The Pakistan Credit Rating Agency Limited

Rating Report

Punjab Oil Mills Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-Feb-2024	BBB+	A2	Stable	Maintain	-
10-Feb-2023	BBB+	A2	Stable	Maintain	-
11-Feb-2022	BBB+	A2	Stable	Maintain	-
11-Feb-2021	BBB+	A2	Stable	Maintain	-
29-Feb-2020	BBB+	A2	Stable	Maintain	-
30-Aug-2019	BBB+	A2	Stable	Maintain	-
01-Mar-2019	BBB+	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. 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. The price of Soybean oilseed stood at 750 USD/MT in Jun-23, whereas the price of Palm Oil stood at 800 USD/MT in Jun-23, forecasted to ease further. 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. Total oilseed production in FY24 is projected to increase to 2.95mln Tons. 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 of the industry is developing due to price volatility and PKR depreciation.
The ratings reflect Punjab Oil Mills Limited's ('Punjab Oil' or 'the Company') established presence in the cooking oil industry through its flagship brands Canolive and Zaiqa. The Company's revenue witnessed growth supported by increasing prices, however, the net income has decreased as a result of high finance cost. The Company being an importer of edible oilseed remains exposed to inherent industry risks, like currency fluctuations and raw material costs. Lately, a considerable increase in the raw material costs. However, operating in the branded segment, gross profit margin remain intact as it passed on the higher costs to the end consumers. At FY23, the net profit margin has decreased to 0.4% (FY22: 0.8%), due to increase in finance cost. Moreover, stable demand for meal remains beneficial. Working capital cycle remained intact due to the fact that the Company follows a cautious approach for its procurement and avoids inventory pile up. The Company's capital structure is majorly based on short term borrowing for the working capital requirements. The Company's working capital cycle is supported by considerable borrowing cushion at the trade level.

The ratings are dependent on the management's ability to improve profitability and gain market share, while maintaining prudent working capital management. Substantial increase in leveraging may impact ratings.

Disclosure

Name of Rated Entity	Punjab Oil Mills 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 Punjab Oil Mills Limited is a public limited company, which was incorporated in February, 1981.

Background The Company commenced its operations in 1984. Initially, it was producing Banaspati and Cooking Oil in its production facility located in Islamabad. Over the years the Company has been able to evolve its product portfolio by offering enhanced products through extensive research and development.

Operations The Company is best known for its flagship brands Canolive and Zaiqa. Additional brands include Naturelle, Ella, King, and Olive oil. Company production facility is located in Islamabad and Head Office in Lahore. The Company employs 200-500 employees and has the production capacity to process 14,000 M.T of Banaspati Ghee/Specialty fats and 19,000 M.T of Cooking Oil. During FY22, the capacity utilization for the company stood at ~70%. The Company relies on a mix of imported (50%) and locally (50%) sourced raw materials for production.

Ownership

Ownership Structure Major shareholding (44.4%) of the Company is held by the general public followed by the sponsoring family who collectively own 36% while NIT and ICP owns (10.3%), Modaraba and MF owns (8%) and other (1.4%).

Stability Ownership structure of the business is seen as stable, although no formal shareholding agreement exists among sponsoring families.

Business Acumen Sponsors of the Company have strong profiles relating to textile, finance and economics, in addition to the edible oil industry.

Financial Strength The Company's financial strength is represented through the support of its group, which has vested business interest in the textile industry.

Governance

Board Structure The Company's Board of Directors consists of eight members including the Chairman, CEO, executive director, three non-executive directors, and two independent directors.

Members' Profile All members of the board are qualified in their respective fields. Mr. Tahir Jahangir, Chairman of the Board, has got TRIPOS in Economics from the University of Cambridge and have more than four decades of experience. He has also served as the chairman of Towels Manufacturing Association and is a senior member at the Lahore Chamber of Commerce and Industry.

Board Effectiveness During FY23, eight board meetings were held which were attended by majority of the members. The board is supported by two sub committees, namely, "Audit Committee' and "Human Resource & Remuneration Committee" both headed by independent directors. The board meeting minutes are prepared and kept formally.

Financial Transparency The Company has appointed BDO Ebrahim & Co Chartered Accountants, as external auditors recently. The firm is on SBP Panel of auditors under A category, while Malik Haroon shahid Safder & Co. Chartered Accountants has expressed an unqualified opinion on the financial statements of FY23.

