

RATING REPORT

Gamalux Oleochemicals Limited

REPORT DATE:

July 12, 2023

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Initial Ratings	
	Long-term	Short-term
Entity	A-	A-2
Rating Date	July 12, 2023	
Rating Outlook	Stable	
Rating Action	Initial	

COMPANY INFORMATION

Incorporated in 2000	External auditors: Grant Thornton Anjum Rahman-Chartered Accountants
Unlisted Public Limited Company	Chief Executive Officer: Mr. Usman Ahmed
Key Shareholders (with stake 5% or more):	
<i>SNA Equity Sdn Bhd- 51.00%</i>	
<i>Mr. Salman Saeed- 30.00%</i>	
<i>Mr. Usman Ahmed –17.00%</i>	
<i>Mr. Saeed Ahmed – 2.00%</i>	

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>

Gamalux Oleochemicals Limited

OVERVIEW OF THE INSTITUTION

Incorporated in 2000, Gamalux Oleochemicals) Limited is engaged in the manufacturing and sale of Oleochemicals. Financial Statements of the company for FY22 were audited by Grant Thornton Anjum Rahman - Chartered Accountants.

Profile of CEO

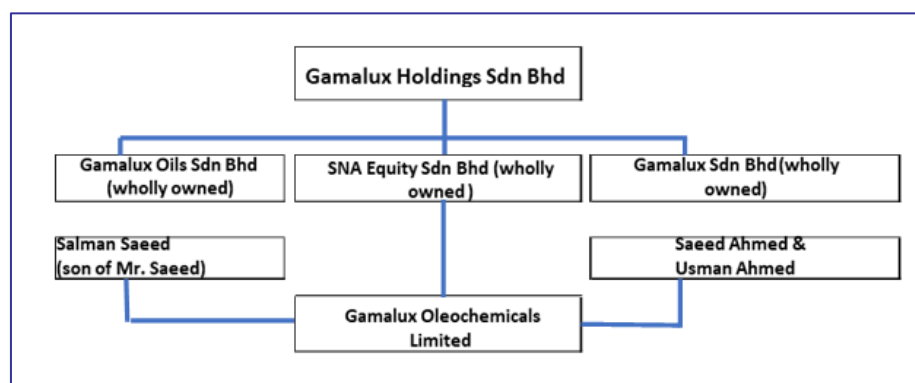
Management team at Gamalux Oleochemicals Limited is spearheaded by Mr. Usman Ahmed who graduated from Western Michigan University, USA with a Master’s Degree in Business Administration. He was the founding VP of Bin Qasim Association of Trade and Industry. He also served as the Chairman of Pakistan Soap Manufacturers Association from 2018 to 2019. Currently, Mr. Usman is a General Body member of FPCCI and Director of Pakistan Malaysia Business Council of FPCCI.

RATING RATIONALE

Gamalux Oleochemicals Limited (GOL) was incorporated in 2000 as Private Limited Company and was later converted into a Public Unlisted Company in May 2021. Principal activity of the Company is to run and manage Oleochemicals, distillation, and soap plant thereby manufacturing and selling Oleochemicals. GOL’s manufacturing facility is located at Bin Qasim, Karachi. The company has also obtained the following ISO certifications:

- Quality Management System ISO 9001
- Halal certified

Group Structure



Gamalux Oleochemicals Limited (GOL) is a part of the Gamalux Group, which operates in Malaysia and Pakistan. Mr. Usman Ahmed (Group CEO) formed a holding Company by the name of Gamalux Holdings SDN BHD (GHSB) in the last quarter of FY22. The holding Company (GHSB) owns 100% shares of all other subsidiaries within the group, whereas Mr. Usman Ahmed and his father, Mr. Saeed Ahmed holds 80% ownership of GHSB. Remaining 20% of the ownership is held by the Malaysian Investors.

