The Pakistan Credit Rating Agency Limited

Rating Report

Qadir Agro Industries (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Mar-2024	BB+	A3	Stable	Maintain	-
27-Mar-2023	BB+	A3	Stable	Maintain	-
18-Mar-2022	BB+	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan's edible oil industry is heavily reliant on imports since oil seed than the Edi substantially forfor~80% the of the cost of production. Edible oil is one of the highest imported commodities in Pakistan. Assuming the Genetically Engineered (GE) import ban is removed by third quarter FY23, total oilseed imports are forecasted to reach 2.6 million tons in FY24, which would be 71% higher than the estimated use for FY23. The price of Soybean oilseed stood at 1200 USD/MT in Jun23, whereas the price of Palm Oil stood at 800 USD/MT in Jun-23, forecasted to ease further. Due to the rise in input costs, especially raw material cost, many companies have experienced a reduction in their profit margins and faced working capital shortages. Total oilseed production in FY24 is projected to increase to 2.9mln Tons. Higher selling prices have increased revenues substantially for the refineries; despite the rise in input costs could not be fully covered and gross profit margins have also been reduced Future outlook look of the industry is developing due to price volatility and PKR depreciation.
The ratings indicate the Qadir Agro Industries (Pvt.) Limited’s (‘the Company’) evolving presence in both the edible oil and poultry feed sectors within the country. The Company's financial performance has remained varied over the years owing to the relatively small market share. Lately the Company has enhanced its poultry feed capacity from 15MT to 30MT per hour. The Company’s net sales increased and stood at PKR 5.6bln during FY23 (FY22: PKR 4.1bln) due to increase in prices. Whereas, net income stood at PKR 6mln during FY23 (FY22: PKR 24mln). Whereas margins remain on the lower side as gross profit margin stood at 4.1% during FY23 (FY22: 4.6%). Following this, net profit margin also decreased and stood at 0.1% during FY23 (FY22: 0.6%). Average inventory days showed improvement and stood at 62 days during FY23 (FY22: 79 days). Following this trend, net working capital days also increased and stood at 70 days during FY23 (FY22: 97 days). Interest coverage ratio decreased (FY23: 2.2 x, FY22: 2.5x) on the back of increased finance cost (FY23: PKR 73mln, FY22: PKR 52mln). The financial risk profile of the Company remains on the strong side. The Company’s debt comprises of short term borrowings that stood at PKR 758mln during FY23 (FY22: PKR 1,328mln). Being an importer of oilseeds Company remains exposed to currency risk.

The ratings are dependent on the management's ability to prudently improve margins, profitability, and financial profile of the Company. Meanwhile, strengthening governance practices will have a positive impact on the ratings. Any deterioration in debt coverages leading to higher financial risk or substantial losses will adversely impact ratings.

Disclosure

Name of Rated Entity	Qadir Agro Industries (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Edible Oil(Feb-24)
Rating Analysts	Muhammad Zain Ayaz | zain.ayaz@pacra.com | +92-42-35869504

Profile

Legal Structure Qadir Agro Industries (Pvt.) Limited ('the Company') was incorporated in July, 1987 as a Private Limited Company

Background Mr. Khawaja Mehr Baksh and his son, Mr. Khawaja Muhammad Shehzad laid the foundations of the Company by setting up a small crushing unit in the 1980s. Over the years the Company has been able to enhance its capacity and also venture into poultry feed by setting up a feed mill in Jul-2018.

Operations The Company is primarily engaged in the process of seed filtering, crushing and solvent extraction. The Company primarily sells soybean oil/meal, canola oil/meal and poultry feed. The Company has seed crushing capacity of 250 MT per day. The capacity of the poultry feed mill currently stands at 15MT per hour.

Ownership

Ownership Structure The Company's major ownership resides with Khawaja Mehr Baksh (~34%) and his sons, Khawaja Muhammad Shehzad (~33%) and Khawaja Muhammad Omer (~33%)

Stability The Company holds a stable structure as it is completely owned by the sponsoring famiky.

Business Acumen The sponsors have been involved in multiple businesses in textile, edible oil and poultry feed. The sponsors have ventured into textile by purchasing a cotton factory. The sponsors also own Roomi Industries (Pvt.) Limited, a solvent extraction unit.

Financial Strength The sponsors hold adequate net worth to support the Company in times of distress.

Governance

Board Structure The Company's BoD comprises three Executive Directors. All three directors are from the sponsoring family. Lack of independent oversight and diversity indicates a room for improvement in the Company's governance structure. The overall control of the Company vests with the Board's Chairman

Members' Profile The Board's Chairman, Mr. Khawaja Mehr Baksh, has been associated with the Company since 1987 and has an overall experience of 5 decades in textile, edible oil, and poultry feed.

