The Pakistan Credit Rating Agency Limited

Rating Report

Shujabad Agro Industries (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
11-Feb-2022	A-	A2	Stable	Maintain	-
04-Mar-2021	A-	A2	Stable	Upgrade	-
07-Aug-2020	BBB+	A2	Positive	Maintain	-
09-Aug-2019	BBB+	A2	Stable	Maintain	-
08-Feb-2019	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 ~ 5mln MT 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. 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. 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 Shujabad Agro Industries (Pvt.) Limited's established brand equity for its premium (Eva Oil) and middle tier (Maan Ghee) brands. The Company's revenue witnessed growth supported by increasing prices and volumes. This led to strong margins and profitability, as it passed on the higher costs to the end consumers. Higher demand for meal also benefitted the Company. Refined and branded edible oil segment remains competitive where volumes and margins are functions of timeliness and prudence of raw materials procurement. Shujabad follows a cautious approach for its procurement and avoids inventory pile up. The Company has a leveraged capital structure supplemented by strong coverages. Coverages have further benefited from the low interest rate scenario, whereas, the overall quantum of borrowings rose. The Company improved its working capital cycle with strong cushion for borrowings at the trade level.

The ratings are dependent on the management's ability to maintain its growing business volumes, while sustaining margins and profitability. Prudent management of working capital and maintaining strong coverages is critical.

Disclosure

Name of Rated Entity	Shujabad Agro Industries (Pvt.) 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 Shujabad Agro Industries (Pvt.) Limited ('Shujabad Agro' or 'the Company') is incorporated as a private limited company in Pakistan, since Feb 2000.

Background The Sponsors of the Company had been supplying variants of semi-refined edible oils to local refiners since 1990. In 2000, Mian Shakil Ashfaq and his friend, Mian Abdul Wahid co-founded Shujabad Agro Industries (Pvt.) Limited. Initially, the Company was extracting and supplying edible oil to B2B consumers only. Later, it entered the branded edible oil segment. The Company is competing in premium edible oil segment with 'Eva' and middle tier edible oil segment with 'Maan'.

Operations Shujabad Agro is primarily engaged in edible oilseed crushing/solvent extraction, refining, oil and ghee manufacturing and its packaging. The Company manufactures two different products (refined edible oil and meal) in four variants (cottonseed, sunflower, soybean and canola). The combined seed crushing capacity of the Company's three solvent extraction units is 225,000 MT per annum, with utilization of ~95%. The Company recently enhanced its edible oil refining capacity by 54,000 MT, making total installed capacity of 144,000 MT per annum. Whereas, Shujabad Agro's ghee manufacturing plant has an installed capacity of 30,000 MT per annum. The Company's registered office is located in P.E.C.H.S, Karachi. While, the manufacturing facility is situated at Port Qasim, Karachi.

Ownership

Ownership Structure Shujabad Agro is majorly (60%) owned by the family members of Mr. Shakil Ashfaq, out of which Mrs. Ambreen Shakil holds 45% of the shares. The remaining 40% of the shareholding resides with Ms. Bushra Asad.

Stability Major ownership resides with Mr. Shakil's family. The Sponsors have also formally executed a shareholding agreement providing clarity on succession.

Business Acumen The Sponsors through their vast experience have become reliable partner for the consumer, hotel and retail industry, by making the Company to consistently comply with the standards of high quality. The Company has successfully established its brand's position.

Financial Strength Shujabad Agro is a stable business entity. The Sponsors have substantial financial strength to support the Company, if needed.

Governance

Board Structure Shujabad Agro 's Board comprises one Non-Executive Director and one Executive Director. Lack of independent oversight indicates room for improvement in the governance framework.

Members' Profile The Board's Chairman, Mr. Shakil Ashfaq has been associated with the Company since inception and is a veteran of the industry. He was the Chairman of All Pakistan Solvent Extractors' Association (APSEA). He has served as the President of Bin Qasim Association of Trade and Industry (BQATI) and was a member of Executive Committee of Pakistan Vanaspati Manufacturers' Association (PVMA).

Board Effectiveness During FY21, the Board met informally to discuss pertinent matters and make strategic decisions, with majority attendance. Minutes of these meetings are not formally documented.

