RATING REPORT

Madina (Pvt.) Limited (MPL)

REPORT DATE:
June 13, 2022

RATING ANALYST:

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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	BBB	A-2
Rating Outlook	Stable	
Rating Date	*June 13 '22*	
Rating Action	Initial	

COMPANY INFORMATION	
Incorporated in 2020	External auditors: Zaheer Babar & Co. Chartered Accountants
Private Limited Company	CEO: Mr. Muhammad Hamza Amin
Key Shareholders (with stake 5% or more):	
Muhammad Hanif – 53.4%	
Muhammad Haider Amin – 28.5%	
Muhammad Hamza Amin – 13.4%	

APPLICABLE METHODOLOGY
VIS Entity Rating Criteria: Corporates (May 2019)
https://www.vis.com.pk/kc-meth.aspx

Madina (Pvt.) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Madina (Pvt.) Limited (MPL) was established in 2020. The company is involved in the manufacturing and sale of banaspati ghee, cooking oil, and allied products. The plant is situated at Gharo Sindh.

Profile of the CEO

Mr. Muhammad Hamza Amin serves as the CEO, he is a foreign educated young graduate.

Financial Snapshot

Total Equity: end-HY22: Rs. 1.8b; end-FY21: Rs. 1.2b

Assets: end-HY22: Rs. 6.2b; end-FY21: Rs. 3.4b

Profit After Tax: HY22: Rs. 576m; FY21: Rs. 310m

Madina (Pvt.) Limited (MPL) is a part of Madinah Group having business interest in various sectors including edible oil, sugar, ethanol, detergent, plastics, power generation, steel, and mass media. The group is owned by a family, which has over 50 years of business experience. The sponsors having rich experience of the edible oil industry as well, that leads to long-standing relationships with the distributors and an established procurement network. MPL is involved in the manufacturing and sale of banaspati ghee, cooking oil, and allied products.

The company became operational in February'21 with an installed refining and extraction capacities of 350MT each per day. The manufacturing facility is located at Gharo, Sindh. The facility has K-Electric connection of 1MW alongside steam turbine generator of 3MW catering to energy requirements of the company.

Pakistan is 4th largest oil importing country; after petroleum products, edible oil is the second largest import item that costs around US$ 3.1b annually to the import bill.

Pakistan is amongst the leading consumers of edible oil with per capita consumption recorded at 22 kg/year for FY20 compared to global average of 24 kg/year. Around 75% of the annual oil consumption emanates from imported oil depicting high reliance on imports. With demand expected to continue to grow at historical rate of 5%, total edible oil consumption for FY21 was forecasted at 4.1m MT. The industry is divided into two segments; a few large national level players in the organized sector who target the middle- and high-income groups and enjoy strong brand equity by quality and advertisement campaign. While the leading players are playing important part in catering to demand for packaged edible oils, fragmentation in the industry is evident from no single entity registering a double-digit market share. Based on pricing, the industry is further categorized into Premium segment (15% market), Middle Tier (30%-40% market) and Low Tier segment (50%-55% market). The key market brands/players are Dalda Foods; Habib Oil; Sufi Banaspati & Cooking Oil; Seasons Edible Oil, Meezan Cooking Oil & Banaspati; Kisan Cooking Oil & Banaspati Ghee; Punjab Oil Mills Limited and Kashmir Cooking Oil & Banaspati.

Currently, estimated share of ghee/banaspati (largely palm-based hydrogenated oils) is around 70% of the market while cooking oil contributes 30% of sales. Demand switch from ghee to cooking oil has been witnessed on a timeline basis for health reasons predominantly in the Punjab and North region. As per industry estimates, 62% of industry demand is generated from direct retail consumers (home) and the remaining being from industrial consumers. High population growth rate has translated into volumetric growth in sales of edible oil industry over the years. Going forward, overall demand is likely to expand on the back of growing demand for frying and processed food, increasing number of restaurants, urbanization and growing disposable incomes along with ongoing shift from unpackaged to packaged products. Given the relative inelasticity of demand in edible oil, the risks relate to managing of foreign exchange and price volatility in imported raw material procurement. Ability to manage margins depends on efficient inventory planning and pass through to consumers, which in turn, is linked to degree of competition and operational efficiency.

Key Rating Drivers

Business and industry risk factors: MPL, like all branded edible oil firms, faces pricing pressure from the unorganized segment, which has a significantly higher market share in Pakistan's edible oil industry. The company also faces challenges in marketing since there is little product differentiation and minimal switching cost. The industry is exposed to high credit risk arising from widespread debtor base. So far, MPL has been effectively managing its debtors with around 45% of sales on cash while others on 30 to 40 days credit sales. Aging profile of trade debts indicates that all receivables fall within 1 to 3 months bracket. The industry provides a natural hedge to some extent as input and output prices are fairly correlated, and yet, the management tries maintains an optimal level of raw material inventory to avoid inventory losses in case of adverse movements in prices. While MPL does not take positions in agro-commodity futures, the senior management closely monitors the trends and volatility levels to manage the pricing risk.

Established track record of sponsors: The sponsors have rich experience spanning over three decades in edible oil processing industry. This has aided in building healthy relationships with customers and suppliers. In other group companies, support from sponsors has been witnessed in terms of equity injection/directors' loan as and when required.

