets</b>	<b>5,717.04</b>	<b>6,346.97</b>	<b>7,213.32</b>	<b>6,953.56</b>
Trade & Other Payables	725.75	1215.49	1938.80	2,419.55
Long-term Debt (incl. current portion)	799.55	334.51	208.34	119.67
Short-Term Borrowings	2,408.59	2,265.87	2,005.42	1,220.28
<b>Total Debt</b>	<b>3,208.14</b>	<b>2,600.38</b>	<b>2,213.76</b>	<b>1,339.94</b>
Other Liabilities	530.79	574.18	985.59	151.89
<b>Total Liabilities</b>	<b>4,074.08</b>	<b>3,947.54</b>	<b>4,362.88</b>	<b>3,911.39</b>
Paid up Capital	657.89	657.89	657.89	657.89
Equity (excl. Revaluation Surplus)	1,383.62	1,739.69	2,193.86	2,385.57

<b>Income Statement (PKR Millions)</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23A</b>	<b>FY24M</b>
Net Sales	10,339.80	13,750.69	17,495.02	15,361.30
Gross Profit	926.25	1,717.73	2,449.48	2,239.58
Operating Profit	346.91	705.50	1,247.44	891.28
Finance Costs	242.82	269.09	396.96	382.37
Profit Before Tax	104.09	436.41	850.48	508.91
Profit After Tax	185.24	355.34	529.86	211.44

<b>Ratio Analysis</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23A</b>	<b>FY24M</b>
Gross Margin (%)	8.96%	12.49%	14.00%	14.58%
Operating Margin (%)	3.36%	5.13%	7.13%	5.80%
Net Margin (%)	1.79%	2.58%	3.03%	1.38%
Funds from Operation (FFO) (PKR Millions)	79.73	388.60	682.30	347.14
FFO to Total Debt* (%)	2.49%	14.94%	30.82%	25.91%
FFO to Long Term Debt* (%)	9.97%	116.17%	327.49%	290.10%
Gearing (x)	2.32	1.49	1.01	0.56
Leverage (x)	2.94	2.27	1.99	1.64
Debt Servicing Coverage Ratio* (x)	0.71	1.65	2.00	1.60
Current Ratio (x)	1.17	1.30	1.38	1.48
(Stock in trade + trade debts) / STD (x)	1.23	1.61	2.33	3.97
Return on Average Assets* (%)	3.62%	5.89%	7.81%	2.98%
Return on Average Equity* (%)	19.54%	22.75%	26.94%	9.23%
Cash Conversion Cycle (days)	87.64	76.86	68.05	68.66.

\*Annualized, if required

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

<b>REGULATORY DISCLOSURES</b>		<b>Appendix II</b>			
<b>Name of Rated Entity</b>	Agro Processors & Atmospheric Gases Limited				
<b>Sector</b>	Edible Oil				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	11/09/2024	BBB+	A-2	Stable	Upgrade
	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	
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>S. No.</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>	
	1.	Adnan Owais	GM- Finance	July 11, 2024	
	2.	Salman Gurwala	Manager Finance		
	3.	Salman Qurban	AM Costing & Budgeting		