Financial Transparency Shujabad Agro external auditors, M/s Haroon Zakaria & Co. Chartered Accountants, have expressed an unqualified opinion on the financial statements of the Company for the year ended FY21. The firm has been QCR rated by ICAP and are in auditors panel 'B' of SBP

Management

Organizational Structure Shujabad Agro has structured and organized its organogram as per its operational needs. The Company operates through four divisions: Production, Finance, Marketing and Sales. All Divisional Heads report to the Company's CEO, who then makes pertinent decisions.

Management Team Shujabad Agro has experienced and professional management, with long association with the Company. The Company's CEO, Mr. Shakil Ashfaq laid the foundation of the Company. He was the Chairman of All Pakistan Solvent Extractors' Association (APSEA).

Effectiveness An Executive Committees is formally in place and meets as per requirement to discuss pertinent matters of the Company. Minutes of these meetings are documented as per requirement.

MIS To observe and evaluate the business activity, a customized software is installed to generates production sheets. These sheets are reviewed by the respective departmental heads before presenting to the CEO. However, monthly reports are also generated as per requirement.

Control Environment To ensure operational efficiency, the Company has setup an internal audit function, which implements and monitors the policies and procedures of the Company. Head of Internal Audit reports to the Company's CEO.

Business Risk

Industry Dynamics 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 ~ 5mln MT 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. 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. Raw material prices have continued to inflate amid supply uncertainties and historically low global inventory levels, along with rupee devaluation impacting importers.

Relative Position Shujabad Agro holds a share of ~2% according to total consumption. The Company also holds a sizable share in the branded edible oil segment.

Revenues Shujabad Agro generates 51% revenue by manufacturing and selling refined and branded edible oil (27%) and banaspati ghee (36%), Eva and Maan. Remaining revenue is generated by selling meal in local (32%) including export markets, and crude oil in bulk (16%). During FY21, Shujabad's top line posted a significant increase of 54% (FY20: 45%) and clocked in at PKR 30bln (FY20: PKR 19.5bln). This increase was backed by both: price and volumes. The prices of Eva Cooking and Canola Oil posted an increase of over 32% on average.

Margins Gross margins of the Company remained stable (FY21: 12%. FY20: 13%) due to an increase in the input cost after rupee devaluation. High input costs mainly relate to raw material (i.e. soybean oilseed) imported from Brazil and USA. Being in the branded edible oil segment, the Company increased its selling and marketing expenses (FY21: PKR 1.3bmln, FY20: PKR 875mln). Resultantly, the operating margins dipped slightly (FY21: 8%, FY20: 9%). Visible decrease in the Company's borrowing cost (FY21: PKR 382mln, FY20: PKR 568mln) led to stable net margins for the Company (FY21: 4%, FY20: 4%). Net income also posted a significant increase during the period (FY21: PKR 1,276mln, FY20: PKR 784mln).

Sustainability Going forward, growth in demand is anticipated in edible oil industry in the long-term. The management intends to expand its refinery operations upto 250 – 300 MT/day. The required CAPEX for this expansion would be around PKR 960mln. The decline in interest rates are expected to supplement profitability.

Financial Risk

Working Capital At Shujabad Agro, working capital is dominated by high inventory days (FY21: 72 days, FY20: 90 days). Operating with meal customers on credit with a period of 50 - 60 days, led to average debtor days of 69 days in FY21 (FY20: 57 days). Most of the raw materials i.e. oilseed are purchased on Sight LC, payable within one to two weeks (FY21: 4 days, FY20: 3 days). This led the Company's net cash cycle at 137 days in FY21 (FY20: 144 days).

Coverages Interest cover (FY21: 5.3x, FY20: 2.6x) is a function of decrease in the Company's finance cost (FY21: PKR 382mln, FY20: PKR 568mln) due to lower policy rate. The Company's free cash flows posted a surge to PKR 1,920mln (FY20: PKR 1,425mln), which improved the core and total coverage ratios as well (FY21: 5x, FY20: 2.6x).

Capitalization Shujabad Agro has a highly leveraged capital structure with debt-to-equity ratio of 66% in FY21 (FY20: 65%). The Company's total debt increased to PKR 7.5bln in FY21 (FY20: PKR 4.8bln), to procure/import raw materials (oilseed) in bulk after rupee depreciation. This is mostly short term finance facilities availed from various banks. The long-term debt stood at PKR 251mln in FY21 (FY20: 9mln), obtained to expand capacity of oil refinery.

