The Pakistan Credit Rating Agency Limited

Rating Report

Mehmooda Maqbool Mills Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
09-Feb-2023	BBB+	A2	Stable	Upgrade	-
18-Mar-2022	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 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 ratings reflect association of Mehmooda Maqbool Mills Limited ("Mehmooda Maqbool" or "the Company") with a well established player in the textile supply chain, Maqbool Group, along with developing its own brand equity in the edible oil and ghee segments. Over the years, the Company has benefitted from improved client base and geographical reach. Despite facing restrictions on the economic front, the Company's topline, dominated by semi-refined edible oil and meal, has improved. Moreover, switching towards local oilseeds would be beneficial for the Company's operations, going forward. The Company has maintained a strong network of dealers in the suburbs. Mehmooda Mabool's margins have depicted an improving trend, backed by strong revenue streams. Financial risk profile of the Company remains stable owing to maintained cashflows and improved leveraging supported to enhanced equity base; however, leveraging remains on the higher side. Continued support from sponsors bodes well for the ratings.

The ratings are dependent on the management's ability to maintain growth in business volumes while sustaining margins and profitability. Prudent management of leveraged capital structure is crucial. Effective changes in governance framework would be beneficial for the ratings.

Disclosure

Name of Rated Entity	Mehmooda Maqbool Mills 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 Mehmooda Maqbool Mills Limited (‘Mehmooda Maqbool’ or ‘the Company’) was incorporated on August 30, 1968. as a public unlisted company under the Companies Act, 1913 (now the Companies Act, 2017). It was listed on the Karachi Stock Exchange in 1968 and subsequently delisted later on.

Background The Company has two Edible Oil Extraction units, which started operations in 2002. Both units have been engaged in crushing a variety of edible oilseeds. The Company procures Cotton seed, Rapeseed, and Sunflower seed from local suppliers. Moreover, it imports Canola and Soybean oilseed from Canada, Australia and Ukraine for edible oil extraction. Both extraction units are operational throughout the year depending on the availability of the oilseeds and demand for edible oil. Moreover, during the year, the Company has installed a Ghee & Cooking Oil Unit as well.

Operations Solvent extraction units have a combined installed capacity of 400MT/day. Oil refining unit has an installed capacity of 144MT/day. Whereas, the flour mill has total installed capacity of 240MT/day. The Ghee & Cooking Oil Unit having total combined production capacity of 100MT/day. The Company’s manufacturing facility and Head Office are located at 2-Industrial Estate, Multan.

Ownership

Ownership Structure Mehmooda Maqbool Mills Limited is a wholly owned venture of Maqbool Group. Its major ownership lies with the Sponsoring family (99%). Investment companies and Financial Institutions hold a negligible share of 1%.

Stability Majority shareholding rests with the Sponsoring family consistently, which bodes well for stability in ownership.

Business Acumen Maqbool Group is established by a respected business family of Multan. In addition to Mehmooda Maqbool Mills, the group has notable presence in textile sector as well. Currently, there are four companies working under Maqbool Group. Three companies are operating in various segments of textile supply chain and one is extracting edible oil.

Financial Strength As at FY21, Maqbool Group had consolidated equity of PKR 4bln, while, managing an asset base of PKR 11bln. Through its diverse set of businesses, it generated a turnover of almost PKR 18bln for the year ended FY21, with PKR 435mln as profit after tax.

Governance

Board Structure Board comprises of nine members at present, two executive and seven non-executive directors. All the members are from the sponsoring family; hence, no independent director is on the Board.

Members’ Profile All the BoDs are experienced individuals. The Board’s Chairman, Mian Tanvir Ahmad Sheikh, is associated with Mehmooda Maqbool Mills Ltd. and Maqbool Group since inception and has more than four decades of business experience.

Board Effectiveness During the year, four board meetings were held. Attendance of Board members in these meetings remained full, however, no formal minutes of the Board meetings are maintained.

Financial Transparency The Company’s external auditors, Shinewing Hameed Chaudhri and Co. Chartered Accountants, have expressed unqualified opinion about the financial statements of FY22. Company’s auditors have been QCR rated by ICAP and are also in category ‘B’ of SBP’s panel.

Management

Organizational Structure Mehmooda Maqbool Mills Ltd. operates through three functional departments naming; Sales & Marketing, Procurement & Production, and Finance & Admin. Each department is headed by its respective director.