In order to finalize the consolidation and bring GOL under the umbrella of GHSB, a Company by the name of SNA Equity SDN BHD (SNAESB) was established as a Special Purpose Vehicle (SPV) to acquire controlling rights of GOL. SNAESB is a 100% owned subsidiary of GHSB. As per the support letter dated November 2022, SNAESB has approved Foreign Direct Investment to the tune of \$10m in GOL which was agreed to be paid to GOL in tranches. Till March’23, investment of \$ 2m has been received equivalent to Rs. 450m. Another \$3m was received in May’23, as per management taking the total amount to Rs. 990m. The rest of the \$ 5m will be received over the next one year in varying tranches.

As per management, post-transaction, 51% shares of GOL were transferred to SNAESB by Share Purchase Agreement and Shares Subscription Agreement. Out of the initial investment, \$1.0m was paid to the Bhatti Family (Seller of shares of GOL) against purchase of Shares of the

Company. The remaining proportion of \$4.0m has been injected into the Company against subscription of new shares at end-May'23.

Mr. Usman Ahmed spearheads the management team at Gamalux Oleochemicals as the CEO. Following is the pattern of shareholding of the company at end-Mar'23:

SNA Equity SDN BHD (SNAESB)	51%
Mr. Salman Saeed	30%
Mr. Usman Ahmed	17%
Mr. Saeed Ahmed	2%

Operations

The Company operates a vertically integrated oleo chemicals manufacturing facility capable of producing Distilled Fatty Acid (DFA), Soap Noodles, Laundry Soap and Beauty Soap. The Company has imported the distilled fatty acids manufacturing plant from Germany and Malaysia, Soap Noodles plant from Italy and has procured Beauty Soap and Laundry Soap plants locally.

Apart from oleo chemical plant, the Company also owns a Batch Chemical Refinery and Continuous Physical Refinery with a refining capacity of 125 and 250 MT per day respectively. These are used for refining of distilled edible and inedible fats. The Company also possesses a Stearic Acid and Hydrogenation plant having a production capacity of 50 MT per day. The abovementioned refineries and stearic acid plant are currently non-operational.

Year	Events/Milestones
2000	Gamalux Oleochemicals (Pvt.) Limited was incorporated
2003	Gamalux successfully completed the installation of its DFA plant and started production of DFA and Glycerin
2005	Started production of laundry soap
2006	Enhanced production capacity of laundry soap by addition of another laundry soap production line
2007	Installed beauty soap plant and started production of beauty soap
2009	Procured Batch Chemical Refinery for refining of distilled inedible and edible fats
2010	Purchased stearic & hydrogenation plant for production of stearic acid
2013	Installed Continuous Physical Oil Refinery for refining of RBD Palm Oil and Palm Fatty Acid Distillate
2019	Diversified its product portfolio through addition of soap noodles manufacturing facility
2021	Converted into public unlisted company

Total power requirement of the company (264 KW) is met through in-house electricity generation through gas and diesel based generators. The Company has sanctioned 1971.33 MMBTU/month load from Sui Southern Gas Company Limited for operation of its gas based generators which is utilized 100%. The company has also applied for 1.5MW electricity connection from K-Electric (Limited).

Gamalux has a strong distribution network comprising of 499 business partners in form of distributors, retailers and soap manufacturing concerns. This networks spans widely across Sindh over its rural and urban areas and in some areas of Punjab.

