# RATING REPORT

# Ittefaq Agro Industries (Pvt.) Limited (IAIPL)

**REPORT DATE:**
May 02, 2024

**RATING ANALYSTS:**
Shaheryar Khan Mangan
*shaheryar@vis.com.pk*

| RATING DETAILS | | |
|---|---|---|
| | Initial Ratings | |
| **Rating Category** | **Long-term** | **Short-term** |
| **Entity** | A- | A-2 |
| **Rating Outlook** | Stable | |
| **Rating Action** | Initial | |
| ***Rating Date*** | *May 02, 2024* | |

| COMPANY INFORMATION | |
|---|---|
| Incorporated in 2009 | External auditors: Faruq Ali & Co. Chartered Accountants |
| Private Limited Company | CEO: Dr Zafar Islam Siddiqui |
| **Key Shareholders (with stake 5% or more):** | |
| Dr. Zafar Islam Siddiqui Family – 33.33%<br>Mr. Umer Tariq Family – 33.33%<br>Chaudhry M. Ashraf Family – 33.33% | |

| APPLICABLE METHODOLOGY(IES) |
|---|
| **VIS Entity Rating Criteria: Industrial Corporates**<br>**https://docs.vis.com.pk/docs/CorporateMethodology.pdf** |

| APPLICABLE RATING SCALE(S) |
|---|
| **VIS Issue/Issuer Rating Scale:**<br>**https://docs.vis.com.pk/docs/VISRatingScales.pdf** |

# Ittefaq Agro Industries (Pvt.) Limited (IAIPL)

| OVERVIEW OF THE INSTITUTION | RATING RATIONALE |
|---|---|

Ittefaq Agro Industies (Pvt.) Limited (IAIPL) was established in 2009. The company is involved in the manufacturing of Edible Oil, and allied products.

**Profile of the CEO**

Dr. Zafar Ul Islam is the renowned personality in the Poultry Industry of Pakistan. He has a degree in Veterinary from University of Veterinary and Animal Sciences (UVAS), Lahore. Dr Zafar also holds the ownership of Marjan Feeds, one of the eminent player in poultry feed industry.

Ittefaq Agro Industries (Pvt) Limited ('IAIPL' or 'the Company') was incorporated in 2009. The principal business of IAIPL is extraction, refining and selling of edible oils and meals including Soyabean, Canola and Mustard. The Company sell its products in bulk without having any brand name and retail packaging. IAIPL has a Solvent extraction plant located at Port Qasim, Karachi while the corporate office is located at Business Centre, PECHS, Karachi.

It is a privately owned business by three partners namely Dr Zafar Islam (acting as CEO & Director), Mr. Umer Tariq (Director), Chaudhry M. Ashraf (Director). Each Partner family has the equal share holding. Dr Zafar look after the head office including finance, bank and customers dealing. Mr. Umer Tariq sees the marketing side while Chaudhry Ashraf look after the factory operations. All three directors are owners of feed business.

Dr. Zafar established Marjan Feeds in 1992, it is located at North Karachi industrial area, it has been growing gradually day by day since its establishment and now holding an identical eminence among the other poultry feeds producer of Sindh.

Ch. Muhammad Ashraf is one of the biggest Poultry farmer of Pakistan have more than Five lac layers birds and partner in Ehsan Feeds. Poultry farms are located at Dahbegi Sindh and Ehsan feeds Located at Landhi Industrial area. Ehsan feeds was established in 2002 & it is one of the most reputable supplier of poultry feed among the region having a sound clientage in the market.

Mr. Umer Tariq serves as the director of the Company. He holds a Bachelor of Business Administration Degree from England. In addition, Mr. Umer is currently managing A-one Feeds.

**Rating Drivers**

**Ratings incorporate the business risk profile of the Edible Oil Industry.**

VIS classifies Edible Oil Industry as 'High' business risk, given its heavy reliance on imported raw material, fragmented market, low value addition & switching cost and thin sector margins.

Pakistan's edible oil industry majorly relies on imported palm oil and seeds in order to cater the local demand. Roughly, around 80% of the local demand is catered through imported palm oil. Palm oil and palm olein constitute the majority of imported edible oils, with significant imports of soybean oil as well. Local production of edible oils primarily comes from cottonseed, rapeseed & mustard, canola, and sunflower. However, these sources contribute only a fraction compared to imports.

Pakistan's per capita consumption of edible oil has risen significantly from 6 kg per annum to 18 kg per annum between 2000-2020. This increase is driven by population growth, rising income levels, increased demand for fast food, and eating out trends. In FY23, edible consumption recorded an approximate increase of 5% to Rs 4.1m metric tons.

Beginning in Oct'22, Pakistan regulatory authorities stopped allowing soybean imports, which over the years had increased due to its use in poultry feed. Government announced that no seeds, including genetically modified organisms (GMOs), would be permitted into the country without complying with the prescribed Plant Quarantine Regulations and Seed Regulations. Resultantly, as of end-Nov'22, about 130,000 tons of soybeans were detained at Port Qasim, Karachi, and another 70,000 tons vessel was holding outside the port. After a lengthy legal battle, the consignments were released as a one off while some were re-exported. The ban has affected soyabean imports by 86% year over year to 248,000 mt in 2022-23. Market players are exploring new import markets like Africa for Non-GMO based seeds. Till then volumes are expected to remain impacted.

