The Pakistan Credit Rating Agency Limited

Rating Report

Hi-Tech Edible Oils (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Sep-2018	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect long association of Hi-Tech Edible Oils with Hi-Tech Group; well known player of poultry industry. Hi-Tech is primarily operating in two segments 1) Edible Oil (well structured) and, 2) Poultry Feeds (fragmented). Company's turnover increased during past few years, owing to the plant expansion in two phases. Although, margins remained on the lower side due to risk related to the price fluctuation depending upon the demand supply gap. Higher costs are majorly related to raw material procurement, which is being imported. Currently, the company is locally selling both edible oil and poultry meal. However, some export avenues may be explored by management in future. Going Forward, company's sales are expected to improve owing to increased installed capacity. Inventory management system and related efficiencies would require attention which are being effected by the long lead time. Being an importer of oil seeds (Soybean) in Pakistan, there is an inherent risk involved of currency fluctuations and prices of product, left open to market forces. Financial risk profile of the company is characterised by leveraging due to high short term borrowing related to working capital.

The ratings are dependent on relative positioning of the company and its ability to prudently manage the liquidity and debt profile of the company, particularity working capital, while improving business margins. The company plans no long term debt. Effective changes in governance framework would be good for ratings.

Disclosure

Name of Rated Entity	Hi-Tech Edible Oils (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-18)
Related Research	Sector Study | Food and Allied | Edible Oil(Mar-18)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

Legal Structure Hi-Tech Edible Oils (Pvt.) Limited, is a venture of Hi-Tech Group; well-known player of Pakistan's poultry industry. Hi-Tech Edible oil was incorporated in 2002 and commenced business in 2006 as Private Limited Company.

Background Hi -Tech Feed, situated in Lahore, became formally operational in 1985. It was initiated from small scale acquaintances business.

Operations Hi-Tech Edible Oils (Pvt.) Limited is primarily engaged in the process of seed filtering and crushing, oil extraction and refining by chemical processes. Company imports 90-95% premium quality Soybean Seeds from the USA, Canada, and Argentina. Hi-Tech Edible Oils (Pvt.) Limited, at present has three solvent extraction facilities having combined capacity of 750 tons per day. While the facility can extract the edible oil up to 650 tons per day. Although, the oil refinery is installed at a capacity of 150 t.p.d.

Ownership

Ownership Structure Hi-Tech Edible Oils (Pvt.) limited shareholding lies equally within four of the directors who are also founding members of Hi-Tech group. The directors have no blood relationship.

Stability Apart from shareholding in Hi-Tech Group, all of the four directors have no other shareholdings in any other companies. The responsibilities are divided by the four of the directors. Now the next generation of the directors have also entered in the group businesses as employees.

Business Acumen Hi-Tech group as Hi-Tech Feeds started its operations in 1985 and in 2006 they have converted that one company into multiple companies.

Financial Strength Hi-Tech group companies consist of total 6 entities, which are operating at profits except of Hi-Tech Grains which is currently on trial process phase. At the end of FY17, Hi-Tech Group has consolidated equity of PKR 3.1bln. Through its set of businesses, it is generating a PAT of PKR 153mln.

Governance

Board Structure The Company is being run by four friends; they have their segregated roles in the management of group Companies – as captured in the management function. The oversight function – which is normally the role of the Board – is being exercised by all the four members on regular basis. However, Dr. Muhammad Arshad is closely associated and managing the oil division.

Members' Profile The four board members are experienced personnel. Dr. Anwar Mehmood Randhawa is the chairman of all group companies. He is Doctor of veterinary medicine by profession. He accompanied overall experience of 44 years with him in Poultry and Integrated businesses.

Board Effectiveness During the year, no formal meetings were conducted. However, board members had various informal meetings. Board meeting minutes are not formally maintained.

Financial Transparency The external auditors of the company are Hameed Zahid & Co. Chartered Accountants, have been QCR rated by ICAP, not a member of SBP panel.

Management

Organizational Structure The organizational structure is divided into two divisions: i) Head Office and ii) Sales & Production. All of the following departments those include; i) Audit headed by Chief Audit, ii) Production headed by GM Production, and iii) Admin/ Accounts/ Marketing are headed by Chief Financial Officer eventually reports to the Chief Executive Officer.

