



The Pakistan Credit Rating Agency Limited

Rating Report

Qadir Agro Industries (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Mar-2023	BB+	A3	Stable	Maintain	-
18-Mar-2022	BB+	A3	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 among the country's top five imports. Total oilseed imports for FY23 are forecast to be 3.4MMT, unchanged from the estimated imports for FY22. Similarly, no growth is expected in edible oil imports in FY23, forecast at 3.7MMT. The price of soybean oilseed stood at ~547 USD/MT in Jan-23 followed by an increase of ~8% as compared to Jun-22. The industry is facing issues as imports remain restricted at port over GMO concerns impacting operations of many solvent extraction units from Oct-22. Moreover, reduce imports due to LC restrictions has caused surge in costs of essential raw materials for the sector. This, along with latest interest rate hike, will further stretch the working capital requirements for many solvent extraction units. However, import substitution is expected to benefit the local refineries. Future outlook look of the industry is developing due to price volatility and PKR depreciation. Industry's margins are expected to post a dip with stretched cashflows.

The rating reflects Qadir Agro Industries (Pvt.) Limited's ('the Company') developing position in the country's edible oil and poultry feed sectors. The Company's financial performance has remained varied over the years owing to the relatively small market share. Lately, the Company has integrated into poultry feed by setting up a limited capacity feed mill. Margins posted stability but generally remained on the lower side as compared to peers. Inventory management system and related efficiencies would require the Company's attention to keep its working capital costs low. Being an importer of oilseeds, the Company remains exposed to the inherent risk related to currency fluctuations and prices of raw material. Forward integration and value addition initiatives could help elevate performance and margins. The Company has an adequate financial risk profile. The Company's debt book majorly comprises short-term running finance availed to fund its working capital needs. The Company's coverages remain adequate, however, any further debt-load and increased finance costs could stretch the interest/debt coverage and capital structure.

The ratings are dependent on the management's ability to prudently improve margins, profitability, and financial profile of the Company. Meanwhile, strengthening governance practices will have a positive impact on the ratings. Any deterioration in debt coverages leading to higher financial risk or substantial losses will adversely impact ratings.

Disclosure

Name of Rated Entity	Qadir Agro Industries (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Edible Oil(Feb-23)
Rating Analysts	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504

Profile

Legal Structure Qadir Agro Industries (Pvt.) Limited ('the Company') was incorporated in July, 1987 as a Private Limited Company.

Background Mr. Khawaja Mehr Baksh and his son, Mr. Khawaja Muhammad Shehzad laid the foundations of the Company by setting up a small crushing unit in the 1980s. Over the years the Company has been able to enhance its capacity and also venture into poultry feed by setting up a feed mill in Jul-2018.

Operations The Company is primarily engaged in the process of seed filtering, crushing and solvent extraction. The Company primarily sells soybean oil/meal, canola oil/meal and poultry feed. The Company has seed crushing capacity of 250MT per day. The capacity of the poultry feed mill currently stands at 15MT per hour.

Ownership

Ownership Structure The Company's major ownership resides with Khawaja Mehr Baksh (~34%) and his sons, Khawaja Muhammad Shehzad (~33%) and Khawaja Muhammad Omer (~33%).

Stability The Company is completely owned by the sponsoring family and the structure is seen as stable.

Business Acumen The sponsors have been involved in multiple businesses in textile, edible oil and poultry feed. The sponsors have ventured into textile by purchasing a cotton factory. The sponsors also own Roomi Industries (Pvt.) Limited, a solvent extraction unit.

Financial Strength The sponsors hold adequate net worth to support the Company in times of distress.

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. The overall control of the Company vests with the Board's Chairman.

Members' Profile The Board's Chairman, Mr. Khawaja Mehr Baksh, has been associated with the Company since 1987 and has an overall experience of 5 decades in textile, edible oil, and poultry feed.

Board Effectiveness The Board lacks formal sub-committees. The minutes of Board meetings are adequately documented

Financial Transparency The external auditors of the Company, Ale Imran & Co. Chartered Accountants, have expressed an unqualified opinion on the financial statements of the Company for the year ended Jun-22. The firm is QCR rated by ICAP but is not on SBP's panel of auditors. Previously, the Company appointed Waqas and Co. Chartered Accountants, which was not QCR rated.