Management

Organizational Structure The Company's organizational structure is based on five main departments, namely, operations & technical, planning & development, internal audit, sales and marketing, and finance. Functions relating to production and maintenance come under the purview of Director Technical. Similarly, functions of sales and marketing, are looked after by Director Sales. Ultimate reporting lies with the CEO, with the exception of the internal audit department which functionally reports to the Audit Committee and administratively reports to the CEO.

Management Team Management comprises of experienced individuals Mr. Usman Ilahi Malik, the CEO, has previously served as the Company's Director Planning and Development, and holds a degree in Finance and Marketing from the Wharton School of Business and is a qualified Chartered Financial Analyst.

Effectiveness Management Committees do exist which include Audit Committee, Human Resource & Remuneration Committee, and Management Committee but lack formal presence. However, meetings among senior management are conducted daily to ensure operational efficiency.

MIS The Company deploys Microsoft Dynamics as its Enterprise Resource and Planning system with eleven, fully integrated, modules.

Control Environment To ensure operational efficiency, the Company has setup an Internal Audit function. Regular reviews are undertaken by the department to monitor operational control.

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 2.6mln tons in FY23, which would be 71% higher than the estimated use in FY23. In line with population growth, edible oil demand is forecasted to grow about 5% and palm oil imports to grow accordingly, reaching 3.6mln tons in FY24. The price of Soybean oilseed stood at ~750 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 (2.95 million tons, 24% above 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 Punjab Oil Mills Limited has a market share of ~1% in terms of revenue.

Revenues The Company generates revenue from seven different products, namely, cooking oil, specialty fats, banaspati ghee, soap, coffee and mushrooms. The Company's top three products, Canolive, Zaiqa Ghee and Zaiqa Oil, represent ~98% of total revenue. The Company mainly sells its products in the domestic market and sometime minor exports (mainly comprising of cooking oil) having an insignificant share. During FY23, the Company generated revenue of ~PKR 9.8bln, witnessing an increase of ~11% (FY22: PKR 8.8bln).

Margins During FY23, the Company's gross margin increased YoY and stood at 9.4% (FY22: 9.2%). Operating profit margin also increased and stood at 2.7% in FY23 (FY22: 2.4%) although the operating expense increased to PKR 659mln during FY23 (FY22: PKR 606mln). Company's net income stood at PKR 43mln in FY23 (FY22: PKR 67mln) witnessing ~36% decrease due to major increase in finance cost.

Sustainability Future outlook look of the industry is developing due to price volatility, PKR depreciation and latest hike in the policy rate. Looking forward the Company is waiting for matters to settle down before they look towards any expansion.

Financial Risk

Working Capital In FY23, the average debtor days decreased to 35 days from 38 days in FY22. Prudent management of debtors is reflected in stable average debtor days which have ranged between 35-49 days over the recent years. Since there is high reliance on imported raw materials, it forces the Company to maintain sufficient stock levels. However, effective control on stock of finished goods have helped inventory days to stand at 30 days in FY23 (FY22: 28 days). Overall, net cash cycle stood at 47 days in FY23 (FY22: 43 days).

Coverages Free cash flows stood at PKR 180mln in FY23 (FY22: PKR 176mln). The Company finance cost stood at PKR 127mln in FY23 (FY22: PKR 48mln). Interest cover deteriorated to 1.5x in FY23 (FY22: 3.9x). Debt coverage ratio stood at 1.4x in FY23 (FY22: 3.2x).

Capitalization The Company has a low leveraged capital structure, represented by a debt-to-capital ratio of ~20% in FY23. Debt taken up by the Company comprises short-term borrowings (~98%) and long-term borrowings (2%).

