

RATING REPORT

Kausar Ghee Mills (Pvt.) Limited (KGML)

REPORT DATE:

February 25, 2025

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Ratings		Previous Ratings	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A1	A-	A2
Rating Date	February 25 2025		August 08 2023	
Rating Action	Upgrade		Reaffirmed	
Rating Outlook/Watch	Stable		Stable	

COMPANY INFORMATION

Incorporated in 1992	External auditors: A. Aziz Chaudary & Co. Chartered Accountants
Private Limited Company	CEO and Chairman of the Board: Mr. Abid Ali Malik
Key Shareholders (with stake 5% or more):	
Sajid Ali Malik – 20.7%	
Malik Attique Ahmed – 17.8%	
Hamid Ali Malik – 16.5%	
Shoaib Zahid Malik – 12.50%	
Junaid Zahid Malik – 12.50%	
Bilal Ahmed – 7.90%	
Abid Ali Malik – 7.23%	

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>

Kausar Ghee Mills (Pvt.) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE																																																																																			
<p><i>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.</i></p> <p>Profile of the Chairman/CEO</p> <p><i>Mr. Abid Ali Malik serves as the Chairman and CEO. He is a graduate in arts and has a diversified business experience of more than 54 years. He is a director/Partner in all Kausar Group companies.</i></p>	<p>Company Profile:</p> <p>KGML is a family-owned business concern, with the Board of Directors comprising eight directors, all being members of the sponsoring family. Mr. Abid Ali Malik serves as the CEO, and he 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.</p> <p>The company established its first production unit of vegetable ghee and edible oils processing in Gujranwala in 1992. Later, in line with its growth objectives, the Company added a solvent extraction unit and a physical refinery plant at Port Qasim, Karachi, which began production in 2014. For further expansion at its Karachi site, the Company enhanced the production capacity of its solvent unit and also installed an additional vegetable ghee unit in 2018. Furthermore, the company has a well-established distribution network, with over 300 distributors, spanning 3 provinces and 400 towns.</p> <p>The production levels of most manufacturing units of the Company improved in FY24 compared to FY23, barring the Ghee Plant in Karachi, which experienced a slightly lower capacity utilization, as shown in the table below:</p>																																																																																			
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<p>The total power requirement of the Company is 2.5 MW, which is met through KE and WAPDA. The Company also has alternative arrangements in place to meet this requirement through the use of generators. The Company is selling products under the brand name “Kausar”. The product category includes ghee, cooking oil, meal canola, soyabean and other by-products.</p>																																																																																				

Industry Overview:

Pakistan's edible oil industry is heavily reliant on imported palm oil, with approximately 90% of the country's edible oil requirements met through imports, while only around 10% is fulfilled by local production. This dependency has positioned Pakistan as the third-largest global importer of palm oil. Due to this significant reliance on imports, fluctuations in global pricing and supply chains have a direct impact on Pakistan's edible oil market. Indonesia and Malaysia, being major exporters of palm oil, play a pivotal role in meeting Pakistan's import needs. However, recent developments in Indonesia have disrupted global palm oil supplies. The country has mandated that 40% of its palm oil production be diverted to biodiesel, leading to reduced availability for exports. This policy shift has caused a surge in prices, creating challenges for import-dependent nations like Pakistan.

Pakistan's annual consumption of ghee and cooking oil stands at 5 million tonnes, of which 3.5 million tonnes of palm oil are imported. During the first five months of FY25 (5MFY24), Pakistan imported 1.319 million tonnes of palm oil worth \$1.26 billion, compared to 1.248 million tonnes valued at \$1.17 billion during the same period last year. Pakistan's palm oil market faces challenges as import costs rise sharply, with unit prices reaching ~\$1,100 per ton in December 2024, up from below \$900 earlier in that year. Globally, Malaysia's palm oil stockpiles fell for the second consecutive month in November, dropping by 2.6% to 1.84 million metric tons, while crude palm oil production reached its lowest level in November since 2020 due to adverse weather. Simultaneously, Indonesia's increased export levies to prioritize domestic supply have heightened global price volatility. Benchmark futures have surged to their highest levels in 2.5 years, driven by tightening supply and production shortfalls in key exporting nations. For Pakistan, decisions by Malaysia and Indonesia on export policies will be critical in shaping price trends in early 2025.