Key Rating Divers:**Ratings derive comfort from the broadly covered product portfolio in the soap segment**

The diverse product portfolio of GOL include Distilled Fatty Acids (DFA), Soap Noodles, Beauty Soap and Laundry Soap. Business risk profile dynamics of each segment are discussed separately below:

1. Distilled Fatty Acids & Glycerin

MT	FY21	FY22	9MFY23
Distilled Fatty Acids Capacity	18,000	18,000	13,500
Production	9,002	12,431	10,701
<i>Capacity utilization</i>	<i>50.00%</i>	<i>69.06%</i>	<i>79.27%</i>

The Company manufactures Distilled Fatty Acids from RBD Palm Oil & various other oils for internal use and external sale to other soap manufacturers. DFA is produced by pre-treatment of vegetable oils, splitting of fat and oil and then purification of the fatty acid through distillation. The company follows a **B2B model** for DFA segment. A major portion of DFA is utilized in-house to produce soap noodles. The capacity utilization also includes a proportion of Glycerin. The Company has an annual installed capacity of 3,000 MT to produce Glycerin. The production of the same begun in FY22 with 2,031 MT of Glycerin produced during the period.

2. Soap Noodles

MT	FY21	FY22	9MFY23
Soap Noodles Capacity	24,000	24,000	18,000
Production	12,025	15,060	11,333
<i>Capacity utilization</i>	<i>50.10%</i>	<i>62.75%</i>	<i>62.96%</i>

GOL manufactures two grades of Soap noodles- 90:10 and 80:20 from internally produced DFA and RBD Palm Kernel Oil (RBD Palm Oil is refined, bleached and deodorized. RBD palm Oil has a balanced fatty acid composition its edible grade is used for cooking purpose while non-edible grade is used in soap manufacturing). Total Fatty Material ("TFM") presence in soap noodle describes its quality, 80:20 soap noodles comprise of 78% to 80% TFM and remaining quantity of lauric acid or palm kernel oil while 90:10 soap noodles comprises of around 90% TFM and remaining quantity of lauric acid or palm kernel oil.

The company follows a **B2B model** for soap noodles segment catering to Tier 2 and Tier 3 soap manufacturers in the country. GOL also uses soap noodles for internal consumption as well in its own branded beauty soap. Management plans to target Tier 1 manufacturers comprising MNCs as well going forward. **Key competitors** in the soap noodles segment include Nimir Industrial Chemicals (Capacity of 110,000 MT) and

Sitara Chemicals Limited (Commenced its Soap Noodles plant in June'21 with installed capacity of 34,000 MT per annum).

Increasing demand of soap noodles have led the capacity utilization to increase on a timeline basis with the same contributing around 65% in the total revenue base of the company in FY22. In order to tap the untapped market of Tier-1 soap manufacturers, GOL plans to fund BMR in this segment in order to enhance efficiency and productivity. The same will be financed through internal cash resources. **Timeline of the same is contingent on improving macroeconomic environment of the Country.** As per management, the medium-term goal for this segment is to achieve 72,000MT capacity per year.

3. Beauty Soap

MT	FY21	FY22	9MFY23
Beauty Soap Capacity	24,000	24,000	18,000
Production	2,291	8,941	7,320
<i>Capacity utilization</i>	<i>9.55%</i>	<i>37.25%</i>	<i>40.67%</i>

The Company manufactures the beauty soaps under the brand name of Euro, Orchid, & Lara targeted towards lower income class with penetration in interior Sindh and Punjab. GOL plans to focus towards other regions of the Country through development of its sales team. The company follows a **B2C model** for beauty soap segment.

Soap Noodles are passed through a bar soap finishing line. The first unit in the line is a mixer (known as amalgamator), in which the soap noodles are blended with colorants, sodium silicate & Perfume (fragrances). The mixture is then homogenized and refined using refining pladders and rolling mills to achieve thorough blending and a standard texture. In the end, the mixture is continuously extruded from the plodder, cut into bars of desired sizes and stamped into its final shape in a soap press.

Key competitors include Azhar Corporation, Kohinoor Soap & Detergents, Pearl Soap & Consumer Products and other body wash/shower gel manufacturers.