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Financial Summary
PKR mln

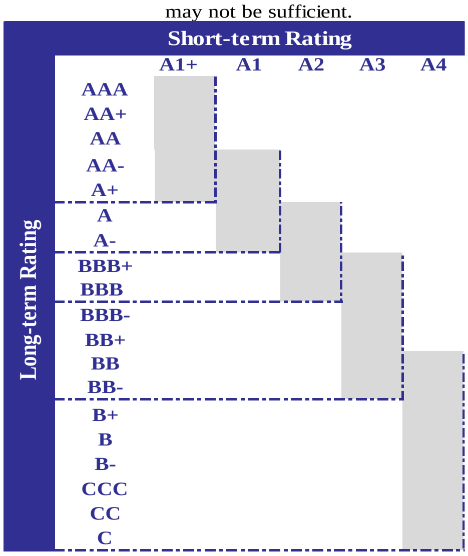
Punjab Oil Mills Limited		Jun-23	Jun-22	Jun-21	Jun-20
Edible Oil		12M	12M	12M	12M
A BALANCE SHEET					
1	Non-Current Assets	2,221	2,199	725	702
2	Investments	-	-	-	-
3	Related Party Exposure	6	4	3	2
4	Current Assets	2,265	2,456	1,762	1,713
	a Inventories	*771*	*832*	*505*	*404*
	b Trade Receivables	*827*	*1,058*	*787*	*816*
5	**Total Assets**	4,492	4,659	2,490	2,417
6	Current Liabilities	813	1,280	842	804
	a Trade Payables	*244*	*732*	*361*	*229*
7	Borrowings	691	429	249	201
8	Related Party Exposure	-	-	-	-
9	Non-Current Liabilities	181	193	131	122
10	**Net Assets**	2,807	2,756	1,268	1,289
11	**Shareholders' Equity**	2,804	2,769	1,268	1,289
B INCOME STATEMENT					
1	**Sales**	9,845	8,838	5,982	5,268
	a Cost of Good Sold	*(8,924)*	*(8,021)*	*(5,283)*	*(4,479)*
2	**Gross Profit**	921	816	699	789
	a Operating Expenses	(659)	(606)	(634)	(564)
3	**Operating Profit**	262	211	66	225
	a Non Operating Income or (Expense)	*17*	*19*	*19*	*4*
4	**Profit or (Loss) before Interest and Tax**	279	229	84	228
	a Total Finance Cost	*(127)*	*(48)*	*(18)*	*(22)*
	b Taxation	*(110)*	*(114)*	*(83)*	*(123)*
6	**Net Income Or (Loss)**	43	67	(17)	84
C CASH FLOW STATEMENT					
	a Free Cash Flows from Operations (FCFO)	*180*	*176*	*44*	*153*
	b Net Cash from Operating Activities before Working	*62*	*133*	*26*	*133*
	c Changes in Working Capital	*(230)*	*(230)*	*(9)*	*(149)*
1	**Net Cash provided by Operating Activities**	(168)	(97)	17	(16)
2	**Net Cash (Used in) or Available From Investing Act**	(64)	(36)	(71)	(27)
3	**Net Cash (Used in) or Available From Financing Ac**	239	170	47	55
4	**Net Cash generated or (Used) during the period**	8	37	(6)	12
D RATIO ANALYSIS					
1	**Performance**				
	a Sales Growth (for the period)	11.4%	47.7%	13.5%	-4.3%
	b Gross Profit Margin	9.4%	9.2%	11.7%	15.0%
	c Net Profit Margin	0.4%	0.8%	-0.3%	1.6%
	d Cash Conversion Efficiency (FCFO adjusted for Wo	-0.5%	-0.6%	0.6%	0.1%
	*e Return on Equity [Net Profit Margin * Asset Turnov*	1.5%	3.3%	-1.3%	6.7%
2	**Working Capital Management**				
	a Gross Working Capital (Average Days)	65	66	77	91
	b Net Working Capital (Average Days)	47	43	59	77
	c Current Ratio (Current Assets / Current Liabilities)	2.8	1.9	2.1	2.1
3	**Coverages**				
	a EBITDA / Finance Cost	3.0	6.9	9.9	15.6
	b FCFO / Finance Cost+CMLTB+Excess STB	1.4	3.2	1.2	5.8
	c Debt Payback (Total Borrowings+Excess STB) / (F(	0.3	0.1	1.0	0.2
4	**Capital Structure**				
	a Total Borrowings / (Total Borrowings+Shareholder.	19.8%	13.4%	16.4%	13.5%
	b Interest or Markup Payable (Days)	44.9	55.6	51.8	47.1
	c Entity Average Borrowing Rate	18.7%	11.7%	7.3%	11.9%

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