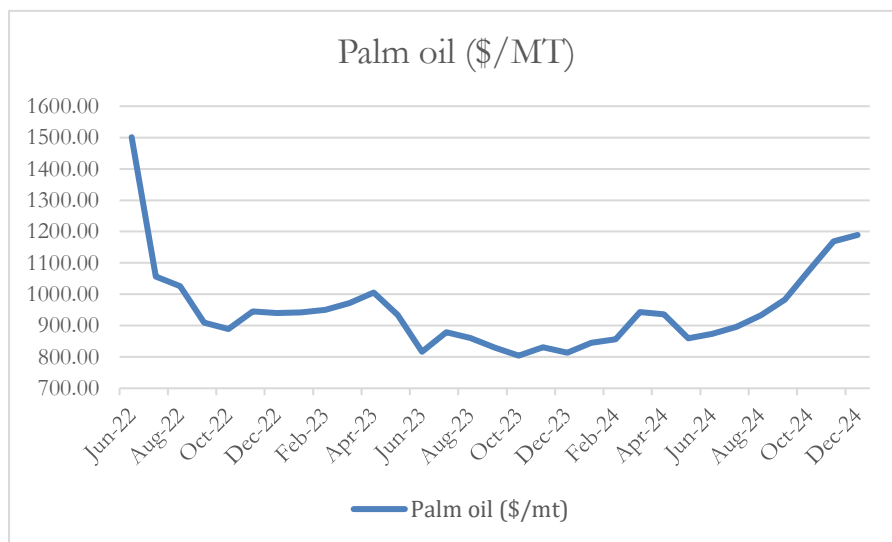


Figure 1: World Bank Commodity Pricing data

Rating Drivers:**Topline posted growth, primarily backed by volumetric increase**

During FY24, the net sales of the Company reached Rs 26b (FY23: Rs. 21b), reflecting a growth of ~20%. The increase in sales was mainly driven by the volumetric offtake across all product categories, while price increases were witnessed in certain products. The Company's product portfolio primarily comprises ghee, cooking oil, meal canola and soyabean meal, with ghee accounting for the majority portion of the revenue, contributing ~41% of the total gross sales, followed by ~29% and ~23% of the sales emanating from cooking oil and Soyabean meal respectively. During the period, the Company experienced volumetric growth across all categories, with increase in soybean meal prices, alongside price gains in some other categories that contributed minimally to total sales.

Particulars (Rs. Millions)	In 000' MT	FY24	In 000' MT	FY23	In 000' MT	FY22
Sale of ghee	29,663	12,639	27,746	13,193	40,415	14,481
Sale of cooking oil	17,393	8,815	13,750	7,482	19,850	7,615
Meal Canola.	14,205	2,041	5,083	965	4,874	362
Soybean Meal.	25,608	7,038	21,856	4,024	56,161	6,389
Soyabean Hull	26	1	413	16	3,498	120
Acid Oil	-	-	-	-	207	62
Soap	364	26	219	9	595	18
Scrap	257	2	-	-	7	0
Tool Manufacturing		59	-	-		-
Gross		30,620		25,689		29,048
Less: Discount & Tax		(4,370)		(3,802)		(4,539)
Total Local sales		26,250		21,887		24,510
Exports						
Fatty Distillate	39	19	59	19	19	5
		26,269		21,907		24,515
Export Trading						
Sale of Soyabean Seed				493		
Soyabean Stock				531		
Loss due to Export Trading				(38)		
Net Sales		26,269		21,868		24,515

Margins improving on a timeline basis

During FY24, the Company's gross margins increased to 14.20% (FY23: 12.83%) on account of inventory gains, supported by a stable exchange rate along with lower average prices of palm oil during the period. Gross margins increased slightly in 6MFY25, as the Company passed on increased costs to consumers amid rising palm oil prices.

Similarly, the operating and net margins of the Company also increased to 9.24% and 6.02% (FY23: 8.95% and 5.74%) respectively in FY24. However, net margins of the Company dipped slightly to 5.90% in 6MFY25 mainly due to higher incidence of taxation.

Going forward, with the upward trend of international palm oil prices, gross margins of the Company may come under slight pressure. Being a largely inelastic demand for its products, the company along with its competitors are generally able to pass on any increase in costs to its customers.

Conservative Capital Structure; equity base supported by profit retention over the years

Amid sustained profitability, the Company's equity base has demonstrated steady growth over time, increasing to Rs. 8,063.43m at end-6MFY25 (FY24: Rs. 7,366.50m, FY23: Rs. 5,785.12m). Additionally, the Company maintains a conservative debt profile, with short-term borrowings generally mobilized to meet working capital requirements and being repaid in subsequent periods, while having virtually no reliance on long-term debt. The company remained virtually debt free over the years especially keeping in consideration maintenance of healthy liquid short-term investments along with cash & bank balances.

Looking ahead, the Company plans a modest capital expenditure (Capex) of Rs. 117m to install flaker machines, pet bottle manufacturing equipment, a standby pouch filling machine, an automated bottle filling machine, and additional trucks. The entire Capex outlay will be internally funded through operating cash flows. Given the Company's reliance on internal funding, its capitalization profile is expected to remain sound.

Sound liquidity profile supported by working capital management and cash flow coverages

The liquidity position of the Company is underpinned by healthy cash flow generation in tandem with profitability coupled with minimal financial charges. Funds from Operations (FFO) was recorded at Rs. 642.46m (FY24: 1,609.90m, FY23: 1,454.07m) during 6MFY25. In the backdrop of no long-term financing, the debt service coverage ratio (DSCR) has remained sizeable at 117.8x in 6MFY25 (FY24: 69.1x, FY23: 66.4x).