4. Laundry Soap

MT	FY21	FY22	9MFY23
Laundry Soap Capacity	36,000	36,000	27,000
Production	10,078	6,434	8,776
<i>Capacity utilization</i>	<i>27.99%</i>	<i>17.87%</i>	<i>32.50%</i>

GOL manufactures brown and yellow laundry soaps catering to middle and lower income class of the country particularly in the interior Sindh and Punjab regions. Brand names include Zen, Pak, Roop, Sachal, Parwaz & Mehran. GOL plans to focus towards other regions of the Country through development of its sales team. The company follows a **B2C model** for laundry soap segment.

For production of laundry soap, less fatty material from oils are blended without preservatives for preparation of soap base and are dried in vacuum. After drying, colorants are added to dried soap base and the mixture is milled to ensure even mixing. It is then plodded and extruded out as a continuous bar, which is cut into small bars and stamped for packaging and sale.

Key competitors largely include MNCs such as Unilever, Colgate Palmolive and P&G along with other laundry soap and detergent manufacturers in the country.

Overall Capacity Utilization

MT	FY20	FY21	FY22	9MFY23
Total Capacity	102,000	102,000	102,000	76,500
Total Production	36,489	33,396	42,865	38,130
Total Capacity utilization	35.77%	32.74%	42.02%	49.84%

GOL's capacity utilization decreased in FY21 amidst Covid-19 on account of disruption in market dynamics. However, in FY22 and 9MFY23, capacity utilization has picked up pace with improving demand dynamics and recovery in the overall economy. The Company's ability to increase its utilization levels in the ongoing year despite import restrictions is noted through opening of LCs at a margin and later getting classified as an essential sector. As per management, utilization levels are expected to further improve over the rating horizon on the back of higher sales through the addition of new customers.

Business risk profile is supported by growing demand of beauty soap and soap noodles (comprising around 73% of sales revenue in FY22), in-elastic demand and favorable population demographics.

Oleochemicals are derived from natural sources including plant and animal fats. Basic oleochemical substances like fatty acids are formulated by various chemical and enzymatic reactions. In Pakistan, approximately 58% of oleochemicals requirement is met by local production while the remaining demand is met by imports. Malaysia dominates as the single largest supplier of oleochemicals to Pakistan, followed by Indonesia and Thailand. Expansion of consumer sectors including soap, cosmetics, pharmaceuticals, specialty chemicals, food and paint enhance demand for oleochemicals. Oleochemicals industry can be segregated into six groups including fatty acids, esters of fatty acids, fatty alcohols, fatty amines, glycerin and soap noodles. Soap noodles are a primary raw material for the beauty/toilet soap manufacturers.

Soap noodles annual demand in Pakistan is approximately 200,000 MT. Out of the total demand, around 135,000 MT is being met by local players (Nimir Industrial Chemicals Limited: 90,000 MT; Gamalux Oleochemicals Limited: 24,000 MT; Others: ~21,000 MT). Since FY19, the government has imposed heavy duties on import of soap noodles to encourage domestic production. As a result, domestic players are aiming to provide soap noodles as raw material to MNCs. The main raw material required for the production of soap noodle is RBD Palm Stearin & RBD Palm Oil, which is mainly imported, constituting around 83% of the total raw material mix; among other constituents, 5% caustic soda will also be utilized. The soap industry relies chiefly on this raw ingredient to make toilet soap.

Soap industry comprises moderate business risk given the non-cyclical nature of the sector and relatively stable demand. The beauty soap industry has depicted a healthy CAGR of 14.1% over the last few years (FY15-FY20) with the same comprising around 75% of Pakistan's Bath and Shower market. Projected revenue growth of the sector is supported by favorable changes in demographics, improved affordability and hygiene awareness after Covid-19. In order to promote local industry, the GOP increased the regulatory duty on import of soap and soap noodles from 10% to 50% in Oct 2017. Apart from the regulatory duty, imports of soap and soap noodles are also subject to custom duty of 20%. As a result, imports of soap noodles have become expensive allowing local manufacturers to fill the gap in the market. Hence, imports of soap noodles have dropped on a timeline basis. However, key sector risks including exchange rate risk on imported raw material, supply chain uncertainties and managing growing competition remains.