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Financial Summary
PKR mln

	Jun-21	Jun-20	Jun-19	Jun-18
Shujabad Agro Industries Pvt. Limited				
Edible Oil	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	1,195	755	647	553
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	14,979	9,853	7,302	4,829
a Inventories	*6,608*	*5,258*	*4,354*	*2,655*
b Trade Receivables	*7,492*	*3,825*	*2,275*	*1,783*
5 Total Assets	16,174	10,608	7,950	5,382
6 Current Liabilities	4,684	3,116	1,580	693
a Trade Payables	*448*	*191*	*124*	*267*
7 Borrowings	7,480	4,779	4,475	3,159
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	128	108	70	59
10 Net Assets	3,882	2,605	1,825	1,471
11 Shareholders' Equity	3,882	2,605	1,825	1,471
B INCOME STATEMENT				
1 Sales	30,065	19,518	13,440	13,205
a Cost of Good Sold	*(26,373)*	*(16,947)*	*(11,827)*	*(11,757)*
2 Gross Profit	3,692	2,571	1,613	1,449
a Operating Expenses	(1,302)	(875)	(779)	(754)
3 Operating Profit	2,390	1,696	835	694
a Non Operating Income or (Expense)	*(218)*	*(83)*	*27*	*47*
4 Profit or (Loss) before Interest and Tax	2,172	1,613	862	742
a Total Finance Cost	*(382)*	*(568)*	*(398)*	*(277)*
b Taxation	*(514)*	*(261)*	*(110)*	*(135)*
6 Net Income Or (Loss)	1,276	784	354	329
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,920*	*1,425*	*697*	*634*
b Net Cash from Operating Activities before Working Capital	*1,521*	*856*	*366*	*370*
c Changes in Working Capital	*(3,702)*	*(899)*	*(1,389)*	*(266)*
1 Net Cash provided by Operating Activities	(2,181)	(43)	(1,024)	104
2 Net Cash (Used in) or Available From Investing Activities	(459)	(156)	(96)	(79)
3 Net Cash (Used in) or Available From Financing Activities	2,699	294	1,147	7
4 Net Cash generated or (Used) during the period	59	95	26	31
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	54.0%	45.2%	1.8%	42.9%
b Gross Profit Margin	12.3%	13.2%	12.0%	11.0%
c Net Profit Margin	4.2%	4.0%	2.6%	2.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Ca	-5.9%	2.7%	-5.2%	2.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Tc*	39.7%	34.4%	23.1%	23.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	141	147	150	117
b Net Working Capital (Average Days)	137	144	145	109
c Current Ratio (Current Assets / Current Liabilities)	3.2	3.2	4.6	7.0
3 Coverages				
a EBITDA / Finance Cost	6.8	3.3	2.4	3.1
b FCFO / Finance Cost+CMLTB+Excess STB	5.0	2.6	1.8	2.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fin	0.2	0.0	0.1	0.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity	65.8%	64.7%	71.0%	68.2%
b Interest or Markup Payable (Days)	75.4	58.0	93.9	57.6
c Entity Average Borrowing Rate	7.3%	12.5%	9.9%	7.9%

Credit Rating

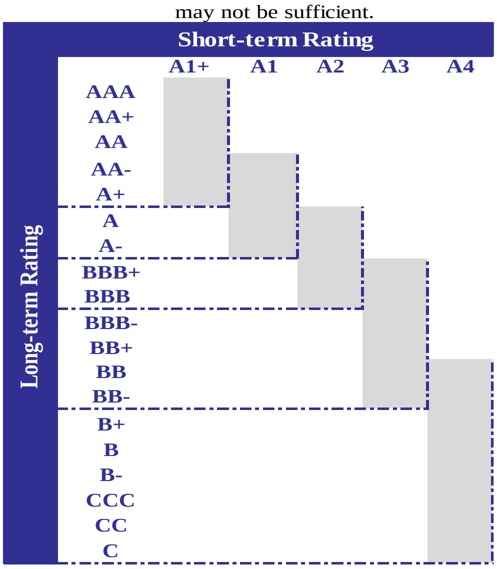
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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)
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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

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(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.
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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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(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)
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(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)
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