RATING REPORT

Kausar Ghee Mills (Pvt.) Limited (KGML)

REPORT DATE:
August 08, 2023

RATING ANALYSTS:
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RATING DETAILS				
	Latest Ratings		Previous Ratings Before Suspension	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	A-	A-2
Rating Date	*August 08 2023*		*July 04, 2022*	
Rating Action	Reaffirmed		Reaffirmed	
Rating Outlook	*Stable*		*Stable*	

COMPANY INFORMATION	
Incorporated in 1992	**External auditors:** A. Aziz Chaudary & Co. Chartered Accountants
Private Limited Company	**CEO:** Mr. Abid Ali Malik
Key Shareholders (with stake 5% or more):	
Sajid Ali Malik – 20.7%	
Zahid Ali Malik (Late) – 19.9%	
Malik Attique Ahmad – 17.8%	
Hamid Ali Malik – 16.5%	

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

Kausar Ghee Mills (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Kausar Ghee Mills (Pvt.) Limited (KGML) was established in 1992. The company is involved in the manufacturing of Vegetable Ghee, Cooking Oil, and allied products.

Profile of the Chairman/CEO

Mr. Zahid Ali Malik serves as the Chairman and CEO, he is an engineer by profession and has been involved with the company for over 5 decades.

RATING RATIONALE

The ratings assigned to Kausar Ghee Mills (Pvt.) Limited (KGML) take into account its association with Kausar Group of Companies that has business stake in sectors involving edible oils, poultry, poultry feed, and rice processing. The assigned ratings reflect stable business model, growing equity base and strong liquidity profile. The ratings incorporate growth in revenues in the last three years, conservative capital structure, projected improvement in profitability profile through planned efficiency enhancement initiatives and stable demand prospects for edible oil in the domestic market.

Furthermore, ratings draw comfort from integrated production facility, well established distribution network, brand recognition in the local market and vertical integration with group owned feed mill. KGML's conservative capital structure as evident from minimal reliance on credit financing coupled with sound coverages is a key rating driver. However, the ratings remain sensitive to highly price sensitive import market of raw material.

About the Company

KGML is a family owned business concern, the Board of Directors comprise eight directors all being members of the sponsoring family. Mr. Abid Ali Malik serves as the CEO, he possesses diversified business experience and has been involved with the company for over 5 decades. Other group companies include Kausar Feed Mills (pvt.) Limited (KFML), Kausar Rice and General Mills (KRGML) and Kausar Farms.

Given the presence of the company in the edible oil industry, the business model is highly import dependent. The raw material for vegetable ghee including crude palm oil, palm olein and RBD palm oil is imported from Malaysia and Indonesia. On the other hand, for processing of edible oil, soybean, canola rape and sunflower seeds are imported from USA, Brazil, Canada, Eastern Europe and Australia. The raw material is imported under sight letter of credit; the same operates as a mitigant against exchange rate risk.

KGML's total power requirement is around 2.25MW comprising 1.5MW for Karachi unit and 0.75Mw for Gujranwala unit. For Gujranwala unit, LESCO supply is available. Meanwhile the Karachi unit is dependent on the 1.5MW KESC supply. Alternate sources including 2.5MW gas generator (as the primarily source)along with other secondary sources based on diesel are also available. The power supply from LESCO is currently relatively cheap; therefore alternate sources of 1.1MW for Gujranwala unit are hardly utilized. In order to support the gas generators during winter season, the Company also has a back-up 1MW diesel generator.

Integrated manufacturing facility

The company was established by late Malik Mubarak Ali with its first production unit of vegetable ghee and edible oils processing in Gujranwala in 1992. Later in line with growth objectives, the company added a solvent plant in Karachi at Port Qasim. The commercial production of edible oils including canola, soya, sunflower and blended cooking oil started in 2014. At end-June'22, installed capacity and relevant utilization levels are elaborated in the table below:

Capacity in MT	FY21			FY22		
	Installed Capacity	Actual Production	Utilization	Installed Capacity	Actual Production	Utilization
Ghee Plant, Gujranwala						
Ghee	57,600	35,069	61%	57,600	32,002	56%
Cooking Oil	24,900	2,301	9%	24,900	2,106	8%
	82,500	**37,370**	**45%**	**82,500**	**34,108**	**41%**
Solvent and Physical Refinery Plant, Karachi						
Seed Crushing	120,000	107,110	89%	120,000	86,473	72%
Cooking Oil	75,000	21,510	29%	75,000	17,814	24%
	195,000	**128,620**	**66%**	**195,000**	**104,287**	**53%**
Ghee Plant Karachi						
Ghee	75,000	10,560	14%	75,000	10,303	14%

Production Levels of all manufacturing units of the Company declined in FY22 due to raw material constraints, general economic recession and electricity shortages in the country. Overall the under-utilization is also attributable to stiff competition within the packaged oil market. During FY22, the Company installed a coal-fired boiler to counter rising RLNG prices. Moreover, KGML also installed Silos, which are used for storage of all kinds of imported oil seeds. Both the new additions were financed through internal reserves and are expected to help in reducing the operating cost of the Company.

