

RATING REPORT

Servo Motor Oil (Private) Limited

REPORT DATE:

November 13, 2023

RATING ANALYST:

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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 Outlook	Stable		Stable	
Rating Date	November 13, 2023		September 09, 2022	
Rating Action	Reaffirmed		Initial	

COMPANY INFORMATION

Incorporated in 2008	External auditors: Waqas & Co. Chartered Accountants
Private Limited Company	Chairman/CEO: Mr. Arif Iqbal
Key Shareholders:	
Mr. Arif Iqbal – 51%	
Mr. Waseem Akhtar – 25%	
Mr. Rashid Iqbal – 12%	
Mrs. Erum Iqbal – 12%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial 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>

Servo Motor Oil (Private) Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Servo Motor Oil (Private) Limited was incorporated in Pakistan on June 05, 2008. The Company is principally engaged in the business of manufacturing and sale of Blended Lubrication Oil and Greases. The Company’s registered office and manufacturing plant is located in Industrial Estate Phase 1 Multan, Pakistan.

Profile of Chairman/CEO
Mr. Arif Iqbal is Chief Executive Officer of Servo Motor Oil (Private) limited. He has CPA degree from USA. He has been running the Group as a CEO/Director since 1997 and Servo Motor Oil (Private) Limited since 2008. He has an experience of more than 25 years.

Company Profile

Servo Motor Oil (Private) Limited (“SMOPL” or ‘the Company’) was incorporated in Pakistan on June 05, 2008 as a private limited company. SMOPL is principally involved in manufacturing and sales of Blended Lubrication Oil and Greases. The Company is part of Chicago Group (CG) of Companies which is based in Multan. The Company operates 50 warehouses within Pakistan. The Company’s registered office and manufacturing plant is located in Industrial Estate Phase 1 Multan, Pakistan.

The last available financials of the Company as of June 30, 2023 are based on provisional management accounts provided by the Company. Last audited accounts are as of June 30, 2022, audited by Ale Imran & Co. Chartered Accountants, are on approved QCR list of ICAP.

Key Rating Drivers

Ratings Incorporate Sponsor Support

Servo Motor Oil Pvt. Limited is a part of the Chicago Group (CG) of Companies. Based in Multan, Pakistan, CG has a diversified portfolio across numerous sectors, including Food (Riverside Raw Material (Pvt.) Limited & Sidra Foods (Pvt.) Limited) Spare Parts (Oil & Filter Company and Chicago Metal Works (Pvt.) Limited), and Tracking Solution (TRAXX VTMS (Pvt.) Limited). The CG management also plans to further diversify revenue streams by adding motorcycle accessories and spare parts to SMOPL’s product portfolio.

Ratings Incorporate Business Risk Profile of Lubricant Sector

Business risk profile for the lubricants segment remained high to medium marked by cyclicity, competitive pressures and limited ability of the Company to be a price maker. Base oil and additives prices continued to rise during the year, which was further aggravated due to rupee depreciation. Amidst inflationary pressures, these costs could not be fully passed onto the customers. In addition, import restrictions and supply chain disruptions constrained productivity of the Company, impacting revenues.

Revenues Recorded a Decline, Albeit Nominal

Topline of the Company recorded a decline, albeit nominal on account of supply constraints resulting from import restrictions and secondly due to weakening of demand for lubricants due to inflationary pressures. The motorcycle segment, which accounts for the largest (59%) of revenues was particularly impacted, however price increase supported the topline from declining significantly despite volume decline.

Margins to Continue to Face Pressure

While gross margins improved to 10.9% (FY22: 9.6%) in FY23, the rising energy and freight prices pushed administrative costs upwards. The hike in interest rates further posed a significant pressure on the net margins, elevating finance cost by 39%. Going forward, the margins can depict further sensitivity to growing costs of doing business, given the high benchmark rates and inflationary pressures resulting in medium term demand contraction. Maintenance of margins will remain important for ratings, going forward.

Liquidity Profile and Coverage Remains Sound

Liquidity profile of the company remains sound with 1.9x (FY22: 1.58x, FY21: 1.4x) current ratio and short-term debt with stock in trade and trade debts, standing at 3.03x (FY22: 2.3x, FY21: 2.02x). Working

capital cycle depicts a small increase primarily on account of higher inventory levels however receivable cycle depicts notable improvement. The company shifted towards more cash sales and stricter credit terms to counter potential liquidity issues that may arise in a challenging environment. Going forward, the Company's ability to sustain these metrics in future amidst high business risk profile will remain critical for the ratings.

