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
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 account for ~80% of the cost of production. Edible oil is the country's 2nd largest import after petroleum. Pakistan's total oil and fats consumption is ~ 5 million metric tons per annum. Consumption is met by 70% ~3.3 MMT) of edible oil import. The remaining 30% (~1.7 MMT) of edible oil is produced from oilseeds (local ~ 3.5MMT, imported ~ 3.1 MMT). Additionally, low domestic oilseed production in Pakistan caused by a distortion in support price mechanism and lower yields have pushed farmers away from oilseed, further increasing dependence on imports. Post Jan-21, demand for edible has picked up due to the reopening of demand avenues. On the supply side, the key raw materials – oilseed and RBD palm oil – are imported primarily from USA, Brazil, and Malaysia. Since Dec-20, raw material prices have continued to inflate amid supply uncertainties and historically low global inventory levels, along with rupee devaluation impacting importers. Subsequently, prices of cooking oil and vegetable ghee have remained on the higher side. Going forward, sales are expected to remain stable. Margins and profitability are expected to improve for players and costs will be offset by the increased demand and in turn prices.
The ratings reflect Mehmooda Maqbool's association 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. Topline is dominated by semi-refined edible oil and meal, as the Company has maintained a strong network of dealers in the suburbs. Margins have experienced fluctuations on the back of higher cost of raw materials. However, margins have performed better compared to peers, as the Company crushes different varieties of oilseeds. Financial risk profile of the Company remains stable owing to adequately managed working capital cycle, coupled with strong coverages. Capital structure remains highly leveraged; consisting of short-term debt, obtained to finance the working capital requirement, and long term debt obtained to install a Ghee refining mill. Over the years, demonstrated support from sponsors bodes well for the ratings.

The ratings are dependent on the management's ability to maintain its growing business volumes while sustaining margins and profitability. Prudent management of highly 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-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Edible Oil(Feb-21)
Rating Analysts	Shayan Farooq | shayan.farooq@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 Maqbool Group started its operations in 1958 with the incorporation of a yarn spinning unit; M/s Allawasaya Textile and Finishing Mills Limited. Over the years, the group has continuously invested to develop many sub-businesses from its core operations of Yarn Spinning and has diversified into Cotton Ginning, Edible Oil Extraction, Flour Milling, and Ghee & Cooking Oil.

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. Moreover, during the year, the Company has recently installed a 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. He holds an MBA degree from USA and has more than four decades of business experience. Mian Anis Ahmad Sheikh, is holding a Graduate degree from USA and has been working for the Company from past 28 years. Mian Idrees Ahmad Sheikh, is a graduate, having an experience of 33 years. Mian Bakhtawar Tanvir Sheikh holds bachelor degree in business from USA and working since last 11 years.

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 FY21. 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, Financial & Admin matters of the Company are looked after by Mr. Tanvir Ahmad Sheikh, Chairman of the Company. Flour Mills operations are being looked after by Mr. Idrees Ahmad Sheikh and overall operations of Solvent Units and Ghee Mill are being looked after by Mr. Bakhtawar Tanvir Sheikh.

Management Team The Company's CEO, Mian Idrees Ahmad Sheikh, is a veteran professional and has a business experience of 33 years. Director Sales & Marketing, Mian Anis Ahmad Sheikh, has an overall experience of 28 years. He is associated with the Company since inception. Director Procurement & Production, 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 key imported raw materials account for ~80% of the cost of production. Additionally, low domestic oil seed production caused by a distortion in support price mechanism and lower yields have pushed farmers away from oil seed, further increasing dependence on imports. Moreover, being a staple food item, demand from household did not drop. On the supply side, soybean oil seed are imported primarily from the USA and Brazil. International prices of soybean oil seed have picked up (~51%), during FY21. Sales are expected to remain stable. Margins and profitability will improve for players in soybean oil segment.

Relative Position As per the total consumption of edible oil in Pakistan, the Company held a market share of 0.5% during FY21.

Revenues Topline portrayed an inclining trend over the years, as the Company increased its clientele in semi refined oil and meal, resulting in higher sales during FY21. Topline increased by 80% to PKR 7,538mln (FY21: PKR 4,178mln). This was on the back of better volumes and marketing strategies, by higher geographical presence in the central region.

Margins Gross margins posted a declining trend over the years (FY21: 5.4%; FY20: 6.5%), depicting increasing costs of raw material, some of which are imported. They were further impacted due to the rupee depreciation over the years. Operating margins remained stable (FY21: 4.7%, FY20: 5.5%), as the Company minutely increased the admin and selling expenditure (FY21: PKR 55mln, FY20: PKR 41mln). Financial charges were reduced to PKR 88mln (FY20: PKR 127mln) on the back of lower policy rate, despite higher borrowings. The net income stood at PKR 134mln (FY20: PKR 32mln), translating into an improved net margin of 1.8% (FY20: 0.8%).

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 The Company's working capital requirements are a function of high inventory and receivable days. During FY21, net cash cycle improved to 82 days (FY20: 123 days) on account of better inventory management from higher offtake (FY21: 51 days, FY20: 94 days). Moreover, disciplined management of receivables resulted in consistent debtors days; 36 days (FY20: 36 days). Payable days dipped to 4, from 7 days during FY20. Working capital requirements are met through short term borrowings. Short term trade and total leverage of the Company deteriorated due to higher borrowings (FY21: 0.5% and 23%, FY20: 2.4% and 11.7%).