Board Effectiveness The Board lacks formal sub-committees. The minutes of Board meetings are adequately documented.

Financial Transparency : The external auditors of the Company, Waqas & Co. Chartered Accountants, have expressed an unqualified opinion on the financial statements of the Company for the year ended Jun-23. The firm is not QCR rated and not on SBP's panel of auditors.

Management

Organizational Structure The Company has a linear organization structure. The Company operates through three functions: Production, Finance, Sales & Marketing. All functional managers' report to the Company's CEO. The CEO makes all pertinent decisions of the Company. As the Company's CEO is responsible for the whole unit, thus highlighting the key man risk of management.

Management Team Mr. Khawaja Muhammad Shehzad, the CEO of the Company, has over 30 years of experience in the edible oil and textile segment. He is an MBA and also looks over the Company's procurement and import of edible oil seeds.

Effectiveness There are no management committees in place. Management meets on need basis to ensure efficiency of the Company's operations.

MIS The Company's reports are mostly excel based for the management to review.

Control Environment The internal audit function of Company needs improvement.

Business Risk

Industry Dynamics Pakistan's edible oil industry is heavily reliant on imports since oil seed than the Edi substantially forfor~80% the of the cost of production. Edible oil is one of the highest imported commodities in Pakistan. Assuming the Genetically Engineered (GE) import ban is removed by third quarter FY23, total oilseed imports are forecasted to reach 2.6 million tons in FY24, which would be 71% higher than the estimated use for FY23. The price of Soybean oilseed stood at 1200 USD/MT in Jun23, whereas the price of Palm Oil stood at 800 USD/MT in Jun-23, forecasted to ease further. Due to the rise in input costs, especially raw material cost, many companies have experienced a reduction in their profit margins and faced working capital shortages. Total oilseed production in FY24 is projected to increase to 2.9mln Tons. Higher selling prices have increased revenues substantially for the refineries; despite the rise in input costs could not be fully covered and gross profit margins have also been reduced Future outlook look of the industry is developing due to price volatility and PKR depreciation.

Relative Position The Company has a market share of less than 1% in terms of revenue and production in edible oil segment.

Revenues The Company mainly generates revenue by selling poultry feed , followed by canola/soybean/rapeseed oil and meal. During FY23, the Company generated revenue of PKR 5,626mln, witnessing a increase of ~35% (FY22: PKR 4,145mln) mainly due to increasing trend in consumption during the period and also attribute to the increase in prices of feeds and edible oil. During 6MFY24, the Company's revenue stood at 2,471mln (6MFY23: 2,360mln). Going forward, the revenues are anticipated to be higher owing to sustenance of high prices of edible oil and poultry feed.

Margins The Company is exposed to foreign currency risk as soybean and canola oilseeds are imported. The import price has volatility depending on the demand and supply mechanics. During FY23, the Company's gross margin decreased YoY and stood at 4.1% (FY22: 4.6%) owing to the increase in production cost of edible oil. On operational level, The Company's margins witnessed similar trend. Operating margin stood at 3.1% in FY23 (FY22: 3.5%). At net level, the Company's net income stood at PKR 6mln during FY23 (FY22: PKR 24mln) in 6MFY24 company bottom line stood at 24mln. indicating bit improvement in profitability compared to FY23. Subsequently, the Company's net margin stood at 0.1% in FY23 (FY22: 0.6%). During 6MFY24, the Company's gross margin stood at 5.1% (6MFY23: 4.3%), while, operating profit margin and net profit margin stood at 4.1% (6MFY23: 3.4%) and 1% (6MFY23: 1%), respectively.

Sustainability The sponsors are planning to increase the capacity of the poultry feed to 30MT per hour during FY23.

Financial Risk

Working Capital The Company's working capital management is supported through short-term running finance facility obtained from commercial banks. Working capital needs arise from the Company's import of raw materials as the Company procures buffer stock for ~6-8 months depending on the prices. The Company's inventory days were kept at 62 days in FY23 (FY22: 79 days) inventory days improved due to demand of meals from poultry feeds. Receivable days have decreased to 14 days in FY23 (FY22: 26 days) due to early payment of customer and better recovery practices of the company. The Company, payable days remained stable in FY23 and stood at 7 days (FY22: 8 days) as the Company is purchasing raw material on advance basis & balance payment to vendors is being made earlier to facilitate new purchases. Overall, the Company's net cash cycle has shown improvement and stood at 70 days in FY23 (FY22: 97 days) Furthermore, the Company has limited room to borrow against short-term trade assets. During 6MFY24, the Company's net cash cycle stood at 29 days (6MFY23: 53 days).

