

## RATING REPORT

### Madina (Pvt.) Limited (MPL)

#### REPORT DATE:

July 30, 2024

#### RATING ANALYSTS:

Zainab Imran

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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	July 30, 2024		June 23, 2023	
Rating Outlook	Stable		Stable	
Rating Action/Rating Watch	Reaffirmed		Reaffirmed	

#### COMPANY INFORMATION

Incorporated in 2020	External auditors: Zaheer Babar & Co. Chartered Accountants
Private Limited Company	CEO: Mian Muhammad Hamza Amin
<b>Key Shareholders (with stake 5% or more):</b>	
Mian Muhammad Hanif – 53.41%	
Mian Muhammad Haider Amin – 28.52%	
Mian Muhammad Hamza Amin– 13.28%	

#### 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>

## 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.*

#### Company Profile:

Madina Group Founded in 1946 by the visionary (Late) Haji Muhammad Amin. The Group over the years has evolved under the stewardship of his three sons. Today, the Group has business interests in various sectors including edible oil, sugar, ethanol, detergent, plastics, power generation, steel, and mass media. MPL is involved in the manufacturing and sale of banaspati ghee, cooking oil, and allied products. The Company sells its products under the brand name of ‘Rabi’ and ‘Rajhee’.

#### Profile of the CEO

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

Madina Group encompasses Madina (Pvt.) Limited (MPL) separately owned by elder son Mian Muhammad Hanif and family, Madina Sugar Mills (Pvt) Ltd and Madina Oil Refinery Limited (MORL) separately owned by Mian Muhammad Rasheed and family and Faisalabad Oil Refinery (Pvt) Ltd separately owned by younger son Mian Muhammad Usman Saleem. The sponsors having rich experience of the edible oil industry as well as benefit from the long-standing relationships with the distributors and an established procurement network. While group companies operate independently, support has been extended in terms of equity injection/directors’ loan as and when required.

#### Financial Snapshot

**Total Equity:** end-9MFY24: Rs. 2.8b; end-FY22: Rs. 2.3b

**Assets:** end-9MFY24: Rs. 6.8b; end-FY23: Rs. 8b

**Profit After Tax:** 9MFY24: Rs. 504m; FY23: Rs. 633m

The shareholding of the Company is divided among family members, with the majority held by Mia Muhammad Hanif at 53.41%, followed by his two sons, Mian Muhammad Haider Amin at 28.52%, and Mian Muhammad Hamza Amin at 13.28%

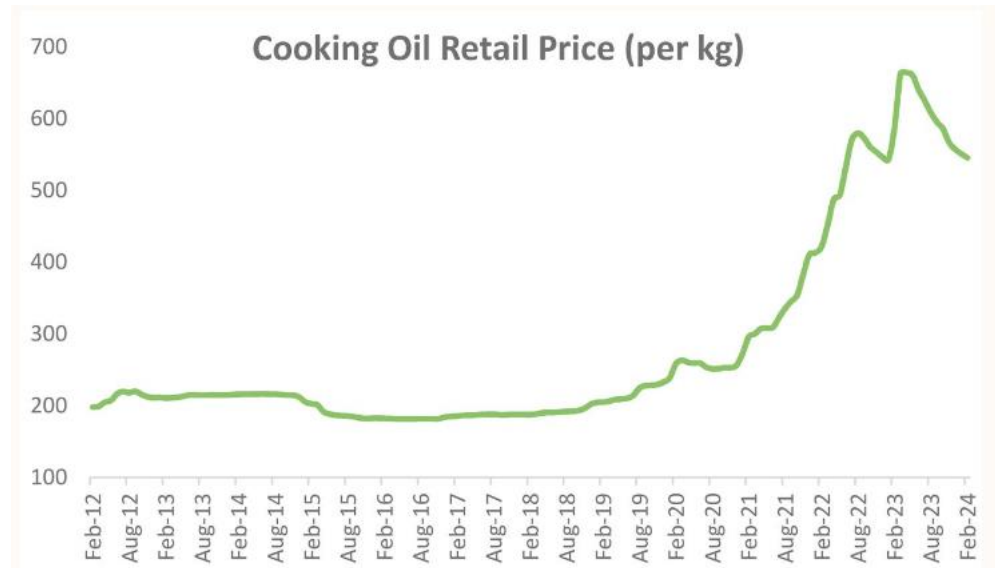
The MPL was incorporated in January’20 and become operational in February’21. The factory and registered office of the Company is situated in Sindh, Karachi and head office is located in Faisalabad. The total installed capacity of the Company is 125,000 M.Ton with approximately 350 M.Ton per day. To cater the energy requirements, the facility has K-Electric connection of 1MW alongside steam turbine generator of 3MW. Power requirement of the manufacturing units is met through a combination of grid-based power, diesel and gas generators. The Company has also installed solar power production panels during FY24 with total power generation 3MW.