Coverages Interest coverage (FY21: 2x, FY20: 1.6x) is a function of 31% lower finance cost (FY21: PKR 88mln, FY20: PKR 127mln), incurred from lower policy rate. FCFO dipped to PKR 171mln, (FY20: PKR 204mln) on the back of high tax paid during the period (FY21: PKR 185mln, FY20: PKR 37mln). Core and total coverage also posted an improvement (FY21: 2x, FY20: 1.6x).

Capitalization Mehmooda Maqbool has a deteriorating leveraged capital structure (FY21: 74%, FY20: 58%). Equity base of the Company is seen to be improving (FY21: PKR 798mln, FY20: PKR 681mln), on the back of accumulated profits. However, the Company's total borrowing stood at PKR 2,237mln as at FY21, rising from PKR 784mln as at FY20. This was attributable to short-term borrowings (FY21: PKR 2,237mln, FY20: PKR 784mln) availed from different financial institution to fund the working capital requirements. Going forward, the Company's short-term borrowings are expected to remain high due to nature of its business – import of raw material. During FY21, the Company obtained SBP's TERF facility (FY21: PKR 182mln, FY20: PKR nil) for the installation of Ghee Mill (60MT/day) and Cooking Oil Plant (40MT/day).

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Financial Summary
PKR mln

Mehmooda Maqbool Mills Limited	Sep-21	Jun-21	Jun-20	Jun-19
Edible Oil	3M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	978	943	680	687
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	2,986	2,446	1,632	1,450
a Inventories	*1,866*	*1,180*	*906*	*580*
b Trade Receivables	*473*	*1,002*	*468*	*347*
5 Total Assets	3,964	3,389	2,312	2,136
6 Current Liabilities	873	332	663	263
a Trade Payables	*342*	*82*	*68*	*82*
7 Borrowings	2,204	2,237	784	1,024
8 Related Party Exposure	18	23	183	226
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	869	798	681	623
11 Shareholders' Equity	869	798	681	623
B INCOME STATEMENT				
1 Sales	1,669	7,538	4,178	3,619
a Cost of Good Sold	*(1,492)*	*(7,130)*	*(3,908)*	*(3,466)*
2 Gross Profit	177	407	271	153
a Operating Expenses	(38)	(55)	(41)	(46)
3 Operating Profit	139	352	230	107
a Non Operating Income or (Expense)	*(7)*	*(21)*	*(11)*	*(2)*
4 Profit or (Loss) before Interest and Tax	132	331	219	105
a Total Finance Cost	*(40)*	*(88)*	*(127)*	*(118)*
b Taxation	*(20)*	*(109)*	*(59)*	*(26)*
6 Net Income Or (Loss)	72	134	32	(39)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*126*	*171*	*204*	*89*
b Net Cash from Operating Activities before Working Capital	*76*	*92*	*98*	*2*
c Changes in Working Capital	*20*	*(1,039)*	*174*	*(52)*
1 Net Cash provided by Operating Activities	96	(947)	272	(50)
2 Net Cash (Used in) or Available From Investing Activities	(40)	(286)	(16)	(2)
3 Net Cash (Used in) or Available From Financing Activities	(32)	1,263	(277)	70
4 Net Cash generated or (Used) during the period	23	30	(21)	19
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-11.4%	80.4%	15.4%	--
b Gross Profit Margin	10.6%	5.4%	6.5%	4.2%
c Net Profit Margin	4.3%	1.8%	0.8%	-1.1%
d Cash Conversion Efficiency (FCFO adjusted for Working C	8.8%	-11.5%	9.0%	1.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	34.4%	18.1%	5.0%	-6.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	124	86	130	58
b Net Working Capital (Average Days)	112	82	123	50
c Current Ratio (Current Assets / Current Liabilities)	3.4	7.4	2.5	5.5
3 Coverages				
a EBITDA / Finance Cost	3.6	4.2	1.9	1.1
b FCFO / Finance Cost+CMLTB+Excess STB	3.2	2.0	1.6	0.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	0.5	2.1	2.1	-9.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equit	71.7%	73.7%	58.2%	66.6%
b Interest or Markup Payable (Days)	44.4	102.0	76.9	78.0
c Entity Average Borrowing Rate	7.0%	5.4%	11.5%	9.3%

Credit Rating

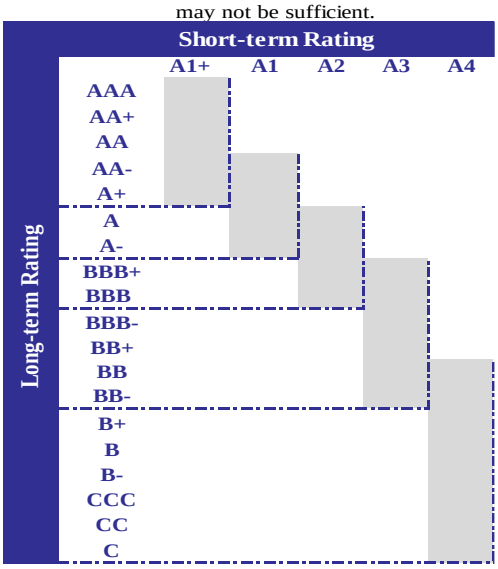
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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.
(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