Coverages Interest cover is a function of free cash flows and finance cost. The Company's coverages have remained adequate through the years. Free cash flows stood at PKR 161mln in FY23 (FY22: PKR 130mln). The Company finance cost increased to PKR 74mln in FY23 (FY22: PKR 52mln). As a result, interest cover stood at 2.2x in FY23 (FY22: 2.5x). The Company has not obtained any long-term debt so the core operating & total operating coverage remains the same as interest coverage ratio. During 6MFY24, the Company's coverages have remained adequate.

Capitalization The Company has highly leveraged capital structure. The debt of the Company comprises 100% short-term borrowings. Total debt of the Company stood at PKR 758mln as at FY23 (FY22: PKR 1,328mln) against an equity base of PKR 556mln (FY22: PKR 550mln). Debt to debt plus equity ratio stood at ~57.7% as at FY23 (FY22: ~71%). As at 6MFY24, the Company's debt to debt plus equity ratio stood at 0% due to zero debt.

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Financial Summary
PKR mln

Qadir Agro Industries Edible Oil	Dec-23 6M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	462	458	461	425
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	562	1,161	1,597	1,286
a Inventories	*394*	*727*	*1,191*	*605*
b Trade Receivables	*9*	*221*	*225*	*369*
5 Total Assets	1,024	1,619	2,058	1,711
6 Current Liabilities	435	257	169	202
a Trade Payables	*409*	*144*	*65*	*124*
7 Borrowings	-	758	1,328	976
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	47	11	-
10 Net Assets	589	556	550	533
11 Shareholders' Equity	580	556	550	533
B INCOME STATEMENT				
1 Sales	2,471	5,626	4,146	4,519
a Cost of Good Sold	*(2,345)*	*(5,398)*	*(3,955)*	*(4,375)*
2 Gross Profit	126	228	191	144
a Operating Expenses	(25)	(51)	(44)	(30)
3 Operating Profit	100	177	147	114
a Non Operating Income or (Expense)	*(3)*	*(7)*	*(7)*	*(4)*
4 Profit or (Loss) before Interest and Tax	98	170	140	110
a Total Finance Cost	*(48)*	*(74)*	*(53)*	*(38)*
b Taxation	*(26)*	*(90)*	*(63)*	*(48)*
6 Net Income Or (Loss)	24	6	24	25
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*93*	*161*	*130*	*61*
b Net Cash from Operating Activities before Working Capital Changes	*45*	*86*	*78*	*61*
c Changes in Working Capital	*760*	*(8)*	*(315)*	*138*
1 Net Cash provided by Operating Activities	805	79	(237)	199
2 Net Cash (Used in) or Available From Investing Activities	(4)	(39)	(78)	(7)
3 Net Cash (Used in) or Available From Financing Activities	(758)	-	351	(178)
4 Net Cash generated or (Used) during the period	42	40	37	15
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-12.2%	35.7%	-8.3%	120.5%
b Gross Profit Margin	5.1%	4.1%	4.6%	3.2%
c Net Profit Margin	1.0%	0.1%	0.6%	0.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	34.5%	2.7%	-4.4%	4.4%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	8.5%	1.2%	4.5%	4.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	50	77	105	81
b Net Working Capital (Average Days)	29	70	97	64
c Current Ratio (Current Assets / Current Liabilities)	1.3	4.5	9.4	6.4
3 Coverages				
a EBITDA / Finance Cost	2.5	2.9	3.7	2.9
b FCFO / Finance Cost+CMLTB+Excess STB	2.0	2.2	2.5	1.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	0.0%	57.7%	70.7%	64.7%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	12.4%	7.0%	6.7%	4.0%

Credit Rating

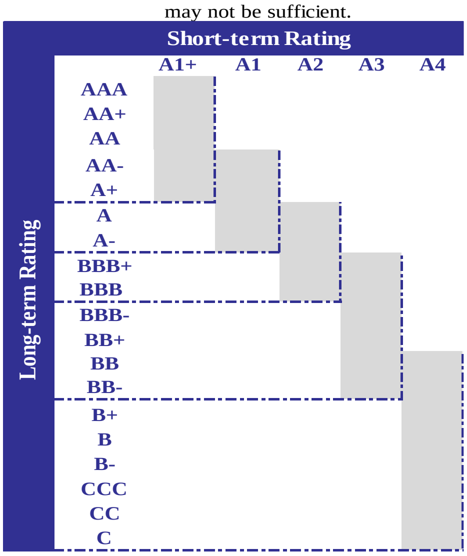
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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

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

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(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 | Clause 11-(A)(p).
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument;| Chapter III | 17-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)
Proprietary Information