Management

Organizational Structure The Company has a linear organizational structure. The Company operates through three functions: Production, Finance, Sales & Marketing. All functional managers report to the Company's CEO, who makes all pertinent decisions. As the Company's CEO is responsible for the whole unit, thus highlighting the key man risk of management.

Management Team Mr. Khawaja Muhammad Shehzad, the CEO of the Company, has over 30 years of experience in the edible oil and textile segment. He is an MBA and also looks over the Company's procurement and import of edible oil seeds.

Effectiveness There are no management committees in place. Management meets on need basis to ensure efficiency of the Company's operations.

MIS The Company's reports are mostly excel based for the management to review.

Control Environment The Company lacks internal audit function.

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 among the country's top five imports. Total oilseed imports for FY23 are forecast to be 3.4MMT, unchanged from the estimated imports for FY22. Similarly, no growth is expected in edible oil imports in FY23, forecast at 3.7MMT. The price of soybean oilseed stood at ~547 USD/MT in Jan-23 followed by an increase of ~8% as compared to Jun-22. The industry is facing issues as imports remain restricted at port over GMO concerns impacting operations of many solvent extraction units from Oct-22. Moreover, reduce imports due to LC restrictions has caused surge in costs of essential raw materials for the sector. This, along with latest interest rate hike, will further stretch the working capital requirements for many solvent extraction units. However, import substitution is expected to benefit the local refineries. Future outlook look of the industry is developing due to price volatility and PKR depreciation. Industry's margins are expected to post a dip with stretched cashflows.

Relative Position The Company has a market share of less than ~1% in terms of revenue and production in edible oil segment.

Revenues The Company mainly generates revenue by selling poultry feed (~42%), followed by canola/soybean/rapeseed oil and meal (~58%). During FY21, the Company generated revenue of PKR 4,145mln, witnessing a decrease of 8.3% (FY21: PKR 4,518mln) mainly due to the decreasing trend in consumption during the period. However, the price of edible oil posted an increasing trend. The Company witnessed a significant decrease in sales of Soybean Meal during FY22 (PKR 373mln) in comparison to FY21 (PKR 1,105mln) due to import restrictions over GMO concern. During 6MFY23, the Company's revenue stood at 2,360mln (6MFY22: 2,554mln). Going forward, the revenues are anticipated to be higher owing to sustenance of high prices of edible oil and poultry feed.

Margins The Company is exposed to foreign currency risk as soybean and canola oilseeds are imported. The import price has volatility depending on the demand and supply mechanics. During FY22, the Company's gross margin increased YoY and stood at 4.6% (FY21: 3.2%) owing to the jump in prices of edible oil. On operational level, the Company's margins witnessed similar trend. Operating margin stood at 3.5% in FY22 (FY21: 2.5%). At net level, the Company's net income stood at PKR 24mln during FY22 (FY21: PKR 25mln) indicating stable profitability. Subsequently, the Company's net margin stood at 0.6% in FY22 (FY21: 0.6%). During 6MFY23, the Company's gross margin stood at 4.3% (6MFY22: 3.3%), while, operating profit margin and net profit margin stood at 3.4% (6MFY22: 2.6%) and 1% (6MFY22: 0.7%), respectively.

Sustainability The sponsors are planning to increase the capacity of the poultry feed to 30MT per hour during FY23.

Financial Risk

Working Capital The Company's inventory days were kept at 79 days in FY22 (FY21: 65 days). Receivable days have increased to 26 days in FY22 (FY21: 17 days). The Company, payable days improved in FY22 and stood at 8 days in FY22 (FY21: 17 days). Overall, the Company's net cash cycle deteriorated to 97 days in FY22 (FY21: 64 days) Furthermore, the Company has limited room to borrow against shortterm trade assets. During 6MFY23, the Company's net cash cycle stood at 53 days (6MFY22: 35 days).