Revenue of GOL has depicted healthy year on year growth during the last three years (FY20-FY22). Margins have also improved over the past three years, however reduced in the ongoing year owing to challenging macroeconomic environment and elevated finance costs.

Revenue Mix	FY21	FY22	9MFY23
Soap Noodles 90:10	35%	22%	12%
Laundry Soap Yellow	21%	9%	13%
Beauty Soap	17%	42%	49%
Soap Noodles 80:20	16%	9%	5%
Laundry Soap Brown	7%	4%	5%
Distilled Fatty Acids	4%	14%	16%
Toll Manufacturing	-	-	0.3%
Total	100%	100%	100%

During FY22, net sales registered a year-on-year (YoY) growth rate of ~32%. The growth has been primarily a function of increased aggregate demand of soap noodles & beauty soap products along with higher average selling prices. Product range of the company comprises soap noodles, laundry soap and beauty soap. Product mix of the company depicted a shift towards Beauty Soap from the Soap Noodles (9MFY23: 17%, FY22: 31%, FY21: 51%) category as 49% (FY22: 42%, FY21: 17%) of the sales revenue was generated by the former in 9MFY23. Due to the Company's deliberate marketing strategy focusing on the Beauty Soap products and the positive change in the customers' mindsets about hygiene over the years, sales of the same segment increased especially in the rural areas. Currently, revenue comprise 100% of local sales. However, the company is in the process of expanding geographically through export of products to Afghanistan. Client mix of the company consists of distributors and retail buyers. According to the management, the impact of COVID-19 was more adverse on the retail segment as compared to MNCs (Institutional) in the last two years. Going forward, given management's focus towards selling soap noodles to MNCs, the composition of soap noodles is projected to gradually increase. Going forward over the rating horizon, with better hygiene awareness and stable demand growth, topline is projected to depict stable growth.

In line with higher revenue generated, gross margins of the company also increased in FY22 and were reported higher at 26.6% (FY21: 12.1%; FY20:30.5%) largely due to inventory gains. However, the same dipped to 24.7% during 9MFY23 on account of higher raw material prices and fuel costs. Nevertheless, the same compare favorably to other players in the industry owing to stable volumetric growth and diversification into high margin Soap Noodles business since FY19.

Despite elevated administrative, financial and taxation expenses, net margin sharply increased in FY22 and was reported at 11.3% (FY21: 1.9%; FY20: 13.3%). The upward trend in the same is attributable to strong revenue growth during the period. Net Margin slightly dipped to 10.7% in 9MFY23 as rising borrowing costs put pressure on profitability of the Company. Ratings remain dependent on management's projections for further growth in overall profitability levels through enhancement of capacity utilization levels.

Liquidity profile of the company is considered sufficient as evident from adequate cash flow coverages in relation to outstanding obligations.

Liquidity profile of the company has improved on a timeline basis in line with improving profitability providing adequate coverage of cash flows in relation to outstanding obligations, and sound debt servicing ability. In absolute terms, Funds from Operations (FFO) amounted to Rs. 815.7m (FY21: Rs. 215.4m) during FY22 translating into improved liquidity indicators with Debt Service Coverage Ratio (DSCR) being reported at 4.14x (FY21: 2.09x, FY20: 3.57x) during FY22. The same dropped to 2.69x during 9MFY23 due to lower profitability in absolute terms. Stock in trade and trade debts provide sufficient coverage of 252% (FY22: 214%; FY21: 161%) against outstanding short-term borrowings at end-Mar'23. The current ratio was reported higher at 1.69x (FY22: 1.35x; FY21: 1.47x; FY20: 1.26x) at end-Mar'23. Going forward, with improving profitability and limited additional debt drawdown, liquidity coverages are expected to improve.

With equity injection through FDI, capitalization indicators of the Company improved on a timeline basis as additional equity was utilized to meet working capital needs hence keeping debt at similar levels as before equity injection.

