RATING REPORT

Servo Motor Oil (Private) Limited

REPORT DATE:
December 19, 2024

RATING ANALYST:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	BBB	A2	BBB	A2
Rating Outlook/Watch	Stable		Stable	
Rating Date	*December 19, 2024*		*November 13, 2023*	
Rating Action	*Reaffirmed*		*Reaffirmed*	

COMPANY INFORMATION	
Incorporated in 2008	**External auditors:** Waqas & Co. Chartered Accountants
Listed Public 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:
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 is Industrial Estate Phase 1 Multan, Pakistan

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 Lubricating Oil and Greases. The Company is part of Chicago Group (CG) of Companies. The Company operates 50 warehouses across Pakistan with its registered office and manufacturing plant in Multan, Pakistan.

The Company primarily caters to the tractor and motorcycle segments and operates through a retail customer model supported by its own network of 52 warehouses, rather than utilizing a traditional distribution network, with the objective of optimizing margins.

Operational Performance

Lubricant	FY23	FY24
Installed Capacity		
Plant Blending (Metric Tons/Day)	245	245
Plant Grease (Metric Tons/Day)	5	5
Total Capacity (Metric Tons/Day)	250	250
Total Annual Capacity (based on 5 working days)	**60,000**	**60,000**
Production		
Plant Blending	7,881.04	7,420.98
Plant Grease	639.00	390.58
Total Production MT	**8,520.05**	**7,811.55**
Utilization (%)	**14.20%**	**13.02%**

The installed capacity of the blending and grease plants remained unchanged at 60,000 metric tons annually, based on a five-day work week. Production declined to 7,811 metric tons in FY24 (FY23: 8,520 metric tons), reflecting a utilization rate of 13.02% (FY23: 14.20%). The decline is attributed to reduced consumer demand and heightened price sensitivity in motorcycles and tractors, key market segments. Persistently challenging economic conditions during FY23 and FY24 have constrained purchasing power reducing demand, resulting in lower production.

Key Rating Drivers

Business Risk Profile

Sector Risk; Lubricants: Medium

The business risk profile for Pakistan's lubricant sector is assessed as medium, influenced by stable demand drivers, competitive market dynamics, and exposure to economic fluctuations. The sector benefits from consistent demand across automotive and industrial applications; however, it faces challenges related to raw material costs, currency volatility, and regulatory considerations.

Demand for lubricants is closely linked to the performance of the automotive and industrial sectors. While the automotive industry has shown growth, economic uncertainties and inflationary pressures may affect vehicle sales and, consequently, lubricant consumption. Industrial demand remains steady, though it is susceptible to broader economic conditions.

The market is characterized by the presence of both multinational corporations and local manufacturers, leading to competitive pricing and innovation pressures. Additionally, the prevalence of counterfeit products poses reputational risks and impacts market share for legitimate producers.

The sector relies heavily on imported base oils and additives, making it vulnerable to exchange rate fluctuations and global supply chain disruptions. Regulatory policies, including environmental standards and taxation, also play a significant role in shaping operational frameworks and profitability.

Financial Risk Profile

Profitability

The Company's revenue increased by 20.4% during FY24, driven by higher selling prices, reflecting the transfer of elevated input costs to consumers. Volumetric sales, however, declined as the Company reduced its production volumes amidst challenging and uncertain economic conditions during the year. These circumstances affected the purchasing power of the Company's core market segments, motorcycles and tractors.

Motorcycle oil remained the largest contributor to the sales mix, accounting for 58% of total revenue, with a slight decline compared to the same period last year (FY23: 59%). The contribution of oils for petrol and gasoline based automobiles increased to 11% in FY24 (FY23: 8%).

Gross margins remained stable at 10.60% in FY24 (FY23: 10.88%). However, the net margins declined to 2.03% in FY24 (FY23: 3.00%), attributable to higher finance costs incurred during the period.

