



The Pakistan Credit Rating Agency Limited

Rating Report

Mehmooda Maqbool Mills Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-Feb-2024	BBB+	A2	Stable	Maintain	-
09-Feb-2023	BBB+	A2	Stable	Upgrade	-
18-Mar-2022	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan imports a significant amount of edible oil, making it one of the most highly imported commodities in the country. Assuming the Genetically Engineered (GE) import ban is removed by third quarter FY23, total oilseed imports are forecasted to reach 2.6 million tons in FY24, which would be 71% higher than the estimated use for FY23. The price of Soybean oilseed stood at 1200 USD/MT in Jun-23, whereas the price of Palm Oil stood at 800 USD/MT in Jun-23, forecasted to ease further. 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 look of the industry is developing due to price volatility and PKR depreciation.

The ratings are indicative of Mehmooda Maqbool Mills Limited's ("Mehmooda Maqbool" or "the Company") affiliation with Maqbool textile mills Limited coupled with its efforts to build its own brand recognition in the edible oil and ghee sectors. Over time, the company has experienced advantages stemming from an enhanced customer base and expanded geographical presence. Despite facing economic restrictions, topline of the company dominated by semi refined edible oil and meal and stood at PKR 10,780mln during FY23 (FY22: PKR 9,403mln). Procurement of local seeds also benefitted the company. Where gross profit margin stood at 9.2% during FY23 (FY22: 8.1%), operating profit margin stood at 7.3% during FY23 (FY22: 6.4%). Net profit margin deteriorated due to finance cost and stood at 2.1% during FY23 (FY22:3.2%). Total debt of the Company increased (FY23: PKR 3,332mln, FY22: PKR 1,904mln) where rupee depreciation and increasing interest rate environment created an impact of net profit of the Company. Net profit of the Company stood at PKR 225mln during FY23 (FY22: PKR 301mln). However financial risk profile of the Company remains adequate as Company has improved cashflows. However, Leveraging of the Company remains adequate (FY23: 67%, FY22: 64%).

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(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 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's two edible oil extraction units started operations in 2002 that have been engaged in crushing variety of edible oilseeds. The Company procures Cotton seed, Rapeseed, and Sunflower seed from local suppliers. For edible oil extraction, the Company also imports Canola and Soybean oilseeds from Canada, Australia and Ukraine. The operations of both units depend upon the availability of the oilseeds and demand for edible oil. The Company has also installed a Ghee and 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, a fully owned enterprise of the Maqbool Group, is primarily owned by the sponsoring family, who holds a significant 99% ownership stake. Investment firms and financial institutions collectively possess a minimal 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 The consolidated position of the company shows PKR 14,245mln total assets, PKR 5,934mln total equity, PKR 4,262mln revenue and PKR -25mln of PAT during FY23.

Governance

Board Structure Board comprises of seven members at present, two executive and five 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 FY23. 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 13 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. Edible oil is one of the highest imported commodities in Pakistan. Assuming the Genetically Engineered (GE) import ban is removed by third quarter FY23, total oilseed imports are forecasted to reach 2.6 million tons in FY24, which would be 71% higher than the estimated use for FY23. The price of Soybean oilseed stood at 1200 USD/MT in Jun-23, whereas the price of Palm Oil stood at 800 USD/MT in Jun-23, forecasted to ease further. 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

Relative Position By keeping in view, the consumption of edible oil in Pakistan, the Company has the market share of 0.5%.

Revenues The Company's sales mix comprises of three segments: semi-refined oil, meal and liquid soap. During FY23, the Company's top line stood at PKR 10,789mln (FY22: PKR 9,403mln) due to increase in sales. The sales include the export of PKR 10mln (FY22: PKR 57mln).

Margins 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. The Company's gross profit margin increased and stood at 9.2% during FY23 (FY22: 8.1%). Also, operating profit margin increased and stood at 7.3% during FY23 (FY22: 6.4%). Whereas net profit margin of the company decreased and stood at 2.1% during FY23 (FY22: 3.2%) due to increase in interest rates.

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 Mehmooda Maqbool's working capital requirements are a function of high inventory and receivable days. Average inventory days remain consistent and stood at 36 days during FY23 (FY22: 36 days). Trade receivable days also increased and stood at 67 days during FY23 (FY22: 51 days). Net working capital days increased and stood at 95 days in FY23 (FY22: 83 days). The company meets its requirements through short term borrowings. Short term borrowings increased and stood at PKR 3,149mln during FY23 (FY22: PKR 1,718mln).