During FY22, equity base of the company has grown significantly by 94% owing to profit retention. The Company issued bonus shares in both periods, FY21 and FY22. However, in FY21, despite the bonus shares, Tier-I equity base declined due to loss incurred during the period. On a timeline basis, the equity base has grown to Rs. 2.0b (FY22: Rs. 1.2b; FY21: 612.4m; FY20: Rs. 769.3m) at end-Mar'23. The growth is attributable to both profit retention and equity injection of \$2m as an FDI from sponsors.

Debt profile of the company comprises majorly (89%) short term borrowings which increased during FY22 on account of additional net working capital requirement. Going forward, the company has no plans to drawdown long-term debt over the rating horizon. Gearing and leverage indicators were reported lower at 0.82x (FY22: 1.65x; FY21: 2.67x) and 1.75x (FY22: 3.44x; FY21: 4.89x), respectively at end-9MFY23. Given projected increase in profitability, limited additional debt drawdown and further equity injection, capitalization indicators are expected to strengthen going forward.

Adequate Corporate Governance Framework

Board of Directors consists of four members comprising two non-executive directors and two executive directors.. The board members conduct quarterly meetings and discuss about the financial and operational progress of the company. The company has formed a separate internal audit function.. The Board Audit Committee meeting is convened every quarter. The Company also has an active Human Resource and Remuneration Committee. On the IT front, GOL has installed an ERP Software- Odoo. It encompasses all modules including CRM, e-commerce, billing, accounting, manufacturing, warehouse, project management, and inventory management. The company also has two servers for storage and data backup purposes.

Gamalux Oleochemicals Limited
Appendix I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>				
<u>BALANCE SHEET</u>	FY20	FY21	FY22	9MFY23
Fixed Assets	2,388	2,596	3,572	3,497
Stock-in-Trade	1,773	1,674	2,679	2,749
Trade Debts	826	749	1,004	997
Cash & Bank Balances	71	79	267	462
Total Assets	5,166	5,389	7,739	7,981
Trade and Other Payables	822	514	995	1,005
Long Term Debt	57	128	248	182
Short Term Debt	1,288	1,507	1,719	1,487
Total Debt	1,345	1,635	1,968	1,669
Total Liabilities	2,799	2,996	4,093	3,559
Paid Up Capital	177	708	1,062	1,062
Total Equity (without revaluation surplus)	769	612	1,190	2,032
<u>INCOME STATEMENT</u>	FY20	FY21	FY22	9MFY23
Net Sales	2,485	3,372	4,461	3,655
Gross Profit	759	408	1,187	902
Profit Before Tax	464	111	753	540
Profit After Tax	330	62	506	391
<u>RATIO ANALYSIS</u>	FY20	FY21	FY22	9MFY23
Gross Margin (%)	30.5%	12.1%	26.6%	24.7%
Net Margin	13.3%	1.9%	11.3%	10.7%
Net Working Capital	576	526	1,067	1,829
Trade debts/Sales	33.2%	22.2%	22.5%	20.5%
FFO	609.7	215.4	815.7	570.6
FFO to Total Debt (%)	45.3%	13.2%	41.5%	45.5%
FFO to Long Term Debt (%)	1062.9%	168.5%	328.8%	416.1%
Current Ratio (x)	1.26	1.23	1.35	1.69
Debt Servicing Coverage Ratio (x)	3.57	2.09	4.14	2.69
Gearing (x)	1.75	2.67	1.65	0.82
Leverage (x)	3.64	4.89	3.44	1.75
Long Term Debt to TD (%)	4%	8%	13%	11%

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	Gamalux Oleochemicals Limited				
Sector	Chemicals				
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				
	12-July-2023	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	Name	Designation	Date		
	Mr. Arif Ghani	CFO	17-April-2023		
	Mr. Irfan Ul Haq	Manager Finance	17-April-2023		