Improved Capitalization Profile

The Company's capitalization profile depicts improvement. Gearing and leverage improved to 0.46x (FY22: 0.8x) and 0.65x (FY22: 0.96x) respectively, on the back of profit retention, lease and loan repayments, and no additional long-term liabilities. Sponsors also made a Rs. 31m injection for enhancing the paid-up capital of the Company in FY22, boosting equity base. Additionally, SMOPL does not plan to take any new loan in future until the market stabilizes. Ratings remain sensitive to maintenance of capitalization profile.

FINANCIAL SUMMARY						
(PKR Millions)						
BALANCE SHEET	FY18A	FY19A	FY20A	FY21A	FY22A	FY23A**
Property, plant and equipment	235.3	252.9	325.6	343.8	340.2	338.7
Stock-in-trade	180.2	204.7	331.7	452.8	519.9	516.3
Trade debts	19.1	43.8	33.8	187.7	123.9	88.8
Cash and bank balances	11.8	33.3	16.5	17.6	20.1	17.4
Total Assets	519.3	645.0	841.3	1,204.0	1,181.9	1,126.5
Trade and Other Payables	152.9	208.7	115.6	93.9	54.2	93.2
Long-term Debt (incl. current portion and lease liability)	-	51.7	120.2	167.6	205.4	114.4
Short-term Debt	13.6	18.4	92.9	317.7	279.7	199.6
Total Debt	13.6	70.1	213.1	485.3	485.1	314.0
Due to related party	63.0	8.0	75.0	100.0	-	-
Total Liabilities	245.0	305.8	432.2	718.0	578.4	442.7
Paid up Capital	189.0	209.0	209.0	209.0	240.0	240.0
Equity (excl. Revaluation Surplus)	274.3	339.2	409.0	486.0	603.5	683.8
INCOME STATEMENT	FY18A	FY19A	FY20A	FY21A	FY22A	FY23A
Net Sales	945.3	1,207.4	1,602.5	2,341.5	2,790.5	2,675.0
Gross Profit	120.2	128.2	176.8	214.7	267.7	291.3
Operating Profit	47.8	55.0	119.4	152.3	190.3	211.0
Finance Costs	10.3	10.2	24.5	41.4	71.0	98.7
Profit Before Tax	37.7	61.7	96.0	111.6	122.0	113.8
Profit After Tax	24.0	44.9	69.8	76.9	86.6	80.2
RATIO ANALYSIS	FY18A	FY19A	FY20A	FY21A	FY22A	FY23A
Gross Margin (%)	12.7%	10.6%	11.0%	9.2%	9.6%	10.9%
Net Margin (%)	2.5%	3.7%	4.4%	3.3%	3.1%	3.0%
Funds from Operation (FFO)	49.7	77.3	120.7	74.2	132.1	122.1
FFO to Total Debt* (%)	364.5%	110.3%	56.6%	15.3%	27.2%	38.9%
FFO to Long Term Debt* (%)	-	149.6%	100.4%	44.3%	64.3%	106.7%
Gearing (x)	0.05	0.21	0.52	1.00	0.80	0.46
Leverage (x)	0.89	0.90	1.06	1.48	0.96	0.65
Debt Servicing Coverage Ratio* (x)	-	1.77	2.43	0.69	0.89	1.21
Current Ratio	1.17	1.34	1.50	1.40	1.58	1.90
(Stock in trade + trade debts) / STD (x)	14.6	13.5	3.9	2.0	2.3	3.0
Return on Average Assets* (%)	9.2%	7.7%	9.4%	7.5%	7.3%	7.0%
Return on Average Equity* (%)	17.5%	14.6%	18.7%	17.2%	15.9%	12.5%

*Annualized, if required

**Unaudited Accounts

Servo Motor Oil (Private) Limited

REGULATORY DISCLOSURES		Appendix II			
Name of Rated Entity	Servo Motor Oil (Private) Limited				
Sector	Oil & Gas				
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				
	13-11-2023	BBB	A-2	Stable	Reaffirmed
	09-09-2022	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	S.No	Name	Designation	Date	
	1	Mr. Ahsen Karim	Accounts Manager	October 24, 2023	