Coverages FCFO of the company increased and stood at PKR 634mln during FY23 (FY22: PKR 510mln) due to increase in sales. Following the trend TCF also increased. Total finance cost increased and stood at PKR 377mln during FY23 (FY22: PKR 144mln) due to increase in markup rates. Interest Coverage ratio decrease and stood at 1.7x during FY23 (FY22: 3.7x) due to increase in interest rates. Following the trend, total interest coverage ratio decrease and stood at 1.6x during FY23 (FY22: 3.5x). Debt payback ratio slightly increase and stood at 0.7x during FY23 (FY22: 0.5x).

Capitalization Total debt of the company increased and stood at PKR 3,332mln during FY23 (FY22: PKR 1,904mln). Leverage of the company increased and stood at 67.1% during FY23 (FY22: 63.6%). Short term borrowings of the company also increased and stood at PKR 3,149mln during FY23 (FY22: PKR 1,718mln) to meet the working capital requirements of the company.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mn

Mehmooda Maqbool Mills Limited	Jun-23	Jun-22	Jun-21	Jun-20	Jun-19
Edible Oil	12M	12M	12M	12M	12M

A BALANCE SHEET

1 Non-Current Assets	1,416	1,069	943	680	687
2 Investments	-	-	-	-	-
3 Related Party Exposure	10	-	-	-	-
4 Current Assets	4,318	2,578	2,446	1,632	1,450
<i>a Inventories</i>	1,426	678	1,180	906	580
<i>b Trade Receivables</i>	2,306	1,641	1,002	468	347
5 Total Assets	5,744	3,647	3,389	2,312	2,136
6 Current Liabilities	757	654	332	663	263
<i>a Trade Payables</i>	280	159	82	68	82
7 Borrowings	3,332	1,904	2,237	784	1,024
8 Related Party Exposure	-	-	23	183	226
9 Non-Current Liabilities	22	-	-	-	-
10 Net Assets	1,633	1,089	798	681	623
11 Shareholders' Equity	1,633	1,089	798	681	623

B INCOME STATEMENT

1 Sales	10,780	9,403	7,538	4,178	3,619
<i>a Cost of Good Sold</i>	(9,783)	(8,642)	(7,130)	(3,908)	(3,466)
2 Gross Profit	997	761	407	271	153
<i>a Operating Expenses</i>	(214)	(159)	(55)	(41)	(46)
3 Operating Profit	783	602	352	230	107
<i>a Non Operating Income or (Expense)</i>	(32)	(30)	(21)	(11)	(2)
4 Profit or (Loss) before Interest and Tax	751	571	331	219	105
<i>a Total Finance Cost</i>	(377)	(144)	(88)	(127)	(118)
<i>b Taxation</i>	(149)	(126)	(109)	(59)	(26)
6 Net Income Or (Loss)	225	301	134	32	(39)

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	634	510	171	204	89
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	298	370	92	98	2
<i>c Changes in Working Capital</i>	(1,606)	73	(1,039)	174	(52)
1 Net Cash provided by Operating Activities	(1,307)	443	(947)	272	(50)
2 Net Cash (Used in) or Available From Investing Activities	(71)	(151)	(286)	(16)	(2)
3 Net Cash (Used in) or Available From Financing Activities	1,428	(342)	1,263	(277)	70
4 Net Cash generated or (Used) during the period	50	(50)	30	(21)	19

D RATIO ANALYSIS

1 Performance					
<i>a Sales Growth (for the period)</i>	14.6%	24.7%	80.4%	15.4%	--
<i>b Gross Profit Margin</i>	9.2%	8.1%	5.4%	6.5%	4.2%
<i>c Net Profit Margin</i>	2.1%	3.2%	1.8%	0.8%	-1.1%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	-9.0%	6.2%	-11.5%	9.0%	1.0%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)</i>	16.5%	31.9%	18.1%	5.0%	-6.3%
2 Working Capital Management					
<i>a Gross Working Capital (Average Days)</i>	102	87	86	130	58
<i>b Net Working Capital (Average Days)</i>	95	83	82	123	50
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	5.7	3.9	7.4	2.5	5.5
3 Coverages					
<i>a EBITDA / Finance Cost</i>	2.2	4.3	4.2	1.9	1.1
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.6	3.4	2.0	1.6	0.7
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.7	0.5	2.1	2.1	-9.0
4 Capital Structure					
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	67.1%	63.6%	73.7%	58.2%	66.6%
<i>b Interest or Markup Payable (Days)</i>	91.0	134.5	102.0	76.9	78.0
<i>c Entity Average Borrowing Rate</i>	14.1%	8.0%	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.

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+	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	
BBB-	
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	
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	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility.
CC	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)

2) Conflict of Interest

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- (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).
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- (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)
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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)

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