Management Team The Company’s CEO Mian Bakhtawar Tanvir Sheikh, has an overall working experience of 11 years. He has been associated with the Company since inception.

Effectiveness Management’s effectiveness and efficiency are ensured through timely information which is provided by the management information system.

MIS The Company has an ERP system in place. However, for internal dissemination, information is documented and reports are generated as per requirement.

Control Environment Regular reviews are undertaken internally to overlook the Company’s 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. Total oilseed imports for FY23 are forecast to be 3.4 million metric tons (MMT), unchanged from the estimated imports for FY22. Similarly, no growth is expected in edible oil imports in FY23, which are forecast at 3.7 MMT. The industry however is facing issues with imports being halted by port authorities over GMO concerns. This impacted the 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. Currently, the industry players have ceased bulk selling in order to reduce inventory load as they anticipate that the current inventory will be accessible for 2-3 months. Moreover, the extraction units are hopeful that import substitution will ensure smooth operations as many local essential oil seeds will be harvested in Mar-23. This may also benefit the local refineries. However, 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 reduced. Future outlook look of the industry is developing due to price volatility, PKR depreciation and latest hike in the policy rate. Industry's cashflows are expected to remain stretched.

Relative Position As per the total consumption of edible oil in Pakistan, the Company held a market share of 0.5% during FY22.

Revenues Topline portrayed an inclining trend over the years resulting in higher sales during FY22. Topline increased by ~25% to PKR 9,403mln (FY21: PKR 7,538mln). This also included PKR 57mln generated from exports.

Margins Gross profit margin improved to ~8.1% (FY21: ~5.4%) supported by increasing revenues. While operating expenses increased, operating profit margin was reported at ~6.4%, an improvement from ~4.7% backed by higher revenues. Net profit margin also improved to ~3.2% (FY21: ~1.8%).

Sustainability The Company is striving to diversify by tapping into manufacturing poultry feed from meal, a by-product in edible oil extraction process.

Financial Risk

Working Capital During FY22, net working capital days increased slightly to 87 days (FY21: 86 days) on account of increase in days receivable from 36 days as at FY21 to 51 days as at FY22. On the other hand, inventory days improved to 36 days (FY21: 51 days). The Company meets working capital requirements through short term borrowings. Short term trade and total leverage of the Company at ~19.6% and 8.0% respectively (FY21: ~0.5% and ~2.4% respectively).

Coverages FCFO as at FY22 recorded an improvement of ~198% at PKR 510mln (FY21: PKR 171mln) based on a higher profit before tax recorded. Finance cost for the period also increased to PKR 139mln (FY21: PKR 85mln), albeit recording a lower percentage increase. As a result, coverages of the Company also improved. Interest coverage ratio was recorded at 3.7x (FY21: 2x) while debt coverage ratio amounted to 3.4x (FY21: 2.0x). Debt payback also improved to 0.5x (FY21: 2.1x).

Capitalization The Company reduced its debt by ~15% to PKR 1,904mln (FY21: PKR 2,237mln). This resulted in an improvement in the leverage ratio, which as at FY22 stood at ~64% (FY21: ~74%). Short term borrowings, at PKR 1,718mln make up ~90% of total debt.

