

RATING REPORT

Madina Oil Refinery Limited

REPORT DATE:

April 09, 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	April 09, 2024		Feb 20, 2023	
Rating Outlook	Stable		Stable	

COMPANY INFORMATION

Incorporated in 2021	External auditors: Zaheer Babar & Co. Chartered Accountants
Public (Unlisted) Limited Company	CEO/Chairman: Mr. Muhammad Rasheed
Key Shareholders (with stake 5% or more):	
Mian Muhammad Rasheed – 74.6%	
Mian Muhammad Hassan – 10.40%	
Miss Arooj Fatima – 10.0%	
Mr. Muhammad Awais – 5.0%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

VIS Issue/Issuer Rating Scale

[VISRatingScales.pdf](#)

Madina Oil Refinery Limited

OVERVIEW OF THE INSTITUTION RATING RATIONALE

Madina Oil Refinery Limited was incorporated as Private Limited Company and later converted into public unlisted company as at January 29, 2021. It is principally engaged in manufacturing and sale of vanaspati ghee, cooking oil and by products. Registered office of the company is located at F-8/1 Tipu Sultan Road, Karachi Gulberg Town, Sindh

Financial Statements of the company for FY23 were audited by Zaheer Babar & Co.

Company’s Profile:

Madina Group Founded in 1946 by the visionary (Late) Haji Muhammad Amin, Madina Group has evolved under the stewardship of his four sons, led by the eldest, Haji Muhammad Saleem. Their collective effort and dynamic leadership have propelled the Group from its initial ventures, Madina Rice and Oil Mills and Madina Ginning Factory, into a diverse and expanding conglomerate. Today, the Group encompasses advanced industrial entities such as Faisalabad Oil Refinery (Pvt) Ltd, Madina Sugar Mills (Pvt) Ltd, Madina Private Limited (MPL) and Madina Enterprises Ltd (Steel Division).

Company Operations:

Madina Oil Refinery Limited (MORL) installed capacity of ghee plant & refinery of 150 MT per day The Company has recently expanded its operations by installation of a solvent extraction plant with the installed capacity of crushing seed 300 MT per day. In addition, the Company has set up a DF plant for refining of canola oil which has a capacity of 160MT/per day which became operational in the current year. With the crushing capacity becoming available, the Company shifted more towards Canola oil production, while R.B.D and Olien contribution declined. Resultantly, ghee plant capacity utilization was recorded lower. R.B.D and Olien contribution declined.

Resultantly, ghee plant capacity utilization was recorded lower.

	FY22	FY23	HY24
Ghee & Oil Refinery	76.08%	45.49%	35.72%
Solvent Plant Seed crushing	-	66%	44%
Refinery-Canola Oil	-	55%	37%

The company sells its products under the brands of ‘Zaavi’, ‘Khushroz’ and ‘Kaif’ through dealers across Punjab and KPK. Power requirements of the Company have increased to around 2.5 MW which are met through captive bagasse fueled engines of its associated company. The Company also has sanctioned load of required capacity from national grid while it has recently installed solar setup of around 150 KW capacity. The laboratory is equipped with controlled temperature stirrer, tento meter, moisture analyzer and other equipment for quality assurance.

