The Pakistan Credit Rating Agency Limited

Rating Report

Khadija Edible Oil Refinery (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Nov-2023	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan's edible oil industry is heavily reliant on imports since oilseeds and edible oil account for ~80% of the cost of production. Edible oil is one of the highest imported commodities in Pakistan. Assuming the Genetically Engineered (GE) import ban is removed by third quarter FY23, total oilseed imports are forecasted to reach 2.6 million tons in FY24, which would be 71% higher than the estimated use for FY23. In line with population growth, edible oil demand is forecast to grow about 5%, and palm oil imports are forecast to grow accordingly, reaching 3.6 million tons in FY24. The price of Soybean oilseed stood at 1200 USD/MT in Jun-23, whereas the price of Palm Oil stood at 800 USD/MT in Jun-23, forecasted to ease further. Comparatively higher selling prices have increased revenues substantially for the refineries. Due to the rise in input costs, especially raw material cost, many companies have experienced a reduction in their profit margins and faced working capital shortages. With expectations for better cottonseed production, total oilseed production in FY24 is projected to increase to 2.95 million tons, 24% above than of FY23. This has given local extraction units and refineries hope that import substitution will ensure smooth operations and reduce supply constraints of oilseed. Higher selling prices have increased revenues substantially for the refineries; despite the rise in input costs could not be fully covered and gross profit margins have also been reduced Future outlook look of the industry is developing due to price volatility and PKR depreciation.
The ratings reflect Khadija Edible Oil refinery(Pvt.) Limited's established brand equity for its premium brands (Fauji Supreme, Islamabad, Perlli, Phool, Zeenat). With a relatively adequate market share, the Company has experienced growth in its top-line owing to stable demand growth in refined and branded edible oil and shortening. The company has demonstrated healthy profit margins, in comparison with its industry peers, as a result of value addition in the products and cost control management. However, the company maintains an aggressive market strategy, relying on short-term borrowings to meet its working capital requirements. The Company's topline posted growth of ~42% and reported at ~PKR 20bln during FY23 (FY22: ~PKR 14bln). However, the refined and branded edible oil segment remains competitive where volumes and margins are functions of timeliness and prudence of raw materials procurement. The Company has an adequately leveraged capital structure, and high asset turnover ratio, representing strong capacity utilization and a notable reliance on internal equity. Resultantly, the Company's financial risk remains low supplemented by strong coverages and a healthy capital structure. The sponsors derive substantial support from the diversity through construction and terminal business.

The ratings are dependent on the management's ability to maintain its growing business volumes while sustaining margins and profitability. Prudent management of working capital and maintaining strong coverages is critical. Brand reputation and customer retention provide support to the ratings.

Disclosure

Name of Rated Entity	Khadija Edible Oil Refinery (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Edible Oil(Feb-23)
Rating Analysts	Muhammad Zain Ayaz | zain.ayaz@pacra.com | +92-42-35869504

Profile

Legal Structure Khadija Edible Oil Refinery (Pvt.) Limited ('Khadija edible oil' or 'the Company') was incorporated in Dec-2005 as a Private Limited Company under the repealed Companies Ordinance 1984 (Now Companies act 2017).

Background Mr. Sheikh Abdul Waheed, founder of Waheed Group of Industries ('the Group') started his business journey in the tea industry in the 1970s. Later, in 1988 he entered the edible oil industry. In 1993, the Group started its first venture Waheed Hafeez Ghee Industries (Pvt.) Limited in Hattar, KPK which currently has the capacity to produce 126,000 MT per annum of vegetable oil/ghee. In 2003, the Group acquired Malakand Oil and Ghee (Pvt.) Limited which has its production unit located in the Provincially Administered Tribal Areas (PATA) with the production capacity of 54,000 MT of vegetable oil/ghee per annum

Operations The Company is primarily engaged in the process of refining crude palm oil; producing and selling cooking oil/ghee along with shortening. Capacity utilization is dependent on the local demand and availability of crude palm oil which is primarily imported from Malaysia and Indonesia. The Company also sells shortening with an installed plant capacity of 90 MT per day. The Company produced 53,702 MT of vegetable oil/ghee in FY22 and capacity utilization stood at ~49%. Following that, the production stood at 60,836 MT during FY23 and capacity utilization increased standing at ~56%.

Ownership

Ownership Structure The Company's majority ownership resides with group company, Waheed Hafeez Ghee Industries (Pvt.) Limited (~87%). The remaining shareholding resides with Mr. Abdul Waheed (~13%).

Stability The Company is completely owned by the sponsoring family through associated company and individual shareholding. Ownership structure of the Company is seen as stable. Moreover, the Company has strong shortening customers.

Business Acumen The Group has experienced business cycles in edible oil sector and have maintained their league since 30 years. Apart from edible oil, the sponsors also have presence in the transport, hotel, and energy sectors as well.