Ratings factor in well-established distribution network. During FY22, the company marketed its products nationwide through 384 (FY21: 200) distributors and dealers covering 3 provinces and 400 towns. The company also possesses an in-house sales team of 92 (FY21: 50) people at end-FY22.

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. Around Sept'22, the top A-grade brands sold oil at Rs. 570/kg, which was previously priced at Rs. 600/kg, depicting a decrease of only 5%. Likewise, the B-grade local brands have only dropped their prices by nearly 17%.
- The limited decrease in edible oil prices is mainly linked to the constant deterioration in rupee-dollar exchange rates 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 jump of 30% and was reported at Rs. 24.5b (FY21: Rs. 18.9b; FY20: Rs. 15.1b) in FY22 driven by higher average selling price per unit of all products.
- Banaspati Ghee *(under the flagship brand of Kausar Banaspati Ghee)* has remained the major revenue driver over the years, representing around one-half of the total sales, followed by cooking oil and soybean meal.
- KGML sells around 30% of meal produce to its associate concern while the remaining is sold in the open market.
- Sales mix predominantly comprised Banaspati Ghee and Cooking Oil which accounted for 50% (FY21: 46%) and 26% (FY21: 25%) of net sales respectively during FY22. Ghee sales increased to Rs. 14.5b (FY21: Rs. 10.4b) on account of 57% increase in average selling price. Meanwhile, Cooking Oil sales amounted to Rs. 7.6b (FY21: Rs. 5.7b) owing to higher sales prices. Other products in the mix include Meal, Hull, Soap, Acid Oil and Fatty Distillate.
- Net sales of KGML majorly comprises of local sales. Only Fatty Distillate is exported. Limited growth in terms of quantity indicates intense competition faced by the company with entry of new market players making market capitalization difficult.
- Customer concentration is fairly on the lower side with top 10 customers accounting for around 10% of total sales in FY22.

- During 9MFY23, revenue of the Company was recorded at Rs. 17.96b. Management expects gradual increase in the top line with ease in LC constraints over the remaining part of the ongoing fiscal year.

High sensitivity of exchange rate volatility on margins due to dependence on imports

- Gross profit of the Company increased in absolute terms to Rs. 2.9b (FY21: Rs. 1.9b; FY20: Rs. 1.3b) during FY22.
- Gross margins increased in the review period being reported at 11.8% (FY22: 11.6%; FY21: 10.0%) in 9MFY23 due to stable demand, inventory gains and ability to pass on cost increase to the consumers.
- The raw material mix of the company primarily comprises imported seed constituting more than 90% of total purchases.
- Administrative expenses in FY22 increased primarily due to higher remuneration (& benefits) and donations expensed during the year. Finance charges were elevated at Rs. 78m (FY21: Rs. 6m; FY20: Rs. 24m) mainly due to higher benchmark rates in FY22.
- Net margins of the Company depict an upward trend in FY22 on account of steady growth in topline and support from other income (investment income and one-off profit on disposal of fixed assets) with the same reported at 6.2% (FY21: 4.7%; FY20: 3.3%). Net margins slightly dipped in 9MFY23 (5.7%) as higher benchmark rates put pressure on profitability.
- Going forward, management expects profitability of the company to remain stable in view of stable demand growth and stability in margins at current levels.
- Maintaining projected targets will be important from a ratings perspective.

Strong liquidity profile

- With improved profitability and low-leveraged capital structure FFO to Total Debt coverages are strong with the same reported at 3273% (FY22: 451%; FY21: 85%) during 9MFY23 in line with low-leveraged capital structure and improved profitability.
- Debt Servicing ratio (DSCR) is also healthy at 8.5x (FY22: 22.2x; FY21: 384.1x) during 9MFY23. DSCR remains in line with the assigned ratings benchmark.
- Current ratio as of end-9MFY23 stood at 3.06x and short-term borrowing coverage was reported comfortably at 424.7x at end-Mar'23.
- Liquidity profile of the company is supported with zero reliance on long-term borrowing and reduced utilization of short-term borrowing lines.