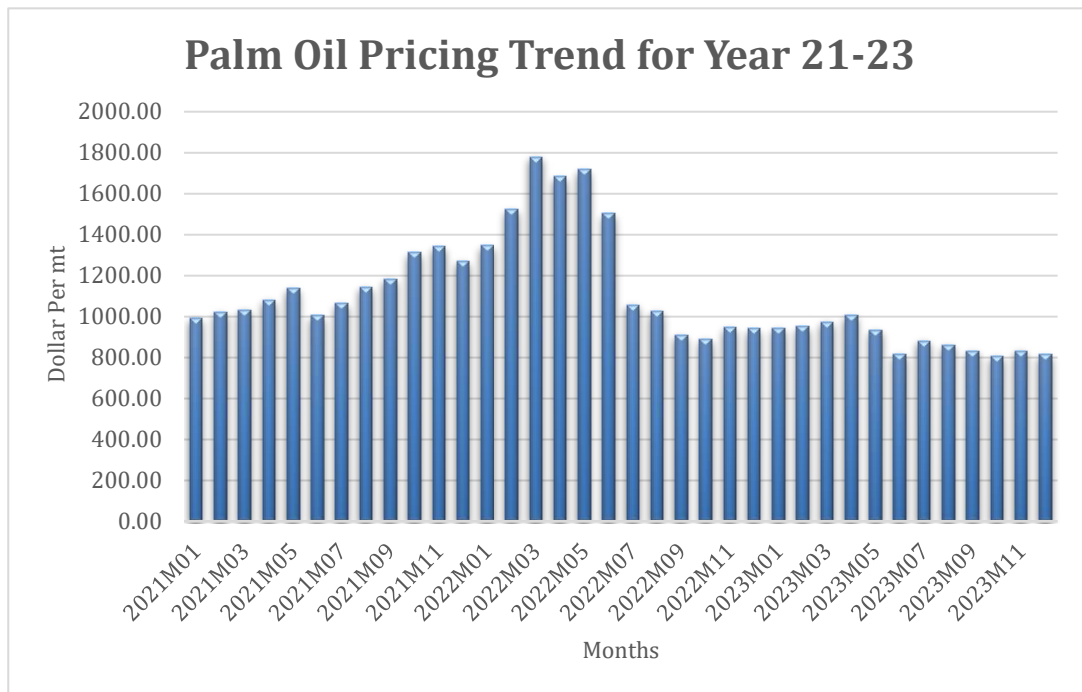
Key Rating Drivers:

Rating incorporates the high 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 the total consumption of edible oil is around 4.50M Tons with the local production of around 0.50M Tons. According to the data shared by SBP the imports by commodity/country, the major contribution in the imports of edible oil comes from Indonesia, Singapore and Malaysia with FY23; 61%, 21%, 16% contribution respectively. Although the international palm oil prices have decreased in FY23 compare to FY22 approximately 30% on average however due to other factors including inflation and currency devaluation local prices have not recorded a decline.

The edible oil market is expected to grow annually by 7.6% (CAGR 2024-2028) in Pakistan according to the Statista market insights.



Revenues remained stable, albeit product mix change noted

During FY23, revenues remained stable at Rs. 7,659M (FY22: Rs. 7,621M). While volumes registered a decline year over year, price increase largely compensated for the volume loss. Prices on average increased by ~33% from last year. Sales mix of the Company was largely concentrated

in ghee till last year, however, in FY23 with the seed crushing plant, the share has diluted. In addition, the addition of canola meal in the product mix generated a notable sales revenue on the back of higher meal prices in the market. Sales concentration risk, in terms of sales to top ten clients remained quite manageable as they accounted for only 5% in total sale.

Products	FY'22			FY'23		
	Quantity (M.T)	Value in Millions (Rs)	Average price in Million	Quantity (M.T)	Value in Millions (Rs)	Average price in Million
Vanaspati Ghee	28,843	7,610	0.26	13,950	5,039	0.36
Edible Oil	20	5.34	0.27	4,599	1,618	0.35
Canola Oil	-	-	-	951	334	0.35
Meal	-	-	-	5,561	648	0.12
Total	28,862	7,615	0.54	25,061	7,638	1.18

Margin uptick supported by backward integration and higher prices

Gross margins registered a notable increase to 13.6% (FY22: 7.6%) on the back of margin enhancement arising from backward integration into crushing capacity as well as high margins in meal segment due to higher domestic prices resulting from shortages in FY23.