Financial Strength The Group mainly comprises of entities operating across the edible oil segment. Apart from the Group's financial strength, the sponsors have sufficient net worth to support the Company in times of duress through other businesses including construction and terminal business.

Governance

Board Structure The Company's BoD comprises three Executive Directors. All three directors are from the sponsoring family. Lack of independent oversight and diversity indicates a room for improvement in the Company's governance structure.

Members' Profile The BoD members are very well equipped with relevant business knowledge. Mr. Waheed has ~30 years of experience in the edible oil sector. Mr. Awais Karni and Ms. Rubina Kausar also have above a decade of experience and are actively managing operations.

Board Effectiveness The Board does not have any sub-committees and meets informally to discuss pertinent matters at hand.

Financial Transparency The external auditors of the Company, Nasir Javaid Maqsood Imran Chartered Accountants, have expressed an unqualified opinion on the financial statements of the Company for the year ended Jun-23. The firm has been QCR-rated by ICAP and is placed in 'category B' of SBP's panel of auditors.

Management

Organizational Structure The Company operates through three functions: Production, Finance, Distribution and Sales. All functional managers' report to the Company's CEO. The CEO makes all pertinent decisions of the Group.

Management Team Khadija Edible oil's management comprises experienced professionals. Mr. Abdul Waheed CEO, has significant experience and expertise in the edible oil industry from almost 30 years. Company's CFO, Mr. Fawad Hassan, an FCA, has an overall experience of 23 years.

Effectiveness There are no management committees in place.

MIS Customized software is installed which is used by the Company in order to generate standard reports.

Control Environment The Company has in house internal audit department.

Business Risk

Industry Dynamics Pakistan's edible oil industry is heavily reliant on imports since oilseeds and edible oil account for ~80% of the cost of production. Edible oil is one of the highest imported commodities in Pakistan. Assuming the Genetically Engineered (GE) import ban is removed by third-quarter 2023, total oilseed imports are forecasted to reach 2.6 mln tons in FY23, which would be 71% higher than the estimated use in FY23. In line with population growth, edible oil demand is forecast to grow about 5% and palm oil imports are forecast to grow accordingly, reaching 3.6mln tons in FY24. The price of Soybean oilseed stood at 1200 USD/MT in Jun-23, whereas the price of Palm Oil stood at 800USD/MT in Jun-23, forecasted to ease further. Comparatively higher selling prices have increased revenues substantially for the refineries. Due to the rise in input costs, especially raw material cost, many companies have experienced a reduction in their profit margins and faced working capital shortages. With expectations for better cottonseed production, total oilseed production in FY24 is projected to increase to 2.95 million tons, 24% above than FY23. This has given local extraction units and refineries hope that import substitution will ensure smooth operations and reduce supply constraints of oilseed. The future outlook look of the industry is developing due to price volatility and PKR depreciation.

Relative Position The Company being a small player in the edible oil industry of the country has a market share of ~2.3% in terms of revenue and ~3% in terms of vegetable oil/ghee production.

Revenues The Company mainly generates revenue by selling vegetable oil/ghee products (~15%), followed by shortening (~19%), tolling income (~3%), export (~0.08%) and others including unregistered ghee and oil (~63%). During FY23, the Company's revenue significantly increased YoY. The Company's topline posted a growth of ~42% and reported at ~PKR 20bln during FY23 (FY22: ~PKR 14bln) owing to significant demand of soybean seed and increased prices. Going forward, revenues is expected to follow similar trend due to inflationary pressure

Margins During FY23, the Company's gross profit margin increased to 8.1% (FY22: 4.4%, FY21: 9%) as the Company was able to pass on the increased raw material costs in a timely manner and benefited from the higher selling price of vegetable oil/ghee despite volumetric decrease. On operating level margins, a similar trend was witnessed as operating margin stood at 7% (FY22: 4.1%, FY21: 5.3%). On the net level, the Company's bottom line closed at PKR 940mln (FY22: 301mln, FY21: 372mln). Subsequently, net margin stood at 4.5% (FY22: 2.1%, FY21: 3.7%).

Sustainability Going forward, growth in demand is anticipated in the edible oil industry.

Financial Risk

Working Capital The Company's inventory days were kept at 7 days during FY23 which is considerably lower, whereas during FY22 days stood at (11 days) and FY21 (14 days) indicating that the Company does not procure excess inventory and sell finished stock efficiently. The Company's receivable days have been kept low as well by the Company indicating less reliance on credit sales. The Company's receivable days stood at 9 days in FY23 (FY22: 6 days, FY21: 9 days). On the payable days side, the Company has been able to meet its obligations timely, and payable days stood at 10 days in FY23 (FY22: 11 days, FY21: 13 days). Subsequently, the Company's net working capital days stood at 6 days in FY23 (FY22: 6 days, FY21: 10 days).