#### Industry Overview:

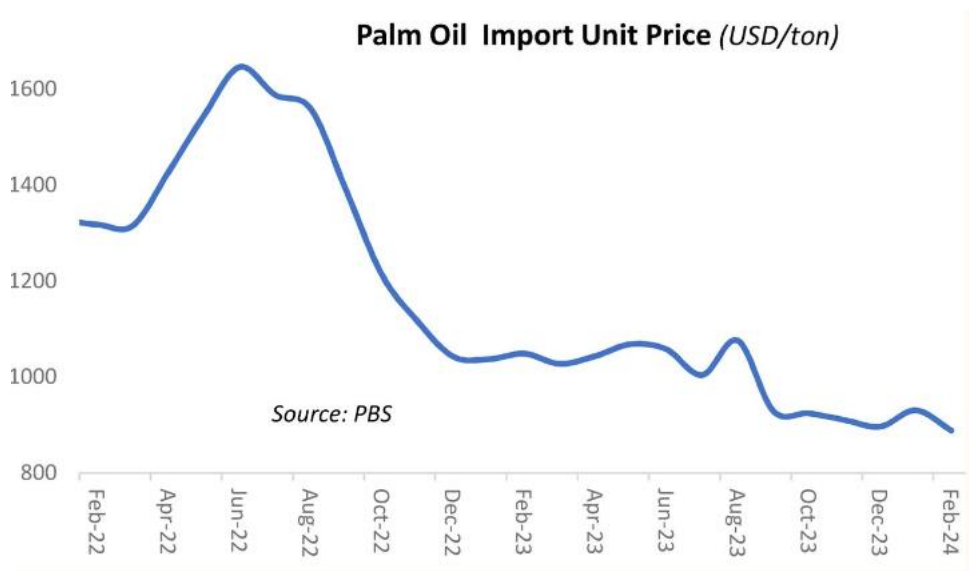
Pakistan’s edible oil industry majorly relies on imported palm oil and seeds in order to cater the local demand. During FY23, edible oil imports (majorly consisting of palm oil) amounted to USD 3.2 billion (FY22: USD 2.8 billion) with approximately increase of 14% YoY basis. More than 90% of edible oil imports consisted of palm oil and palm olein whereas approximately 3% was soybean and the rest constituted olive, canola and sunflower. Roughly the total consumption of edible oil is around 4.50m MT with the local production of around 0.5m MT.

During 8MFY24 the import volume has dropped 9% YoY to 1.9 million tons due to low domestic demand, while imports in dollar terms fell by 32%. The decrease in domestic demand is likely due to the significant erosion of purchasing power over the last 18-20

months. It's notable that Pakistan recorded high import quantities even when unit prices were at their peak. The decline began after the rupee's depreciation led to record-high retail prices, despite a fall in international palm oil prices.



In FY24, palm oil retail prices have consistently declined each month, dropping about 20%. Factors such as a stable currency, steady transportation costs, and weak international prices have likely contributed to this trend. Going forward, with higher global production expectations due to improved weather conditions and relaxed government policies, we expect commodity prices to remain fairly stable.



**Key Rating Drivers:****Volume declined amid higher prices which supported the topline pricing provide comfort**

During FY23, a decline in volumes was observed across the board, with overall volumes registering a dip of 27%. The Company product portfolio majorly comprises of Ghee sales, which registered a 43% volumetric decline. However, meal volumes were up by 37%. The low offtake was because of higher product prices that continued to prevail in the market on account of high-cost inventories in the market despite declining international prices of palm oil. Average prices of ghee were up by 93% year over year. Meal prices also shot by more than 100% as a result of meal shortage in the market caused by government ban on GMO-soyabean seeds. As a result, revenues of the Company continued to record an increase of 14%.

During 9MFY24, product prices have streamlined and depict a decline. The rate of volume decline has also normalized with 9Months depicting a nominal decline year over year. Cooking oil volumes however have registered an increase with its share increasing to 25.8% as a result of management's strategy to expand their line of business into cooking oil.

	FY21	FY22	FY23	9MFY24
<b>Capacity Utilization</b>	<b>16%</b>	<b>46%</b>	<b>28%</b>	
<b>Item Description</b>	<b>Quantity (M.T)</b>			
<b>Ghee</b>	16,302	50,257	28,185	20,495
<b>Meal</b>	4,227	18,482	25,415	14,903
<b>Soap</b>	83	488	549	313
<b>Canola Cooking Oil</b>	3,160	7,151	1,533	12,453
<b>Gross Sales</b>	<b>23,772</b>	<b>76,378</b>	<b>55,681</b>	<b>48,165</b>

**Sustained margins**

Akin to the industry, gross margins registered an increase on the back of higher retail prices, although they remain on the lower side relative to peers. The improvement in gross margins also supported the operating and net margins which remained fairly maintained despite higher operating and financial expenses amidst inflationary pressures and increased borrowing costs.