Adequate liquidity profile

Operational liquidity depicts improvement, however, diversion of the same towards investment in related party (Madina Sugar Mills) shares for Rs. 1.1b, has constrained the overall cash flow position. Consequently, short term borrowings have increased. While this investment is deemed as short term for now, treatment of the same will remain important for balance sheet profiling. The current ratio stands at a satisfactory 1.17x; however, coverage of short-term debt against stocks and book debts remains limited at 68%. In addition, increasing working capital cycle is a constraint. Coverages however remain comfortable with FFO to total Debt at 21% and debt service coverage at 3x.

Improving capitalization profile

Capitalization metrics depict improvement on the back of higher profitability and profit retention in FY23, despite increase in short term borrowings. Gearing and leverage was recorded at 2.37x (FY22: 2.88x) and 2.7x (FY22: 3.09x) respectively. Debt profile of the Company constitutes short-term debt only, with no long-term debt utilized for any capex activity. We expect that projected improved profitability, as also reflective in first half FY24, will continue to ease gearing and leverage metrics. Divestment of related party investment may also contribute towards improving capitalization profile.

Madina Oil Refinery Limited
Annexure I

FINANCIAL SUMMARY				
	<i>(PKR Millions)</i>			
Balance Sheet	FY21A	FY22A	FY23A	6M FY'24
Property, plant and equipment	167.0	191.2	749.1	700.1
Stock-in-trade	182.3	1,917.0	1,205.3	1,149.7
Trade debts	666.3	108.2	1,179.3	25.3
Cash & Bank Balances	291.8	242.2	262.2	48.3
Total Assets	1,418.0	3,668.3	5,490.4	4,151.5
Trade and Other Payables	57.8	116.0	281.2	371.9
Long-term Debt	0.0	0.0	0.0	0.0
Short-Term Borrowings	855.9	2,582.4	3,512.4	1,776.7
Total Debt	855.9	2,582.4	3,512.4	1,776.7
Total Liabilities	939.7	2,772.4	4,008.1	2,304.2
Paid up Capital	250.0	250.0	250.0	250.0
Equity (excl. Revaluation Surplus)	479.7	896.3	1,482.3	1,847.3
Income Statement	FY21A	FY22A	FY23A	6M FY'24
Net Sales	3,247.0	7,621.0	7,658.7	3,632.0
Gross Profit	294.0	577.0	1,042.9	608.0
Operating Profit	265.3	496.0	908.1	551.0
Finance Costs	48.5	199.0	274.2	186.0
Profit Before Tax	216.8	297.0	633.9	365.0
Profit After Tax	205.8	298.0	586.1	365.0
Ratio Analysis	FY21A	FY22A	FY23A	6M FY'24
Gross Margin (%)	9.1%	7.6%	13.6%	16.7%
Net Margin (%)	6.3%	3.9%	7.7%	10.0%
Funds from Operation (FFO)	162.0	169.1	724.5	367.4
FFO to Total Debt* (%)	18.9%	6.5%	20.6%	23.9%
FFO to Long Term Debt* (%)	0.0%	0.0%	0.0%	0.0%
Gearing (x)	1.78	2.88	2.37	0.96
Leverage (x)	1.96	3.09	2.70	1.25
Debt Servicing Coverage Ratio* (x)	4.08	1.62	3.28	2.61
Current Ratio	1.35	1.11	1.17	1.46
(Stock in trade + trade debts) / STD (x)	1.0	0.8	0.7	0.7
Return on Average Assets* (%)	26.3%	11.7%	12.8%	15.1%
Return on Average Equity* (%)	65.6%	43.3%	49.3%	43.8%

*Annualized, if required

* For FY24's first half, EBITDA replaces FFO due to data unavailability

REGULATORY DISCLOSURES		Annexure II			
Name of Rated Entity	Madina Oil Refinery Limited				
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
	<u>RATING TYPE: ENTITY</u>				
	09-April-24	BBB	A-2	Stable	Upgraded
	20-Feb-23	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		
	Mr. Dawood Shah	CFO	March 14, 2024		