RATING REPORT

Madina (Pvt.) Limited (MPL)

REPORT DATE:
June 23, 2023

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	BBB	A-2	BBB	A-2
Rating Date	*June 23, 2023*		*June 13, 2022*	
Rating Outlook	Stable		Stable	

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 Amin – 53.4%	
Muhammad Haider Amin – 28.5%	
Muhammad Hamza Amin – 13.4%	

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

Madina (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

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-9MFY23: Rs. 2.3b; end-FY22: Rs. 1.8b

Assets: end-9MFY23: Rs. 7.4b; end-FY22: Rs. 4.3b

Profit After Tax: 9MFY23: Rs. 583m; FY22: Rs. 545m

RATING RATIONALE

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 benefiting the Company in terms of long-standing relationships with the distributors and an established procurement network. In other group companies, support from sponsors has been witnessed in terms of equity injection/directors' loan as and when required. 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 per day each. 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. Power requirement of the manufacturing units is met through a combination of grid based power, diesel and gas generators. The company also plans to install solar power production panels by FY24 to provide cost efficiencies.

Capacity Utilization

Capacity Utilization	FY21	FY22
Oil Refinery		
No. of Days Worked	129	324
Plant Capacity (MT)	125,000	125,000
Actual Production (MT)	19,789	57,509
	16%	**46%**

With full-year operations in FY22, the capacity utilization levels increased to 46% (FY21: 16%). Management forecasts productivity levels of the Company to increase as it gradually penetrates in the market over the rating horizon.

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 driven by volumes

- With full year operations of the company in FY22, sales revenue of the company was reported higher at Rs. 16.3b (FY21: Rs. 3.8b) attributable largely by higher volumetric sales.
- 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 tier brands are available in the market 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 remaining proportion of sales mix (Meal, Cooking Oil and Soap) generates modest revenue.
- Customer concentration has declined over the year and is fairly on the lower side with top 10 customers accounting for 14% of total sales during 1HFY23 (FY22: 12%; FY21: 18%).
- During 9MFY23, revenue of the Company was recorded at Rs.13.3b and management expects gradual increase in the top line with ease in LC constraints over the remaining part of the ongoing fiscal year.

Margins remain under pressure due to currency devaluation and high input costs

- Gross profit of the Company increased in absolute terms to Rs. 1,195.4m (FY21: 478.6m) in FY22 on account of increased productivity levels (Capacity Utilization ~FY22: 46%; FY21: 16%).
- However, gross margins reduced to 7.3% (FY21: 12.4%) in the same period due to inventory losses, higher salaries allocated and elevated fuel expenses. With greater economies of scale achieved in 9MFY23 along with passing on the input cost to the consumers, the company was able to maintain gross margins in the ongoing year.
- 100% of the Raw Material inventory including RBD, Palm Olein, Canola seed and Crude Palm Oil is imported posing high level of exchange rate risk on the Company.
- Finance charges were reported significantly higher at Rs. 423.9m (FY21: Rs. 67.4m) mainly due to higher benchmark rates and elevated short-term borrowing levels in FY22 to finance increased working capital needs.
- Net margin of the Company depict a decline on account of higher financial charges and elevated operating expenses with the same reported at 3.3% (FY21: 8.1%) in FY22. However, the same improved to 4.4% in 9MFY23 due to improved revenue base and economies of scale. The company also plans to install solar power production panels which is expected to provide cost efficiencies over the rating horizon.
- In view of a challenging macroeconomic environment, maintenance of margins will be important from a ratings perspective.

Liquidity profile of the Company depicts room for improvement.

- Although Funds from Operation (FFO) of the Company increased to Rs. 333.8m (FY21: Rs.329.8m) in FY22, elevated quantum of debt has weakened cash flow coverages against outstanding obligations in the review period.
- FFO to Total Debt and Debt Servicing Ratio was reported at 13% (FY22: 16%; FY21: 17%) and 3.60x (FY22: 1.84x; FY21: 10.61x), respectively in 9MFY23, being adequate for the assigned ratings.
- Ratings remain dependent on maintaining similar liquidity metrics over the rating horizon.
- Current ratio as of 9MFY23 end stood at 1.21x, which is deemed adequate. Short-term borrowing coverage was reported below the minimum threshold at 84% at end-Mar'23. Improvement in the same will be important.
- So far, MPL has been effectively managing its debtors with around 46% 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.