The current ratio improved to 4.60x by end-6MFY25 (FY24: 2.58x, FY23: 2.72x). However, the Cash Conversion Cycle (CCC) increased to 89 days (FY24: 65 days, FY23: 54 days) in 6MFY25, primarily due to higher sell-to-inventory days.

The increase in inventory days over time was primarily due to the Company's procurement of non-GMO based seeds, which necessitate imports from Africa. Given the batch-wise arrival of shipments, processing times have been extended, with the plant operating on minimal stock until sufficient inventory is accumulated. In contrast, GMO-based operations benefit from single cargo shipments, significantly reducing processing time. However, the management plans a transition towards procuring GMO seeds, moving forward.

Kausar Ghee Mills (Pvt.) Limited
Appendix I

Financial Summary					
Balance Sheet (PKR Millions)	FY21A	FY22A	FY23A	FY24A	6MFY25M
Property, plant and equipment	962.34	999.00	941.96	973.94	1,019.70
Right-of-use Assets	0.00	0.00	0.00	0.00	0.00
Stock-in-trade	2,226.19	2,643.00	3,214.81	4,563.55	4,395.85
Trade debts	1,684.52	977.00	334.64	971.45	1,225.90
Short-term Investments	20.29	230.00	410.00	550.00	550.00
Cash & Bank Balances	137.21	534.00	1,030.77	623.20	790.97
Other Assets	1,013.85	1,117.70	2,787.90	3,844.06	2,114.67
Total Assets	6,044.40	6,500.70	8,720.08	11,526.20	10,097.09
Creditors	633.27	963.00	372.33	421.55	554.06
Long-term Debt (incl. current portion)	0.00	31.60	18.92	24.71	0.00
Short-Term Borrowings	1,247.42	338.00	0.00	729.64	0.00
Total Debt	1,247.42	369.60	18.92	754.35	0.00
Other Liabilities	1,160.46	638.00	2,543.70	2,983.79	1,479.60
Total Liabilities	3,041.15	1,970.60	2,934.95	4,159.69	2,033.66
Paid up Capital	500.00	500.00	500.00	500.00	500.00
Revenue Reserve	2,503.25	4,030.10	5,285.03	6,866.50	7,563.43
Equity (excl. Revaluation Surplus)	3,003.25	4,530.10	5,785.12	7,366.50	8,063.43

Income Statement (PKR Millions)	FY21A	FY22A	FY23A	FY24A	6MFY25M
Net Sales	18,891.93	24,514.80	21,868.46	26,268.97	11,806.51
Gross Profit	1,885.65	2,854.80	2,805.55	3,729.87	1,694.24
Operating Profit	1,290.02	2,073.30	1,958.31	2,427.96	1,148.02
Finance Costs	6.10	77.90	16.09	16.70	5.50
Profit Before Tax	1,283.92	1,995.40	1,942.22	2,411.26	1,142.52
Profit After Tax	896.14	1,526.80	1,254.88	1,581.46	696.94

Ratio Analysis	FY21A	FY22A	FY23A	FY24A	6MFY25M
Gross Margin (%)	9.98%	11.65%	12.83%	14.20%	14.35%
Operating Margin (%)	6.83%	8.46%	8.95%	9.24%	9.72%
Net Margin (%)	4.74%	6.23%	5.74%	6.02%	5.90%
Funds from Operation (FFO) (PKR Millions)	1,139.97	1,701.50	1,454.07	1,609.90	642.46
FFO to Total Debt* (%)	91.39%	460.36%	7685.36%	213.42%	
FFO to Long Term Debt* (%)		5384.49%	7685.36%	6515.18%	
Gearing (x)	0.42	0.08	0.00	0.10	0.00
Leverage (x)	1.01	0.44	0.51	0.56	0.25
Debt Servicing Coverage Ratio* (x)	187.34	16.27	66.44	69.12	117.81
Current Ratio (x)	1.71	2.88	2.72	2.58	4.60
(Stock in trade + trade debts) / STD (x)	3.14	10.73		7.62	
Return on Average Assets* (%)	16.39%	24.34%	16.49%	15.62%	12.89%
Return on Average Equity* (%)	35.07%	40.53%	24.33%	24.05%	18.07%
Cash Conversion Cycle (days)	41.52	47.39	54.24	65.63	89.03

*Annualized

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES		Appendix II			
Name of Rated Entity	Kausar Ghee Mills (Pvt.) Ltd				
Sector	Consumer Goods				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
	RATING TYPE: ENTITY				
	February 25, 2025	A	A1	Stable	Upgrade
	August 08, 2023	A-	A2	Stable	Reaffirmed
	July 04, 2022	A-	A2	Stable	Reaffirmed
Sep 09, 2020	A-	A2	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. Bilal Ahmed	Director		
	2	Mr. Syed Rafeh Hassan Shah	Manager Banking & Finance		
	3	Mr. Shahbaz Yousaf	Manager Commercial		
	4	Mr. Saqib Aziz	Manager Accounts & Taxation		