Coverages The Company's coverages have remained adequate through the years. Free cash flows stood at PKR 130mln in FY22 (FY21: PKR 61mln). The Company finance cost increased to PKR 52mln in FY22 (FY21: PKR 38mln). As a result, interest cover stood at 2.5x in FY22 (FY21: 1.6x). The Company has not obtained any longterm debt so the core operating & total operating coverage remains the same as interest coverage ratio. During 6MFY23, the Company's coverages have remained adequate.

Capitalization The Company has highly leveraged capital structure. The debt of the Company comprises 100% short-term borrowings. Total debt of the Company stood at PKR 1,328mln as at FY22 (FY21: PKR 976mln) against an equity base of PKR 550mln (FY21: PKR 533mln). Debt to debt plus equity ratio stood at ~71% as at FY22 (FY21: ~65%). As at 6MFY23, the Company has paid off all the debt obligations.



Qadir Agro Industries Edible Oil	Dec-22 6M	Jun-22 12M	Dec-21 6M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET					
1 Non-Current Assets	452	461	488	425	455
2 Investments	-	-	-	-	-
3 Related Party Exposure	-	-	-	-	-
4 Current Assets	393	1,597	745	1,286	1,282
a Inventories	130	1,191	604	605	994
b Trade Receivables	20	225	37	369	49
5 Total Assets	845	2,058	1,233	1,711	1,737
6 Current Liabilities	272	169	648	202	356
a Trade Payables	137	65	499	124	305
7 Borrowings	-	1,328	42	976	873
8 Related Party Exposure	-	-	-	-	-
9 Non-Current Liabilities	-	11	-	-	-
10 Net Assets	573	550	543	533	508
11 Shareholders' Equity	573	550	543	533	508
B INCOME STATEMENT					
1 Sales	2,360	4,146	2,554	4,519	2,049
a Cost of Good Sold	(2,259)	(3,955)	(2,470)	(4,375)	(1,940)
2 Gross Profit	102	191	83	144	109
a Operating Expenses	(20)	(44)	(18)	(30)	(25)
3 Operating Profit	81	147	65	114	84
a Non Operating Income or (Expense)	(2)	(7)	(4)	(4)	(2)
4 Profit or (Loss) before Interest and Tax	79	140	62	110	82
a Total Finance Cost	(33)	(53)	(13)	(38)	(45)
b Taxation	(23)	(63)	(31)	(48)	(25)
6 Net Income Or (Loss)	23	24	17	25	12
C CASH FLOW STATEMENT					
a Free Cash Flows from Operations (FCFO)	79	130	48	61	32
b Net Cash from Operating Activities before Working Capital Changes	46	78	35	61	32
c Changes in Working Capital	1,360	(315)	930	138	(136)
1 Net Cash provided by Operating Activities	1,406	(237)	965	199	(103)
2 Net Cash (Used in) or Available From Investing Activities	(14)	(78)	(62)	(7)	(6)
3 Net Cash (Used in) or Available From Financing Activities	(1,328)	351	(934)	(178)	136
4 Net Cash generated or (Used) during the period	65	37	(32)	15	26
D RATIO ANALYSIS					
1 Performance					
a Sales Growth (for the period)	13.9%	-8.3%	13.0%	120.5%	-7.1%
b Gross Profit Margin	4.3%	4.6%	3.3%	3.2%	5.3%
c Net Profit Margin	1.0%	0.6%	0.7%	0.5%	0.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	61.0%	-4.4%	38.3%	4.4%	-5.0%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh	8.3%	4.5%	6.5%	4.8%	2.4%
2 Working Capital Management					
a Gross Working Capital (Average Days)	61	105	58	81	161
b Net Working Capital (Average Days)	53	97	35	64	118
c Current Ratio (Current Assets / Current Liabilities)	1.4	9.4	1.2	6.4	3.6
3 Coverages					
a EBITDA / Finance Cost	3.1	3.7	6.1	2.9	1.3
b FCFO / Finance Cost+CMLTB+Excess STB	2.4	2.5	3.6	1.6	0.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0	0.0	0.0
4 Capital Structure					
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	0.0%	70.7%	7.2%	64.7%	63.2%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	9.6%	6.7%	5.2%	4.0%	5.6%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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

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(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)

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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

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(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 | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(F-VII)

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