Growth in topline with adequate profitability: Given full half year operations with higher quantity and average prices of major products, net sales improved to Rs. 9.5b (FY21: Rs. 3.8b) during HY22. According to the management, about 70% of sales are generated from branded products while the rest comprises bulk sales. The company has introduced premium brands in the market by the name of Rabi Banaspati and Rabi Cooking Oil while lower end brands are by the name of Rajhee Banaspati and Rajhee Cooking Oil. Banaspati ghee comprises more than three fourth of total sales while ghee plus cooking oil comprises above 90% of gross sales. The rest mainly include sale of meal while soap generates modest revenue. Top ten customers consisted of 18.7% (FY21: 15.6%) of gross sales.

The company posted lower gross margins of 7.8% (FY21: 12.1%) during HY22. The management could not fully pass on considerable increase in cost of raw material on to customers. Administration expenses stood higher at Rs. 18.7m (FY21: Rs. 9.9m) as the company remained operational for lower number of days in FY21. Given higher short-term borrowings, financial charges increased to Rs. 100.4m (FY21: Rs. 67.4m) during HY22. The company posted higher net profit of Rs. 576m (FY21: Rs. 310m) despite lower net margin of 6% (FY21: 8.1%) in HY22.

Given the company operated at 56% annualized capacity utilization during HY22, the projected trend in sales seems quite realistic. Moreover, the management is quite optimistic in achieving projected gross margins with rationalization of fixed cost at higher level of capacity utilization. Given profitability and net margins during HY22, projected net income seems achievable in FY22.

Adequate liquidity supported by healthy cash flows in relation to outstanding obligations: Funds from Operations (FFO) improved to Rs. 545m (FY21: Rs. 330m) during HY22 primarily as a result of increase in scale of business operations. Moreover, liquidity profile of the company is sound in line with already zero reliance on long-term borrowings. Despite higher utilization of short-term borrowings to meet increasing higher working capital requirements, FFO to total debt (annualized) increased to 0.26x (FY21: 0.17x) in HY22. Debt service coverage ratio also remained strong.

Stock in trade was recorded at Rs. 2.3b (end-FY21: Rs. 57.2m) by end-HY22, mainly comprising imported raw material. Advances, prepayments and other receivables increased by end-HY22 mainly owing to higher sales and income tax refundable from the government. Despite considerable increase in sales, the company managed to retain trade debts at Rs. 2.4b (end-FY21: Rs. 2.3b) by end-HY22; profile of receivables was satisfactory with 100% of the receivables falling due within 1 to 3 months.

High gearing due to elevated short-term borrowings: The company was established through owners' equity. Debt profile of the company consists of short-term borrowings with zero reliance on long-term financing. At end-HY22, to meet higher working capital requirements emanating from high raw material inventory, short-term borrowings increased to Rs. 4.3b (FY21: Rs. 2b). These facilities were secured by way of 1st charge on current assets amounting Rs. 2.7b and personal guarantees of all directors and cross corporate guarantee of Faisalabad Oil Refinery Limited. With higher dependence on short-term credit financing, gearing and leverage indicators increased to 2.38x and 2.51x (FY21: 1.65x and 1.82x); respectively, by end-HY22.

Going forward, the company intends to carryout capex of Rs. 155m and Rs. 200m in FY23 and FY24, respectively. The management plans to finance the above-mentioned capex through internal sources, loan from directors amounting Rs. 150m in FY23 and will continue to have zero reliance on long-term borrowings. Gearing and debt leverage are projected to improve considerably, going forward.

Madina (Pvt.) Limited Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**June 30, 2020**	**June 30, 2021**	**Dec 31, 2022**
Non-Current Assets	17	883	857
Stock-in-Trade	-	57	2,345
Stores & Spares	-	1	9
Trade Debts	-	2,253	2,368
Advances, Prepayments and other Receivables	51	217	509
Cash & Bank Balances	32	3	175
Total Assets	99	3,414	6,263
Trade and Other Payables	-	114	101
Short Term Borrowings	-	1,996	4,260
Long-Term Borrowings *(Inc. current maturity)*	-	-	-
Other Liabilities	-	95	117
Paid Up Capital	103	801	901
Tier-1 Equity	99	1,208	1,784
INCOME STATEMENT	**June 30, 2020**	**June 30, 2021**	**Dec 31, 2022**
Net Sales	-	3,850	9,540
Gross Profit	-	479	746
Operating Profit	(3)	466	719
Profit Before Tax	(3)	371	576
Profit After Tax	(3)	310	576
FFO	(3)	330	545
RATIO ANALYSIS	**June 30, 2020**	**June 30, 2021**	**Dec 31, 2022**
Gross Margin (%)	-	12.1	7.8
Net Margin (%)	-	8.1	6.0
Net Working Capital	83	386	2,293
Current Ratio (x)	83	1.18	2.36
FFO to Long-Term Debt (x)	-	-	-
FFO to Total Debt (x)	-	0.17	0.26*
Debt Servicing Coverage Ratio (x)	-	10.6	8.0
ROAA (%)	-	17.6	23.8*
ROAE (%)		47.4	38.5*
Gearing (x)	-	1.65	2.38
Debt Leverage (x)	-	1.82	2.51
(Stock in Trade+ Trade Debts) to Short-term Borrowings (x)	-	1.16	1.11
Cash Conversion Cycle	-	104	53

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES					Appendix III
Name of Rated Entity	Madina (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**	**Rating Action**
	RATING TYPE: ENTITY				
	June 13, 2022	BBB	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. M. Naeem Malik	Finance Manager	May 19, 2022	