Management Team Dr. Muhammad Arshad is the CEO of the Group and also the director of the board. He is a veterinarian by profession and got his DVM degree from University of Agriculture, Faisalabad (Pakistan) in 1976. He actively participates in many International and Local Seminars relating to Poultry, Feed Milling and Pharmaceutical Industry. He is assisted by a team of professionals those are associated with the company for very long.

Effectiveness There are no formal management committees. Pertinent matters discussed are minuted as per the need. All departments Heads are responsible for the performance of the relevant department. However, in operational committee meetings, informal minutes are made and are considered as the agenda for the next meeting.

MIS The customized software modules are; i) Revenue Cycle ii) Payroll Cycle iii) Expenditure Cycle iv) Treasury Cycle and v) Conversion Cycle. Moreover, Hi-Tech Edible Oils (Pvt.) Limited generate some reports on excel formats. These reports are approved by CFO and viewed by board on regular basis.

Control Environment To observe and evaluate the business activity various production sheets are generated which highlights and enable management to monitor performance at different steps of the operation cycle.

Business Risk

Industry Dynamics Pakistan has the 4th largest market for edible oil being the 3rd largest global importer of it. Edible oil is country's 2nd largest import after petroleum. At present, import of edible oil and oilseed from USA, Brazil, Canada, Argentina, Ukraine, Indonesia and Malaysia is around 80%. The remaining 20% demand is satisfied through 122 local oil extraction and refinery units.

Relative Position Hi-Tech Group; well-known player of Pakistan's poultry industry.

Revenues During FY17, sales mix consisted of 63% and 36% as soyabean meal & washed oil respectively while only 1% is waste (soap liquid). During the seed crushing and oil extraction only upto 21% of oil is extracted due to natural composition of seeds while 72-75% is meal composition – depending upon the type of seed. Hence, volumetric analysis reveals greater proportion meal sale. Sales are currently more concentrated in Punjab.

Margins During 9MFY18, the company's topline stood at PKR 8.83bln (FY17: PKR 7.43bln; FY16: PKR 4.01bln), primarily on account of enhancement of capacity post end-Jun17. Despite of significant increase in topline, high associated costs tightens the gross margins (9MFY18: 5.9%; FY17: 4.3%). Higher costs are majorly related to raw material procurement, imported from America, Canada, and Argentina. The prices are set as per traded on the Chicago Board of Trade depend upon the demand supply gap. The prices are co-related with several gloablly driven factors, which are majorly uncontrollable. Company's expenses have increased during 9MFY18, to PKR 114mln (FY17: PKR 86mln; FY16: PKR 35mln) on account of increased turnover. Hence, surge witnessed in operating profit (9MFY18: PKR 407mln; FY17: PKR 233mln) margins witnessed improvement (9MFY18: 4.6%; FY17: 3.1%) but limited when compared with peers. Due to the nature of the business – high imports keep interest expenses on the higher side. As a result company reported bottom line of PKR 80mln (FY17: PKR 23mln: FY16: 13mln), up by 78% on YOY basis.

Sustainability Currently, company's sales are locally consumed. However, the company is eyeing to access Middle East, China, and South Africa as potential export avenues. Going Forward, company's sales will improve owing to increased installed capacity.

Financial Risk

Working Capital The Company meets working capital requirements through internal cash as well as the short term borrowings. The company's short term borrowings are on the higher side due to the import of raw material (FY17: PKR 5.2bln; FY16: PKR 3.2bln). Current ratio of the Company remained comfortable (end- Mar18: 1.2x, end-Jun17: 1.1x, end-Jun16: 1.2 x).

Coverages During FY17, EBITDA witnessed a increase of PKR 113mln to stand at PKR 272mln (FY16: PKR 159mln). FCFO decreased to PKR 78mln (FY16: PKR 100mln) owing to the taxes paid during the year. Hence, core coverage stood at (end-Jun17: PKR 0.5x; end-Jun16: 1.0x); which is below adequate level.

