



The Pakistan Credit Rating Agency Limited

Rating Report

Azhar Corporation (Pvt.) Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
12-Dec-2018	BBB+	A2	Stable	Maintain	-
22-Jun-2018	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan's personal and homecare product market has shown an annual growth rate of 2-3%. The industry not only fulfills the entire local demand but also has the potential to export its products. Within the homecare products, a rapid switch has been witnessed from soap/liquid to powder detergents. The market for soap bars posted an annual dip of 8-10%. However, the market for powder detergents posted an annual growth of 15-20%.

The ratings reflects Azhar Corporation (Pvt.) Limited's diversified revenue stream and strong presence in Soap and Vegetable Ghee/Edible Oil market. The Company is a market leader with an established brand - Gai Soap and thus generates most of its revenue from local sales, while some exports are made to Afghanistan. The Company is trying to maintain its market share by expanding geographically and have introduced new product (Powder detergent - Gai Power Wash) in the market. Being a new entrant in the branded Vegetable Ghee/Edible Oil market - Gai Banaspati, the Company's Oil/ Ghee business is in a challenging phase; thus impacting the overall performance. Financial profile of the Company remains stable owing to moderately leveraged capital structure; consisting of short-term debt only, obtained to finance the working capital requirement. The Company's coverage ratios remain modest.

The ratings are dependent on the management's ability to prudently manage its market share, while maintaining business margins. Pressure on business volume and margins owing to the market conditions may negatively impact the ratings.

Disclosure

Name of Rated Entity	Azhar Corporation (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Food and Allied Edible Oil(Mar-18)
Rating Analysts	Adnan Dilawar adnan@pacra.com +92-42-35869504

Profile

Legal Structure Azhar Corporation (Pvt.) Limited is incorporated as a Private Limited Company.

Background Azhar Corporation (Pvt.) Limited started commercial production of Laundry Soap in 1979 under the brand name of Gai Soap. In 1999, the Company diversified its product base and introduced Toilet Soap, named Hoor in the market. In Jan-14, the Company backwardly integrated and set up a Vegetable Ghee and Cooking Oil extraction unit. In FY18, two new products (Extra Need and Gai Powerwash) were introduced in the market.

Operations Azhar Corporation (Pvt.) Limited is principally manufacturing Personal and Homecare products with an installed capacity of 350 MT/day and 150 MT/day. These include laundry soap, toilet soap, detergent bar and detergent powder. The Company is also involved in manufacturing of Vegetable Ghee and Cooking Oil and has an installed capacity of 200MT/day. For this, the Company locally procures Cotton seed, Sunflower seed, Rapeseed and Corn oilseed. The Company exports around 5,000 Tons of soap per year to Afghanistan. Azhar Corporation (Pvt.) Limited's manufacturing units and Head Office are located in Faisalabad.

Ownership

Ownership Structure Azhar Corporation (Pvt.) Limited's ownership vests with Mr. Sh. Mohd. Munawwar's family (51%) and his brother, Mr. Azhar Iqbal (49%). Mr. Sh. Mohd. Munawwar has 16% stake in the Company. While his sons, Mr. Mazahar Munawwar and Mr. Hassan Munawwar holds 18% and 17% shares of Azhar Corporation, respectively.

Stability Ownership of the Company draws stability from entire stake being held by the Sponsoring family.

Business Acumen From almost four decades, the Sponsors have been in the business arena of Personal and Homecare products. Thus, indicating their relevant experience and expertise.

Financial Strength Azhar Corporation (Pvt.) Limited is a stable business entity. The Sponsors have substantial financial strength to support the Company in financial distress.

Governance

Board Structure Azhar Corporation (Pvt.) Limited's Board is dominated by the Sponsoring family. The Board comprises four Directors. Lack of independent oversight highlights a room for improvement in the Company's governance structure.

Members' Profile The Board's Chairman, Mr. Sh. Mohd. Munawwar, has been associated with the Company for more than 45 years. He holds a Graduate degree and is well experienced in the relevant field.

Board Effectiveness Keeping in view the size of the Board, absence of sub-committees may not impact Board's effectiveness. During FY18, 4 Board meetings, with majority attendance, were held to discuss pertinent matters and make strategic decisions.

Financial Transparency The Company's external auditors, Parker Randall-A.J.S. Chartered Accountants, have expressed an unqualified opinion on the financial statements for FY18. The firm has been QCR rated by ICAP and is in the 'B' category of SBP's auditors panel. The Company changed their external auditors in FY18.

Management

Organizational Structure Azhar Corporation (Pvt.) Limited's organizational structure comprises two key divisions: Soap (laundry, detergent and toilet bars) and Oil/Ghee. Decisions related to Operations, Production, Procurement, Marketing and Sales and Human Resource are headed by their respective Directors, who report to the Company's CEO. Finance, Accounts and International relationship functions are monitored by the Company's CEO.

Management Team The Company's CEO, Mr. Sh. Mohd. Munawwar, has been associated with the Company from more than 45 years. He holds a Graduate degree and is well experienced in the relevant field.

Effectiveness Keeping in view the size and operations of the Company, management lacks effectiveness as there are no management committees in place. Thus, indicating a room for improvement.

MIS An in-house developed software generates reports for each function of the Company, on daily basis. These reports assist the senior management to monitor actual against targeted performance.

Control Environment To ensure operational efficiency, the Company has setup an internal audit function. Regular reviews are undertaken by the internal audit function to overlook the Company's operational control.

