

RATING REPORT

Gamalux Oleochemicals Limited

REPORT DATE:

August 26, 2024

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Initial	
Rating Date	August 26, 2024		July 12, 2023	

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 -19.00%</i>	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates:

<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	RATING RATIONALE
<p><i>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.</i></p> <p>Profile of CEO <i>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.</i></p>	<p><u>Company Profile</u></p> <p>Gamalux Oleochemicals Limited ('GOL' or 'the Company') was established in 2000 as a Private Limited Company. In May 2021, it transitioned into a Public Limited Company (Unlisted). The Company's primary operations involve managing and running facilities for oleochemicals production, distillation, and soap manufacturing for sale to bulk buyers and retailers. GOL supplies raw materials to soap manufacturers (B2B), produces its own consumer products namely beauty and laundry soap (B2C), and undertakes toll manufacturing. Additionally, it exports its products to UAE and Uzbekistan.</p> <p><u>Group Profile</u></p> <p>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.</p> <p><u>Changes in Shareholding</u></p> <p>As per management, 51% shares of GOL have been transferred to <i>SNA Equity Sdn Bhd</i> ('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.</p> <p><u>Key Rating Drivers:</u></p> <p>Medium to low business risk profile of the Chemical Industry, characterized by medium cyclicality, low competition, albeit high exposure to exchange rate fluctuations.</p> <p>VIS classifies the business risk of the chemical sector as medium to low, supported by moderate cyclicality, low competition, and high capital-intensive nature. Demand in the chemical sector of Pakistan originates from industries such as plastics, paints, paper, leather, soaps, detergents, shampoos, textiles wherein the respective chemicals form an integral part of input materials. Demand, particularly for soap noodles, is derived from the hygiene and personal care sectors, which have relatively low levels of cyclicality.</p> <p>Additionally, as a large proportion of chemical demand is met through imports, making the industry susceptible to dumping, albeit the Government of Pakistan has put in place protectionist duties for local industry, which are regularly reviewed. However, a significant part of the raw material is imported; the industry does depict sensitivity to exchange risk.</p> <p>Forward integration with its Laundry Soap and Toilet/Beauty Soap products provides support to the business risk profile of GOL.</p> <p>Primarily, a producer of intermediary materials for soap industry, the Company's business risk profile benefits from the in-house capacity for laundry and toilet/beauty soap</p>

production, which together contributed 45% of the total revenues (FY22: 55%) in CY23. This forward integration supports the Company's business risk profile, with low demand cyclicality and relatively higher margins within these segments.

Topline growth supported by increased volumetric sales in Laundry Soaps and DFA segments as well as increases in prices during the year. Margins remain healthy, albeit lower on account of input costs with exchange rate impact on raw materials.

The topline of the Company grew by ~70%, in CY23 compared to FY23. The growth is attributed to higher volumetric sales as well as upward price adjustments during the year as GOL managed to pass on some of the increase in input costs to its customers. Annualized sales growth eased in 1QCY24 increasing by only ~25% during the period, after several periods of substantial growth. GOL's sales have grown with a compounded annual growth rate of 44% between FY19 and CY23. The gross margin of the Company has a 5-year average of 22.24%, however, it slightly declined to 20.30% (FY22: 26.61%) in CY23 due to higher raw material costs resulting from rupee devaluation. Gross margin recovered slightly to 22.01% in 1QCY24 with continued price adjustments and ease in international raw material cost.

Capitalization profile continues to improve with enhancements in the equity base.

The Company's capitalization profile has sustainably improved between FY21 and 1QCY24, with gearings and leverage ratios of 0.68x (CY23: 1.15x, FY22: 1.65x) and 1.42x (CY23: 1.73x, FY22: 3.44x), respectively. Continued improvement is attributed to enhancement in the equity base from profit retention and increase in paid up capital over the period. The debt profile is characterized by short-term debt drawdowns with minimal long-term debt.

Healthy coverage profile, albeit weakening in CY23, with slightly lower funds from operations and higher financial burden during the period.

During CY23, the Company's Funds from Operations reported a decline of ~6% on account of slightly lower profit from operations and higher finance costs during the period. The financial burden was higher, in CY23, compared to FY22 on account of higher short-term borrowing and an elevated interest rate environment. Consequently, the debt service coverage ratio slid to 2.14x (FY22: 3.43x) in CY23 with further reduction to 1.78x in 1QCY24, remaining healthy, despite weakening. Short-term debt coverage is also considered strong at 3.07x in 1QCY24, recovering from 1.95x (FY22: 2.04x) in CY23.

Adequate liquidity profile.

The Company has historically maintained an adequate liquidity profile with an average current ratio of 1.33x between FY19 and CY23. The current ratio continued to improve to 1.89x (CY23: 1.73x, FY22: 1.35x) in 1QCY24.

REGULATORY DISCLOSURES		Appendix I			
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
	<u>RATING TYPE: ENTITY</u>				
	26-August-24	A-	A-2	Stable	Reaffirmed
	12-July-23	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	13 Aug 2024		
	Mr. Irfan Ul Haq	Manager Finance			