**Topline posted strong growth till FY21, however, volumes have declined since then.**

- After posting strong growth in sales between FY19-22 on the back of volume increases, IAIPL's revenues retarded in FY22 and subsequently in FY23. The decline was mainly volume (42% in FY23) led however rise in commodity prices supported the topline to a large extent, resulting in sales decline of ~9%.

- Average prices increased by 63% and 29% in FY22 and FY23, respectively. Prices in ongoing year have stabilized with HY24 recording a 2% increase on average, however, volumes continue depicting a decline.

- The Company's product portfolio include Soyabean, Canola and Mustard oils and meals. Moreover, IAIPL relies totally on imported seeds.

- The Company's sales mix historically has been largely dominated by soyabean oil and soyabean meal accounting for approx. 60-70% of revenues. Due to the ban imposed on GMO based seeds, soyabean import has been severely impacted. During FY2023, the Company had to reexport~4000mt of soyabean import stuck at the port. Supply constraints have resulted in lower capacity utilization and sales volumes.

- The Company has started to look for alternate markets mainly in Africa/Ukraine/Russia for sourcing of non-GMO soyabean and Canola seeds. However, there are constraints on the quantity available, documentation and lead times. As a result, volumes remain under pressure.

- Client concentration is considered high as top 5 clients account for 53% and top 10 account for 79% of the total turnover in FY23. However, the risk of the same has been mitigated to some extent that few top client companies, namely feed mills, are owned by the IAIPL's sponsors.

- Gross margin of the Company increased to 13.6% in FY23 compared to 9.4% in FY22. The major reason was higher selling prices of Soyabean oil and meal in the market, which registered a 40% and 48% increase respectively in FY23. The shortage of soyabean meal in the market amidst demand for the poultry feed segment has led to rise in prices.

- In line with the increase in gross margins, operating and net margins of the Company also improved. However, margins in the current year depict a decline mainly due to lower soyabean volumes. In addition, while shift has been made towards Canola, prices of Canola oil and meal have declined relative to previous year. On account of reduced margins and volumes, Company is expecting a loss at year end.

**Ratings incorporate low financial risk indicators supported by low gearing and leverage indicators.**

- IAIPL's equity base continues to grow on the back of prudent profit retention. The Company has not made any dividend payments historically, as per review of the last 4-year period.

- IAIPL's financial risk indicators have remained low historically only marginally increasing in FY22. However, in FY23, capitalization indicators improved with gearing at 0.1x and leverage at 0.5x. The Company has no long-term debt on its books and short-term borrowings have also come down in line with reduced capacity utilization.

- Moreover, the Sponsors of the Company keep supporting IAIPL balance sheet on a timeline basis in terms of interest free loan. Loan from sponsors stood at Rs. 61m (Jun'22: Rs.37m) as at Jun'23, which varies according to the need. Continuation of sponsor support and maintenance of capitalization profile will remain important for ratings.

- As represented my management, maximum reduction of debt obligations remains a key priority.

**Ratings incorporate adequate liquidity and cashflow coverage.**

- Current ratio of the Company historically remained above 1.5x, while short term borrowings coverage stood at 5x time as at Jun'23, which is reflective of sound liquidity metrics.

- IAIPL's cash conversion cycle also reflects improvement in receivable days however due to change in sourcing of raw materials, inventory lead times have registered increase which contributed to keep the working cycle fairly unchanged at 91 days.

- During FY23, FFO of the Company improved to Rs. 430m (FY22: Rs. 308m), the decrease was in line with improved profitability.

- FFO to total debt stood comfortably at 2.5x (Jun'22: 0.41x) as at Jun'23. The same has been incorporated in the assigned ratings.

- The rise in interest cost due to interest rates resulted in DSCR declining to 3.2x from 16x last year. Nevertheless, coverage levels remain comfortable.

- Going forward, maintaining profitability metrics in the wake of declining volumes remains a key challenge.

**Room for improvement in Corporate Governance Framework.**

- The Company operates, as a family owned private limited company with room for improvement in corporate governance, management information systems and external reporting framework.

- Current auditors, Faruq Ali & Company Chartered Accountants, are QCR rated.

| REGULATORY DISCLOSURES | Appendix I |
|---|---|
| **Name of Rated Entity** | Ittefaq Agro Industries (Pvt.) Limited (IAIPL) |
| **Sector** | Edible Oil |
| **Type of Relationship** | Solicited |
| **Purpose of Rating** | Entity Rating |
| **Rating History** | |
| **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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Rating History:

| Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
|---|---|---|---|---|
| | | **RATING TYPE: ENTITY** | | |
| 02-May-2024 | A- | A-2 | Stable | Initial |

**Due Diligence Meetings Conducted**

| | Name | Designation | Date |
|---|---|---|---|
| 1 | Mr. Asim Ali Khan | CFO | March 14, 2024 |