**Elevated capitalization profile relative to peers**

Year end 2023 gearing and leverage ratios depict an incline to 2.16x and 2.34x respectively primarily due to higher borrowings secured to fund advance LC payments for import of raw materials. In addition, short-term debt increase was also led by increasing sales tax refunds from the Government. Gearing and leverage have subsequently streamlined to 1.25x and 1.38x at end 9M FY24. Improvement in the capitalization profile will remain important.

**Adequate coverage and liquidity profile**

The coverage profile remained adequate; debt servicing is recorded at 1.72x (FY22: 1.72x). During 9MFY24, it slightly declined to 1.62x due to higher financial charges paid. Going forward, the Company is expected to maintain a high DSCR as management plans to finance planned capex through internal sources and continue to have zero reliance on long-term borrowings.

Liquidity profile is considered adequate with a current ratio of 1.1x and a short-term debt coverage of 0.62x. The constrain arises from higher outstanding sales tax refunds. Recovery of the same will remain important. Comfort is drawn from related party support for working capital support reflective in extension of cross corporate guarantees for arrangement of banking lines.

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

<b>Financial Summary</b>				
<b>Balance Sheet</b> (PKR Millions)	<b>FY21A</b>	<b>FY22A</b>	<b>FY23A</b>	<b>9MFY24M</b>
Property, plant and equipment	881.29	1,260.00	1,901.43	1,972.53
Stock-in-trade	57.22	261.10	189.69	793.31
Trade debts	2,253.16	1,408.90	2,978.99	1,737.41
Cash & Bank Balances	2.63	159.00	77.26	94.76
Other Assets	219.21	1,162.60	2,852.66	2,291.13
<b>Total Assets</b>	<b>3,413.51</b>	<b>4,251.60</b>	<b>8,000.03</b>	<b>6,889.14</b>
<b>Creditors</b>	<b>114.44</b>	<b>170.20</b>	<b>31.59</b>	<b>1.35</b>
Long-term Debt (incl. current portion)	0.00	0.00	0.00	0.00
Short-Term Borrowings	1,996.40	2,152.40	5,156.20	3,633.97
<b>Total Debt</b>	<b>1,996.40</b>	<b>2,152.40</b>	<b>5,156.20</b>	<b>3,633.97</b>
Other Liabilities	94.50	169.00	420.21	357.64
<b>Total Liabilities</b>	<b>2,205.34</b>	<b>2,491.60</b>	<b>5,608.00</b>	<b>3,992.96</b>
<b>Paid up Capital</b>	<b>901.50</b>	<b>908.00</b>	<b>908.00</b>	<b>908.00</b>
<b>Equity (excl. Revaluation Surplus)</b>	<b>1,208.18</b>	<b>1,760.00</b>	<b>2,392.04</b>	<b>2,896.17</b>

<b>Income Statement</b> (PKR Millions)	<b>FY21A</b>	<b>FY22A</b>	<b>FY23A</b>	<b>9MFY24M</b>
Net Sales	3,849.50	16,298.00	18,607.29	13,669.86
Gross Profit	478.62	1,196.00	1,505.65	1,398.00
Operating Profit	438.20	1,009.80	1,219.13	1,186.54
Finance Costs	67.35	423.90	592.34	681.61
Profit Before Tax	370.85	585.90	626.79	504.93
Profit After Tax	309.95	544.60	633.03	504.93

<b>Ratio Analysis</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23A</b>	<b>9MFY24M</b>
Gross Margin (%)	12.43%	7.34%	8.09%	10.23%
Operating Margin (%)	11.38%	6.20%	6.55%	8.68%
Net Margin (%)	8.05%	3.34%	3.40%	3.69%
Funds from Operation (FFO) (PKR Millions)	329.80	334.48	584.22	467.19
FFO to Total Debt* (%)	16.52%	15.54%	11.33%	17.14%
FFO to Long Term Debt* (%)				
Gearing (x)	1.65	1.22	2.16	1.25
Leverage (x)	1.83	1.42	2.34	1.38
Debt Servicing Coverage Ratio* (x)	5.41	1.72	1.72	1.62
Current Ratio (x)	1.18	1.25	1.11	1.27
(Stock in trade + trade debts) / STD (x)	1.16	0.78	0.62	0.70
Return on Average Assets* (%)	9.08%	14.21%	10.33%	9.04%
Return on Average Equity* (%)	25.65%	36.70%	30.49%	25.46%
Cash Conversion Cycle (days)	206.74	41.15	45.43	56.93

\*Annualized, if required

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES		Appendix II			
<b>Name of Rated Entity</b>	Madina (Pvt.) Ltd				
<b>Sector</b>	Consumer Goods				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Ratings				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	July 30, 2024	BBB	A-2	Stable	Reaffirmed
	June 23, 2023	BBB	A-2	Stable	Reaffirmed
	June 13, 2022	BBB	A-2	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>		<b>Name</b>	<b>Designation</b>	<b>Date</b>	
	1	Mr. M. Naeem Malik	CFO	12-July-2024	