Capitalization Over last few years company has maintained its equity base. During 9MFY18, equity base witnessed an increase of 67% to PKR 1,091mln (FY17: PKR 653mln) owing to injection of equity by existing shareholders. Company's total borrowing of PKR 5,434mln consist of majorly short term borrowing – import of raw material. Long term borrowing consist of PKR 193mln which is loan from the associated companies to meet few working capital requirements. Total debt to debt plus equity ratio stands at 89.3% (FY16: 84.3%; FY16: 78.0%) high.

PKR mln

Hi - Tech Edible Oils (Pvt.) Limited

BALANCE SHEET	31-Mar-18	30-Jun-17	30-Jun-16	30-Jun-15
	Un-Audited			
	9M	Annual	Annual	Annual
Non-Current Assets	**450**	**422**	**263**	**253**
Investments (Incl. Associates)	**36**	**36**	**36**	**36**
Equity	36	36	36	36
Debt Securities	-	-	-	-
Investment Property	-	-	-	-
Current Assets	**5,132**	**6,167**	**3,994**	**2,673**
Inventory	3,212	4,307	2,380	1,632
Trade Receivables	1,029	934	1,051	454
Others	891	926	563	587
Total Assets	**5,618**	**6,625**	**4,293**	**2,962**
Debt	**4,003**	**5,242**	**3,195**	**1,999**
Short-Term	4,003	5,242	3,195	1,999
Long-term (Incl. Current Maturity of Long-Term Debt)	-	-	-	-
Other Short-Term Liabilities	313	525	267	135
Other Long-Term Liabilities	210	207	201	210
Shareholder's Equity	**1,091**	**652**	**630**	**617**
Total Liabilities & Equity	**5,618**	**6,624**	**4,293**	**2,962**
INCOME STATEMENT				
Turnover	**8,829**	**7,427**	**4,009**	**3,278**
Gross Profit	521	319	219	136
Other Income	(14)	(3)	(45)	(13)
Financial Charges	(203)	(153)	(98)	(69)
Net Income	**80**	**23**	**13**	**1**
Cashflow Statement				
EBITDA	-	272	159	136
Free Cashflow from Operations (FCFO)	-	78	100	53
Net Cash changes in Working Capital	-	346	(19)	(122)
Net Cash from Operating Activities	-	263	6	(124)
Net Cash from InvestingActivities	-	(201)	(27)	(0)
Net Cash from Financing Activities	-	-	-	135
Net Cash Generated during the period	-	62	(22)	10
Ratio Analysis				
Performance				
Turnover Growth (for the period)	18.9%	85.3%	22.3%	38.8%
Gross Margin	5.9%	4.3%	5.5%	4.1%
Net Margin	0.9%	0.3%	0.3%	0.0%
ROE	9.2%	3.5%	2.0%	26.4%
Coverages				
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	N.A	0.5	1.0	0.8
Interest Coverage (x) (FCFO/Gross Interest)	N.A	0.5	1.0	0.8
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Term Borrowings) / FCFO)	N.A	-2.6	102.5	-12.3
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	145	211	250	106
Capital Structure (Total Debt/Total Debt+Equity)	80%	89%	84%	78%

Rating Scale

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.

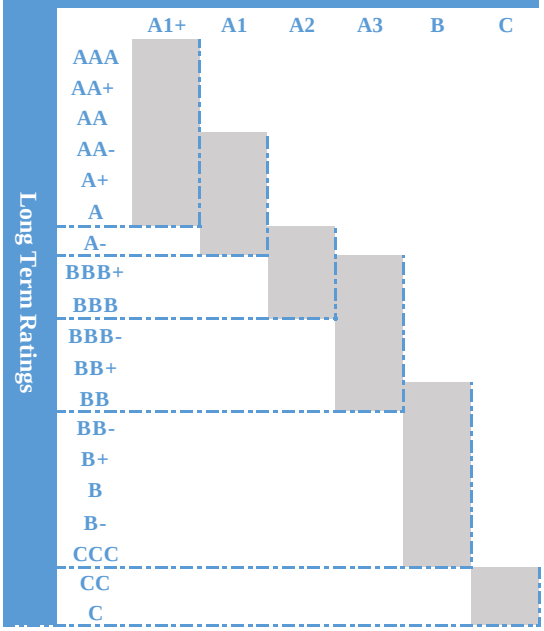
Long Term Ratings

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 Ratings

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.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.

Short Term Ratings



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 surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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