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Financial Summary
PKR mln

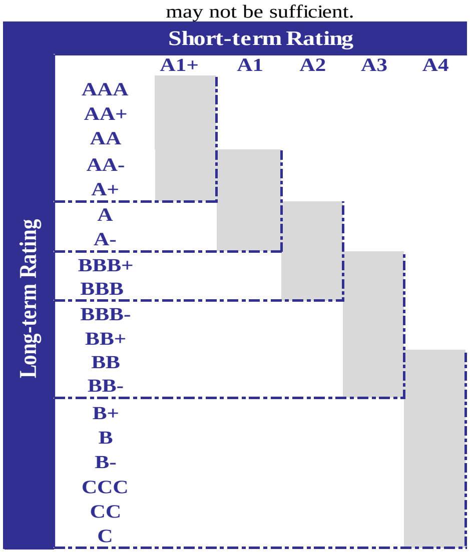
Mehmooda Maqbool Mills Limited	Jun-22	Mar-22	Dec-21	Sep-21	Jun-21	Jun-20	Jun-19
Edible Oil	12M	9M	6M	3M	12M	12M	12M
A BALANCE SHEET							
1 Non-Current Assets	1,069	1,017	1,001	978	943	680	687
2 Investments	-	10	-	-	-	-	-
3 Related Party Exposure	-	-	-	-	-	-	-
4 Current Assets	2,578	2,773	1,422	2,986	2,446	1,632	1,450
a Inventories	*678*	*1,174*	*487*	*1,866*	*1,180*	*906*	*580*
b Trade Receivables	*1,641*	*1,065*	*496*	*473*	*1,002*	*468*	*347*
5 Total Assets	3,647	3,800	2,423	3,964	3,389	2,312	2,136
6 Current Liabilities	654	1,377	675	873	332	663	263
a Trade Payables	*159*	*602*	*302*	*342*	*82*	*68*	*82*
7 Borrowings	1,904	1,431	860	2,204	2,237	784	1,024
8 Related Party Exposure	-	-	-	18	23	183	226
9 Non-Current Liabilities	-	-	-	-	-	-	-
10 Net Assets	1,089	992	888	869	798	681	623
11 Shareholders' Equity	1,089	992	888	869	798	681	623
B INCOME STATEMENT							
1 Sales	9,403	6,161	3,683	1,669	7,538	4,178	3,619
a Cost of Good Sold	*(8,642)*	*(5,670)*	*(3,394)*	*(1,492)*	*(7,130)*	*(3,908)*	*(3,466)*
2 Gross Profit	761	491	290	177	407	271	153
a Operating Expenses	(159)	(98)	(66)	(38)	(55)	(41)	(46)
3 Operating Profit	602	393	224	139	352	230	107
a Non Operating Income or (Expense)	*(30)*	*(21)*	*(11)*	*(7)*	*(21)*	*(11)*	*(2)*
4 Profit or (Loss) before Interest and Tax	571	373	213	132	331	219	105
a Total Finance Cost	*(144)*	*(94)*	*(69)*	*(40)*	*(88)*	*(127)*	*(118)*
b Taxation	*(126)*	*(74)*	*(44)*	*(20)*	*(109)*	*(59)*	*(26)*
6 Net Income Or (Loss)	301	205	100	72	134	32	(39)
C CASH FLOW STATEMENT							
a Free Cash Flows from Operations (FCFO)	*510*	*239*	*74*	*126*	*171*	*204*	*89*
b Net Cash from Operating Activities before Working Capital Changes	*370*	*125*	*(15)*	*76*	*92*	*98*	*2*
c Changes in Working Capital	*73*	*761*	*1,425*	*20*	*(1,039)*	*174*	*(52)*
1 Net Cash provided by Operating Activities	443	887	1,410	96	(947)	272	(50)
2 Net Cash (Used in) or Available From Investing Activities	(151)	(100)	(69)	(40)	(286)	(16)	(2)
3 Net Cash (Used in) or Available From Financing Activities	(342)	(815)	(1,387)	(32)	1,263	(277)	70
4 Net Cash generated or (Used) during the period	(50)	(29)	(45)	23	30	(21)	19
D RATIO ANALYSIS							
1 Performance							
a Sales Growth (for the period)	24.7%	9.0%	-2.3%	-11.4%	80.4%	15.4%	--
b Gross Profit Margin	8.1%	8.0%	7.9%	10.6%	5.4%	6.5%	4.2%
c Net Profit Margin	3.2%	3.3%	2.7%	4.3%	1.8%	0.8%	-1.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	6.2%	16.2%	40.7%	8.8%	-11.5%	9.0%	1.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	31.9%	30.5%	23.8%	34.4%	18.1%	5.0%	-6.3%
2 Working Capital Management							
a Gross Working Capital (Average Days)	87	98	78	124	86	130	58
b Net Working Capital (Average Days)	83	83	69	112	82	123	50
c Current Ratio (Current Assets / Current Liabilities)	3.9	2.0	2.1	3.4	7.4	2.5	5.5
3 Coverages							
a EBITDA / Finance Cost	4.3	4.3	3.4	3.6	4.2	1.9	1.1
b FCFO / Finance Cost+CMLTB+Excess STB	3.4	2.1	1.1	3.2	2.0	1.6	0.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.5	0.9	11.9	0.5	2.1	2.1	-9.0
4 Capital Structure							
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	63.6%	59.0%	49.2%	71.7%	73.7%	58.2%	66.6%
b Interest or Markup Payable (Days)	134.5	81.3	73.3	44.4	102.0	76.9	78.0
c Entity Average Borrowing Rate	8.0%	7.2%	7.5%	7.0%	5.4%	11.5%	9.3%

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