Coverages Interest cover is a function of free cash flows and finance cost. Free cash flows stood at PKR 988mln in FY23 (FY22: PKR 368mln). The Company finance cost stood at PKR 13mln in FY23 (FY22: PKR 3mln). Subsequently, due to higher free cash flows and high finance costs, the Company's coverage ratios have deteriorated in FY23. Interest cover stood at 110.4x in FY23 (FY22: 220.6x). Core and Total interest cover stood at 2.9x each in FY23 (FY22: 51x each). Moreover, debt payback period stands minimum at 0.4x.

Capitalization The Company has a moderately leveraged capital structure as of FY23 with the debt-to-equity ratio at 45%. Moreover, short-term borrowings comprise 97.4% of the total debt. The total debt of the Company stood at PKR 1.9bln in FY23 (FY22: PKR 1.3bln, FY21: PKR 1.1mln) along with the equity standing of PKR 2,359mln. (FY22 PKR 1,419mln)

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Khadija Edible Oil (Pvt.) Limited	Jun-23	Jun-22	Jun-21	Jun-20
Edible Oil	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	323	353	260	225
2 Investments	-	-	-	-
3 Related Party Exposure	2,401	745	-	-
4 Current Assets	3,440	2,582	2,621	2,007
a Inventories	*358*	*388*	*520*	*263*
b Trade Receivables	*799*	*177*	*288*	*233*
5 Total Assets	6,163	3,679	2,881	2,232
6 Current Liabilities	1,831	863	574	252
a Trade Payables	*707*	*376*	*526*	*221*
7 Borrowings	1,965	1,398	1,189	1,233
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	8	-	-	-
10 Net Assets	2,359	1,419	1,118	747
11 Shareholders' Equity	2,359	1,419	1,118	747
B INCOME STATEMENT				
1 Sales	20,677	14,586	10,154	5,831
a Cost of Good Sold	*(19,011)*	*(13,940)*	*(9,239)*	*(5,291)*
2 Gross Profit	1,666	646	915	540
a Operating Expenses	(215)	(51)	(373)	(133)
3 Operating Profit	1,451	595	542	407
a Non Operating Income or (Expense)	*(68)*	-	-	-
4 Profit or (Loss) before Interest and Tax	1,383	595	542	407
a Total Finance Cost	*(13)*	*(3)*	*(5)*	*(14)*
b Taxation	*(429)*	*(291)*	*(166)*	*(320)*
6 Net Income Or (Loss)	940	301	372	73
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*988*	*368*	*430*	*174*
b Net Cash from Operating Activities before Working Capital Changes	*962*	*345*	*407*	*89*
c Changes in Working Capital	*(354)*	*508*	*(247)*	*(407)*
1 Net Cash provided by Operating Activities	608	854	159	(319)
2 Net Cash (Used in) or Available From Investing Activities	(1,662)	(873)	(40)	(41)
3 Net Cash (Used in) or Available From Financing Activities	1,272	209	(60)	397
4 Net Cash generated or (Used) during the period	218	190	60	38
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	41.8%	43.6%	74.2%	-38.9%
b Gross Profit Margin	8.1%	4.4%	9.0%	9.3%
c Net Profit Margin	4.5%	2.1%	3.7%	1.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	3.1%	6.0%	1.8%	-4.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	49.8%	23.7%	39.9%	10.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	15	17	23	38
b Net Working Capital (Average Days)	6	6	10	27
c Current Ratio (Current Assets / Current Liabilities)	1.9	3.0	4.6	8.0
3 Coverages				
a EBITDA / Finance Cost	160.8	384.7	252.2	40.4
b FCFO / Finance Cost+CMLTB+Excess STB	2.9	51.0	93.6	14.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.4	0.1	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	45.4%	49.6%	51.5%	62.3%
b Interest or Markup Payable (Days)	561.8	2172.1	408.8	119.3
c Entity Average Borrowing Rate	0.5%	0.1%	0.2%	1.2%

Credit Rating

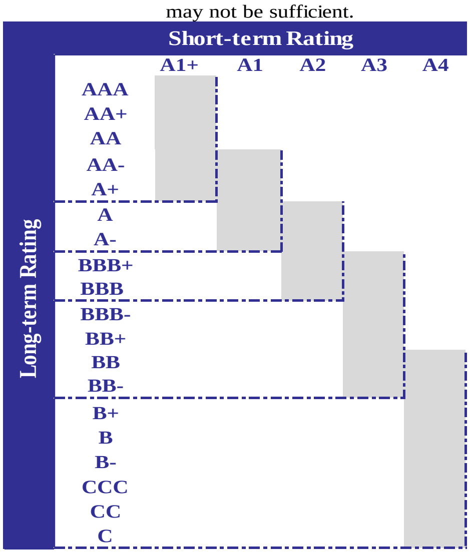
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument;| Chapter III | 17-(d)

Probability of Default

(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

Proprietary Information