Capitalization

The Company's capitalization metrics were higher in FY24 with gearing and leverage ratios at 0.55x (FY23: 0.46x) and 0.78x (FY23: 0.65x), respectively. This change is attributed to higher short-term debt drawdowns mostly attributable to increased working capital gap during the period. SMOPL, however, continues to maintain a conservative capitalization profile.

Liquidity

The Company's liquidity profile demonstrated a decline in FY24, with the current ratio decreasing to 1.78x (FY23: 1.90x) due to slightly higher short-term debt utilization during the period. The short-term coverage ratio also reduced to 2.31x (FY23: 3.03x). Despite the decline, the liquidity profile is adequate for the assigned ratings.

Coverage

The Company has maintained a healthy coverage profile with a 4-year average debt service coverage ratio (DSCR) of 1.53x. In FY24, the DSCR improved to 1.70x (FY23: 1.21x), with timely repayment of long term loans and slight improvement in FFO.

The FFO-to-Total debt ratio declined to 30.93% in FY24 (FY23: 38.89%) due to an increase in total debt, primarily attributable to higher short-term borrowings. Conversely, the FFO-to-long-term debt ratio improved to 223.95% in FY24 (FY23: 106.74%) on account of the maturity of a significant portion of SMOPL's long-term debt during the period.

Servo Motor Oil (Private) Limited

Financial Summary

Balance Sheet (PKR Millions)	FY22A	FY23A	FY24A
Property, plant and equipment	340.20	338.65	348.87
Stock-in-trade	519.89	516.34	621.24
Trade debts	123.93	88.76	203.09
Cash & Bank Balances	20.09	17.41	27.39
Other Assets	169.65	158.04	125.61
Total Assets	1,181.88	1,126.51	1,332.78
Creditors	26.01	55.52	74.84
Long-term Debt (incl. current portion)	205.43	114.42	57.24
Short-Term Borrowings	279.69	199.60	357.18
Total Debt	485.12	314.02	414.42
Other Liabilities	67.22	73.21	94.35
Total Liabilities	578.35	442.75	583.61
Paid up Capital	240.00	240.00	240.00
Revenue Reserve	363.53	443.77	509.21
Equity (excl. Revaluation Surplus)	603.53	683.77	749.21

Income Statement (PKR Millions)	FY22A	FY23A	FY24A
Net Sales	2,790.47	2,675.00	3,221.24
Gross Profit	267.67	291.03	341.52
Operating Profit	192.97	212.12	219.01
Finance Costs	70.98	98.70	114.13
Profit Before Tax	121.99	113.42	104.88
Profit After Tax	86.55	80.24	65.44

Ratio Analysis	FY22A	FY23A	FY24A
Gross Margin (%)	9.59%	10.88%	10.60%
Operating Margin (%)	6.92%	7.93%	6.80%
Net Margin (%)	3.10%	3.00%	2.03%
Funds from Operation (FFO) (PKR Millions)	132.12	122.13	128.19
FFO to Total Debt* (%)	27.23%	38.89%	30.93%
FFO to Long Term Debt* (%)	64.31%	106.74%	223.95%
Gearing (x)	0.80	0.46	0.55
Leverage (x)	0.96	0.65	0.78
Debt Servicing Coverage Ratio* (x)	0.89	1.21	1.70
Current Ratio (x)	1.58	1.90	1.78
(Stock in trade + trade debts) / STD (x)	2.30	3.03	2.31
Return on Average Assets* (%)	7.26%	6.95%	5.32%
Return on Average Equity* (%)	15.89%	12.47%	9.13%
Cash Conversion Cycle (days)	82.06	87.60	80.37

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management 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	see below

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
RATING TYPE: ENTITY				
19-12-2024	BBB	A2	Stable	Reaffirmed
13-11-2023	BBB	A2	Stable	Reaffirmed
09-09-2022	BBB	A2	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	Azher Saeed	CFO	3rd Dec 2024
2	Ahsen karim	Accounts Manager	