Conservative capital structure

- Equity base of the company has strengthened in line with internal capital generation. The same was reported higher at Rs. 5.6b (FY22: Rs. 4.5b; FY21: Rs. 3.0b) at end-Mar'23.
- Debt profile of the company comprises only short-term borrowings with zero reliance on long-term financing.
- The company also has short-term interest free short-term sponsor loan of Rs. 8m (FY22: Rs. 7.2m; FY21: Rs. 700.4m) on the books at end-Mar'23. The loan is payable on demand depending on availability of funds with the company.
- Going forward, to avail the benefit of price fluctuations in plastic resin, KGML plans to install pet bottle making machines during the next three years. The expected capital expenditure on the same is projected around Rs. 50.0m and is to be arranged from company's own sources.
- In addition, the Company also plans to install multiple machineries including bucket filling machine, tin filling machine, pouch filling machine and automated bottle filling machine to support operations over the next three years. This BMR will also be funded through internal cash resources.
- With minimum dependence on credit financing along with strengthening of equity base, gearing and leverage indicators are considered to be on the lower side in comparison to peers with the same reported at 0.0x (FY22: 0.1; FY21: 0.4x) and 0.4x (FY22: 0.4x; FY21: 1.0x); respectively, by end-9MFY23. Gearing and leverage indicators are projected to remain within manageable levels given no plans of debt drawdown over the rating horizon.
- However, given the challenging market dynamics, maintaining financial risk profile over the rating horizon will remain critical for ratings.

Kausar Ghee Mills (Pvt.) Limited **Appendix I**

FINANCIAL SUMMARY *(amounts in PKR millions)*					
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**
Fixed Assets	910.3	943.4	962.3	999.5	901.5
Stock-in-Trade	1,665.2	1,064.9	2,226.2	2,643.3	3,710.8
Trade Debts	681.1	877.9	1,684.5	976.6	896.4
Cash & Bank Balances	56.4	997.5	137.2	533.6	1,332.8
Total Assets	4,521.8	4,889.7	6,044.4	6,500.5	7,904.2
Trade and Other Payables	948.9	1,080.2	633.3	963.4	1,894.9
Long Term Debt	-	-	-	-	-
Short Term Debt	1,303.6	-	1,247.4	338.0	10.8
Total Debt	1,303.6	-	1,247.4	338.0	10.8
Total Equity	1,957.6	2,107.1	3,003.2	4,530.1	5,561.1
Total Liabilities	2,564.2	2,782.6	3,041.2	1,970.4	2,343.1
Paid Up Capital	500.0	500.0	500.0	500.0	500.0
				30%	
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**
Net Sales	11,426.2	15,116.7	18,891.9	24,514.8	17,960.2
Gross Profit	950.9	1,291.1	1,885.7	2,854.8	2,118.9
Operating Profit	535.7	748.1	1,273.6	2,052.3	1,454.4
Profit Before Tax	469.4	748.2	1,283.9	1,995.5	1,379.8
Profit After Tax	157.0	499.9	896.2	1,526.9	1,031.0
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**
Gross Margin (%)	8.3%	8.5%	10.0%	11.6%	11.8%
Net Margin (%)	1.4%	3.3%	4.7%	6.2%	5.7%
Net Working Capital	1084.1	1216.1	2101.9	3585.5	4706.0
Trade debts/Sales	6.0%	5.8%	8.9%	4.0%	3.8%
FFO	267.3	551.4	1084.4	1701.6	909.4
FFO to Total Debt (%)	20.5%	3486.3%	85.4%	451.3%	3273.2%
FFO to Long Term Debt (%)	NA	NA	NA	NA	NA
Debt Servicing Coverage Ratio (x)	5.3	17.1	384.1	22.2	8.5
Current Ratio (x)	1.4	1.4	1.7	2.9	3.1
Stock+Trade Debts/STD	180.0%	NA	313.5%	1071.0%	42471.1%
Gearing (x)	0.7	0.0	0.4	0.1	0.0
Leverage (x)	1.3	1.3	1.0	0.4	0.4

REGULATORY DISCLOSURES					**Appendix II**
Name of Rated Entity	Kausar Ghee Mills (Pvt.) Ltd				
Sector	Consumer Goods				
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				
	August 08, 2023	A-	A-2	Stable	Reaffirmed
	July 04, 2022	A-	A-2	Stable	Reaffirmed
	Sep 09, 2020	A-	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.				
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Due Diligence Meetings Conducted		**Name**	**Designation**	**Date**	
	1	Mr. Rafeh Hassan Shah	CFO	June 8, 2023	
	2	Mr. Bilal Ahmed	Executive Director	June 8, 2023	