Business Risk

Industry Dynamics Pakistan's personal and homecare product market has shown an annual growth rate of 2-3%. The industry not only fulfills the entire local demand but also has the potential to export its products. Within the homecare products, a rapid switch has been witnessed from soap/liquid to powder detergents. The market for soap bars posted an annual dip of 8-10%. However, the market for powder detergents posted an annual growth of 15-20%.

Relative Position Azhar Corporation (Pvt.) Limited has an estimated market share of 13%, followed by Sufi Soap (8%). The Company has an average daily sales of 240 Tons.

Revenues The Company generates revenue its two divisions: Soap (laundry soap, beauty soap, detergent bars and detergent powder) ~ 62% and Edible Oil (Vegetable Ghee and Cooking Oil) ~ 38%. In FY18, the Company's revenue showed a minimal decline (FY18: PKR 7.2bln, FY17: PKR 7.3bln). This dip was registered by volumes in both divisions. Moreover, 23% dip was witnessed in the Company's exports to Afghanistan. However, local sales posted a minimal growth.

Margins In FY18, the Company's gross margins (FY18: 16%, FY17: 18%) showed a slight decline due to an increase in the raw material costs. As the Company imports Tallow (animal fat) and chemicals from China, Indonesia and Malaysia, thus rupee devaluation made the imports relatively costly. However, the operating margins improved supported by a decrease in 53% in the Company's marketing expenses (FY18: 6.5%, FY17: 5.1%).

Sustainability Going forward, the Company is eyeing on tapping new markets; like Banquet Halls, Pizza shops and Restaurants. The Company is striving to increase its market share by introducing liquid detergents. Moreover, the Company's plans to increase its market coverage by adding new distributors and by penetrating in the retail segment.

Financial Risk

Working Capital High inventory levels and receivable days kept the net working capital days on the higher side (FY18: 145 days, FY17: 120 days). High receivable days are registered to maintain the market share and sustain competition by the Company. In order to sustain the short term borrowing buffer, the Company needs to maintain discipline in working capital management.

Coverages Interest coverage (FY18: 2.7x, FY17: 3.5x) is a function of an increase of 16% in the Company's short term borrowings (FY18: PKR 2.4bln, FY17: PKR 2.1bln) and slight improvement in the free cash flows (FY18: PKR 414mln, FY17: 400mln). Despite a dip, the Company's total coverages remained well above 2, indicating the ability to timely pay off their liabilities.

Capitalization Azhar Corporation has a leveraged capital structure (FY18: 64% FY17: 64%). The leveraging remained stable with an equity base of PKR 1.3bln, despite an increase in the total debt to PKR 2.4bln.



Oil & Soap Manufacturing

The Pakistan Credit Rating Agency Limited

Summary)

PKR mln

Azhar Corporation (Pvt.) Limited

BALANCE SHEET	30-Jun-18	30-Jun-17	30-Jun-16	30-Jun-15
	Annual	Annual	Annual	Annual
		(Restated)	(Restated)	
Non-Current Assets	728	759	806	833
Investments (Incl. Associates)	-	-	-	-
Equity	-	-	-	-
Debt Securities	-	-	-	-
Investment Property	-	-	-	-
Current Assets	3,692	3,105	2,611	2,684
Inventory	1,545	1,358	960	1,520
Trade Receivables	1,816	1,434	1,424	947
Others	330	313	227	217
Total Assets	4,420	3,865	3,417	3,517
Debt	2,425	2,095	1,481	1,658
Short-Term	2,425	2,095	1,481	1,658
Long-term (Incl. Current Maturity of Long-Term Debt)	-	-	-	-
Other Short-Term Liabilities	461	450	337	398
Other Long-Term Liabilities	181	132	106	126
Shareholder's Equity	1,354	1,188	1,494	1,335
Total Liabilities & Equity	4,420	3,865	3,417	3,517

INCOME STATEMENT

Turnover	7,249	7,271	7,562	7,268
Gross Profit	1,179	1,279	1,292	1,249
Other Income	9	64	20	58
Financial Charges	(154)	(116)	(116)	(162)
Net Income	246	171	284	164

Cashflow Statement

EBITDA	582	529	644	621
Free Cashflow from Operations (FCFO)	414	400	528	488
Net Cash changes in Working Capital	(627)	(308)	22	(402)
Net Cash from Operating Activities	(367)	(29)	416	(79)
Net Cash from Investing Activities	24	(31)	(44)	52
Net Cash from Financing Activities	256	134	(362)	49
Net Cash Generated during the period	(87)	74	10	22

Ratio Analysis

Performance				
Turnover Growth (same period last year)	-0.3%	-3.9%	4.0%	13.4%
Gross Margin	16.3%	17.6%	17.1%	17.2%
Net Margin	3.4%	2.4%	3.8%	2.3%
ROE	28.3%	28.3%	28.3%	28.3%
Coverages				
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	2.7	3.5	4.5	3.0
Interest Coverage (x) (FCFO/Gross Interest)	2.7	3.5	4.5	3.0
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Term Borrowings) / FCF)	0.0	0.0	0.0	0.0
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	145	120	108	103
Capital Structure (Total Debt/Total Debt+Equity)	64%	64%	50%	55%

Azhar Corporation (Pvt.) Limited

Dec-18

Credit Rating Scale & Definitions

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 Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent