The Pakistan Credit Rating Agency Limited

Rating Report

Sabirs' Vegetable Oils (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
02-Feb-2023	BBB-	A3	Stable	Maintain	-
02-Feb-2022	BBB-	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 the country's 2nd largest import after petroleum. 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, which are 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 till mid Jan-23. 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 requirement of many solvent extraction units. Currently, the industry players have ceased bulk selling in order to reduce inventory load. 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 Sabirs' Vegetable Oils (Pvt.) Limited's ('Sabirs' Oil' or 'the Company') association with Sabirs' Group, which has significant presence along poultry supply chain. Sabirs' Oil is primarily engaged in the process of seed filtering, seed crushing, oil extraction and refining of soybean seed. The Company's business line includes two main products: soybean meal and semi-refined soybean edible oil. The topline remains dominated by soybean meal, sold only to Group Companies, while semi-refined edible oil is sold in bulk. Uptick in topline is supported by significant demand for soybean meal. However, high input cost led to stretched margins. Being an importer of soybean oilseed, the Company remains exposed to the inherent risk related to currency fluctuations and raw material prices. The Company's operations were halted for sometime due to soybean inventory stuck at the port. However, the Company has started to crush again; though, the utilization levels are low. The Company's financial risk profile is characterized by significant borrowings to fund high inventory levels. Working capital cycle remains stretched but drives comfort from Group's integrated presence in the poultry sector. Interest cover remains stable despite increasing finance cost.

The ratings are dependent on the management's ability to prudently manage the liquidity and debt profile of the Company while improving sales. Envisaged improvement in business and financial profile along with effective changes in governance framework would be necessary. Any significant and/or prolonged deterioration in revenues and/or coverages will adversely impact the ratings.

Disclosure

Name of Rated Entity	Sabirs' Vegetable Oils (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-22)
Rating Analysts	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure Sabirs' Vegetable Oils (Private) Limited ('Sabirs' Oils' or 'the Company') was incorporated in Oct-17 as a Private Limited Company as per the Company Act, 2017.

Background Dr. F. M. Sabir setup Sabir Group in 2005 after getting seperated from Hi-Tech Group. He received Shahzor Feeds (Pvt.) Ltd, with a production capacity of 324,000MT/annum, as his share on separation. In 2005, Sabir Poultry (Pvt.) Ltd was incorporated as an integrated supply chain plan. In 2005, the Group entered in the processed and packaged food market through Sabir Poultry (Pvt.) Ltd by the brand name of Sabroso. Later, the Group set up two AoP concerns, Sabirs' Feeds and Multan Feeds with a production capacity of 288,000MT/annum and 216,000MT/annum, respectively. The Group's latest venture, Sabirs' Oils with a crushing capacity of 121,968MT/annum was set up in 2017, as a backward integration plan.

Operations Sabirs' Oils is primarily engaged in the process of seed filtering, crushing, oil extraction and refining by mechanical and chemical processes from soybean seed. During FY22, the Company utilization levels posted a dip,, however remain considerably high (FY22: ~ 75%, FY21: ~ 83%) of seed crushing facility due to inhouse increasing demand for soybean meal.

Ownership

Ownership Structure Sabirs' Oils majority ownership resides with Dr. F. M. Sabir (~ 22.5%). Dr. Sabir's five sons holds an equal ~12-14% of the holding. The remaining stake resides with two associated companies - Sabirs' Poultry (Pvt.) Ltd. (~ 5.6%) and Shahzor Feeds (Pvt.) Ltd. (~ 4.3%).

Stability The Company is completely owned by the sponsoring family. Sabirs' Oils succession plan is not formally documented, however, the succession is planned to be effectively transmitted among his son.

Business Acumen Dr. Sabir's has been associated with the poultry supply chain from ~ 40 years. He is a DVM and is experienced in the relating fields including feed production, poultry production, breeding, hatching, broiler production and processing plants.

Financial Strength Sabirs' Group of Companies comprises entities operating across the whole poultry supply chain. The Group's poultry farms and feed mill remains its main revenue generating ventures. The Group has third largest capacity for DOC standing at 500,000 chicks per day and contributing towards Group financial strength.

Governance

Board Structure Sabirs' Oil's BoD comprises six Executive Directors, from the sponsoring family. Lack of independent oversight and diversity indicates a room for improvement in the governance structure.

Members' Profile The BoD is a key source of guidance for all Group Companies. The Board's Chairman, Dr. Sabir has an experience of ~ 40 years in poultry and allied chain. Mr. M. Zeeshan, the eldest son of Dr. Sabir, is an Executive Director and is associated with the BoD since 2017. He has an overall experience of ~ 2 decades.

Board Effectiveness Board's effectiveness indicates room for improvement as it lacks committees and formal structure.

Financial Transparency The external auditors of the Company, BDO Ebrahim and Co. Chartered Accountants, have expressed an unqualified opinion on the financial statements for the year ended Jun-22. The firm has been QCR rated by ICAP and is placed in 'category A of SBP' panel of auditors.

Management

Organizational Structure The organizational structure has been centralized and are less efficient delegation of responsibilities. The Company operates through five functions: Production, Sales, Accounts, Audit and HR. All functional managers report to the respective Departmental Heads who then reports to the CEO. The CEO then makes all the pertinent decisions.

Management Team Dr. Sabir, Group's CEO, is a DVM with an exposure in veterinary medicine, breeding, feed production and broiler production. He is assisted by a team of professionals. Mr. Ijaz Haider, Chief Accountant, has been associated with the Group for 7 years.

Effectiveness Management's effectiveness and efficiency is ensured through timely information provided at the Group level. However, there are no committees and management minutes are not prepared indicating a room for improvement.

MIS The Company has Oracle that generates reports daily. The whole data base regarding customers, ageing, sales and production is integrated into the MIS system

Control Environment The Company lacks formal internal audit function indicating. The entity is driven by individuals rather than processes therefore exposed to inconsistent patterns.

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 the country's 2nd largest import after petroleum. 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, which are 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 till mid Jan-23. 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 requirement of many solvent extraction units. Currently, the industry players have ceased bulk selling in order to reduce inventory load. 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 Sabirs' Oil's holds a market share of ~1% in terms of revenue. However, the Company is positioned to grow as it partially fulfills the soybean meal demand of associates with an upward trajectory.

Revenues The Company mainly generates revenue by selling Soybean Meal (~55%) and Soybean washed oil in bulk (~45%). All of the Company's meal is sold to the Group companies as part of its integration strategy. The Company's top 10 customers generate around ~ 95% revenue for the Company indicating customers concentration. Currently, the Company generates revenue by selling only in the central region. During FY22, the topline posted a significant increase to ~PKR 11bln (FY21 ~PKR 9bln) owing to price increase.

Margins During FY22, the Company's gross margin decreased and stood at ~3.6% (FY21: ~4.8%) owing to an increase in the import costs. On an operational level, the Company's margins witnessed a similar trend. Operating margin stood at ~3.5% during FY22 (FY21: ~4.6%) due to increase in operating expenses (FY22: ~PKR 18mln, FY21: ~PKR 17mln). At net level, the Company's net income stood at ~PKR 179mln during FY22 (FY21: ~PKR 191mln) with margins declining to ~1.6% during FY22 (FY21: ~2.1%).

Sustainability Sabirs' Oil operates as part of the supply chain integration strategy so the risk of customer base is mitigated to a great extent. The Company's long terms strategy is to double its seed crushing capacity. This is expected to increase the Company's debt profile.

Financial Risk

Working Capital The Company's inventory days stood at 81 days in FY22 due to excessive procurement. The Company's receivable days at 19 days in FY22 (FY21: 46 days) indicating improvement by proactive collection of payment. Payable days stood at 1 days in FY22 (FY21: 2 days) due to cash purchase. Overall, the Company's net cash cycle improved and stood at 99 days as of FY22 (FY21: 112 days).

Coverages The Company's interest cover is a function of free cash flows and finance costs. Free cash flows reduced due to low profitability of PKR 464mln in FY22 (FY21: PKR 498mln). The Company finance cost reduced to PKR 186mln in FY22 (FY21: PKR 196mln). As a result, interest cover remains stable at ~2.1x in FY22 (FY21: ~2.1x). Core and Total interest cover also remained at ~2.1x each in FY22.

Capitalization The debt of the Company comprises 100% short-term borrowings. Total debt of the Company stood at PKR 4,383mln in FY22 (FY21: PKR 1,995) due to increase in the running finance availed for the purpose of working capital with an equity base of PKR 2,138mln (FY21: PKR 1,358mln). This led to an increased leverage ratio of ~68% in FY22 (FY21: ~60%).

Financial Summary
PKR mln

Sabirs' Vegetable Oils (Pvt.) Limited	Jun-21	Jun-20	Jun-19
Edible Oil	12M	12M	12M
A BALANCE SHEET			
1 Non-Current Assets	654	670	629
2 Investments	-	-	-
3 Related Party Exposure	15	14	64
4 Current Assets	2,849	4,181	90
a Inventories	*1,346*	*1,995*	-
b Trade Receivables	*744*	*1,553*	*12*
5 Total Assets	3,518	4,866	782
6 Current Liabilities	85	114	68
a Trade Payables	*34*	*61*	*61*
7 Borrowings	1,995	3,482	-
8 Related Party Exposure	2	21	18
9 Non-Current Liabilities	78	55	-
10 Net Assets	1,358	1,194	696
11 Shareholders' Equity	1,358	1,194	696
B INCOME STATEMENT			
1 Sales	9,079	3,435	54
a Cost of Good Sold	*(8,641)*	*(3,240)*	*(57)*
2 Gross Profit	438	196	(3)
a Operating Expenses	(18)	(8)	(4)
3 Operating Profit	420	188	(6)
a Non Operating Income or (Expense)	*(15)*	*(4)*	*1*
4 Profit or (Loss) before Interest and Tax	405	184	(5)
a Total Finance Cost	*(196)*	*(133)*	*(0)*
b Taxation	*(18)*	*(52)*	-
6 Net Income Or (Loss)	191	(2)	(5)
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*498*	*278*	*2*
b Net Cash from Operating Activities before Working Capital Changes	*220*	*183*	*2*
c Changes in Working Capital	*1,109*	*(3,848)*	*(72)*
1 Net Cash provided by Operating Activities	1,329	(3,666)	(69)
2 Net Cash (Used in) or Available From Investing Activities	(72)	(136)	(519)
3 Net Cash (Used in) or Available From Financing Activities	(1,406)	4,003	503
4 Net Cash generated or (Used) during the period	(149)	201	(86)
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	164.3%	6225.0%	--
b Gross Profit Margin	4.8%	5.7%	-5.1%
c Net Profit Margin	2.1%	0.0%	-9.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	17.7%	-103.9%	-127.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	15.0%	-0.2%	-0.7%
2 Working Capital Management			
a Gross Working Capital (Average Days)	113	295	80
b Net Working Capital (Average Days)	112	289	-331
c Current Ratio (Current Assets / Current Liabilities)	33.5	36.6	1.3
3 Coverages			
a EBITDA / Finance Cost	2.5	2.1	636.3
b FCFO / Finance Cost+CMLTB+Excess STB	2.5	2.1	636.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.1	8.4
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	59.5%	74.6%	2.6%
b Interest or Markup Payable (Days)	11.3	104.1	0.0
c Entity Average Borrowing Rate	7.1%	7.6%	0.0%

Credit Rating

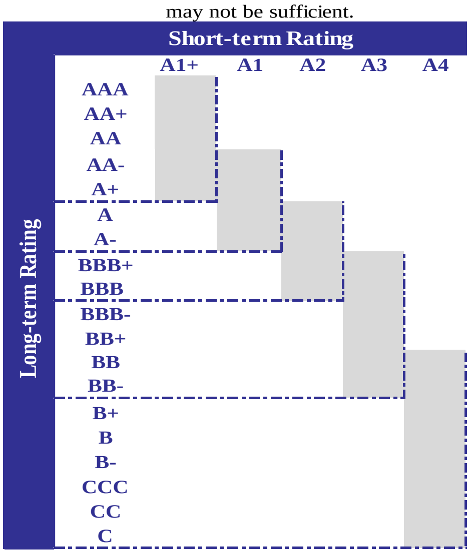
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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 | 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)
Proprietary Information