Elevated gearing levels due to higher short-term borrowings employed to fund higher production levels

- Total Equity base of the company accumulated to Rs. 2.3b (FY22: 1.8b; FY21: Rs. 1.2b) by end-Mar'23 through profit retention.
- The company also issued bonus shares to the tune of Rs. 106m in FY22.
- The debt profile comprises short-term borrowings only (100%). Short-term borrowings level grew to Rs. 4.7b (FY22: Rs. 2.2b; FY21: Rs. 2.0b) at end-9MFY23 due to increase in production levels and to fund elevated working capital requirements in lieu of rising raw material costs.
- Short-term loan facilities are secured by way of 1st charge on current assets amounting Rs. 6.0b (at end-Mar'23) and personal guarantees of all directors and cross corporate guarantee of Faisalabad Oil Refinery Limited.
- With growth in quantum of total debt being greater as compared to the profit retention, gearing and debt leverage ratios increased on an overall basis to 2.00x (FY22: 1.22x; FY21: 1.65x) and 2.17x (FY22: 1.42x; FY21: 2.17x) respectively, at end-9MFY23.
- Given no plans to hire additional debt for expansion, capitalization indicators are expected to gradually decrease over the rating horizon. The management plans to finance planned capex and BMR in FY24 through internal sources and will continue to have zero reliance on long-term borrowings.
- However, given the challenging market dynamics and pressure on margins, maintaining financial risk profile over the rating horizon will remain critical for ratings.

Madina (Pvt.) Limited **Appendix I**

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY20**	**FY21**	**FY22**	**9MFY23**
Fixed Assets	16.7	881.3	996.4	1,107.5
Stock-in-Trade	-	57.2	261.1	526.1
Trade Debts	-	2,253.2	1,408.9	3,424.8
Cash & Bank Balances	32.1	2.6	158.7	471.2
Total Assets	99.5	3,413.5	4,251.2	7,425.1
Trade and Other Payables	0.3	114.4	170.2	166.5
Long Term Debt (including current maturity)	-	-	-	-
Short Term Debt	-	1,996.4	2,152.4	4,693.5
Total Debt	-	1,996.4	2,152.4	4,693.5
Total Equity	99.2	1,208.2	1,759.6	2,342.2
Total Liabilities	0.3	2,205.3	2,491.6	5,082.9
Paid Up Capital	102.5	801.5	908.0	908.0
INCOME STATEMENT	**FY20**	**FY21**	**FY22**	**9MFY23**
Net Sales	-	3,849.5	16,297.5	13,297.6
Gross Profit	-	478.6	1,195.4	973.5
Profit Before Tax	(3.3)	370.9	585.4	582.7
Profit After Tax	(3.3)	310.0	544.6	582.7
RATIO ANALYSIS	**FY20**	**FY21**	**FY22**	**9MFY23**
Gross Margin (%)	-	12.4%	7.3%	7.3%
Net Margin (%)	-	8.1%	3.3%	4.4%
Net Working Capital	82.47	386.32	605.86	1,043.17
Trade debts/Sales	-	0.59	0.09	0.19
FFO	-	329.82	333.82	449.95
FFO to Total Debt (%)	-	17%	16%	13%
FFO to Long Term Debt (%)	-	-	-	-
Debt Servicing Coverage Ratio (x)	-	10.61	1.84	3.60
Current Ratio (x)	275.91	1.18	1.25	1.21
Stock+Trade Debts/STD	-	116%	78%	84%
Gearing (x)	-	1.65	1.22	2.00
Leverage (x)	-	1.83	1.42	2.17

**annualized*

REGULATORY DISCLOSURES					**Appendix II**
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 23, 2023	BBB	A-2	Stable	Reaffirmed
	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.				
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Due Diligence Meetings Conducted		**Name**	**Designation**	**Date**	
	1	Mr. M. Naeem Malik	CFO	16-May-2023	