The Pakistan Credit Rating Agency Limited

Rating Report

Sabirs' Vegetable Oils (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Jan-2024	BBB	A2	Stable	Upgrade	-
02-Feb-2023	BBB-	A3	Stable	Maintain	-
02-Feb-2022	BBB-	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The edible oil industry in Pakistan heavily relies on imports, with oilseeds and edible oil constituting ~80% of the production cost. Edible oil stands out as 2nd largest imported commodity in the country. It is projected that total oilseed imports will reach 2.6mln tons in FY23, marking a 71% increase. Aligned with the growth in population, the demand for edible oil is forecasted to increase by ~5%, leading to a corresponding growth in palm oil imports, expected to reach 3.6mln tons in FY24. As of June 2023, the price of Soybean oilseed was recorded at 650 USD/MT, while Palm Oil was priced at 800 USD/MT. Higher selling prices have significantly boosted revenues for refineries. However, the surge in input cost, particularly raw material, has reduced profit margins for companies, coupled with challenges related to working capital shortages. With optimistic expectations regarding improved cottonseed production, the overall oilseed production in FY24 is anticipated to rise to 2.95mln tons, reflecting a 24% increase from FY23. This development has instilled hope among local extraction units and refineries, as they will facilitate seamless operations.
Assigned Ratings to Sabirs' Vegetable Oils (Pvt.) Ltd. (referred to as 'Sabirs' Oil' or 'the Company') reflects its affiliation with the Sabirs' Group, a prominent player in the poultry industry the Company derives strength and synergies from its association with Sabroso one of the largest frozen food brand in Pakistan. The Company's key product line includes soybean meal and semi-refined oil. Soybean meal, is sold to group companies, whereas semi-refined oil is distributed in bulk. The Company operates via integrated strategy ultimately reducing customers-based risk. The company demonstrated resilience during FY23 and have shown growth in profit of ~74% YOY. This reflects the Company's ability to navigate obstacles and maintain operational efficiency. Noteworthy is the positive trend in margins observed during FY23 net margin increased by 81%. As an importer of soybean oilseed, the Company faces exposure to inherent risk associated with raw material prices and currency fluctuation. The financial risk profile of the Company showed positive trend with soaring debt. There is a notable decline of ~31% in borrowings during FY23, resulting in a decreased leverage ratio by ~18%. The working capital cycle stretched further in FY23.

The assigned ratings hinge upon the management's adept handling of the Company's liquidity and debt structure, coupled with efforts to enhance sales. A prospective enhancement in both the business and financial profiles is deemed essential. Any substantial or prolonged decline in revenues and/or coverage ratios would exert adverse effects on the assigned ratings.

Disclosure

Name of Rated Entity	Sabirs' Vegetable Oils (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-23)
Rating Analysts	Muhammad Zain Ayaz | zain.ayaz@pacra.com | +92-42-35869504

Profile

Legal Structure Sabirs' Vegetable Oils (Pvt.) Ltd. (Sabirs' Oil' or 'the Company') was incorporated in Oct-17 as a Private Limited Company under Company Act, 2017.

Background Dr. F. M. Sabir setup Sabir Group in 2005 after getting separated from Hi-Tech Group. He received Shahzor Feeds (Pvt.) Ltd, with a production capacity of 324,000MT/annum, as his share on separation. Sabir Poultry (Pvt.) Ltd was incorporated as an integrated supply chain company. The Group set up two AoP concerns, Sabirs' Feeds and Multan Feeds, currently with a production capacity of 288,000MT/annum and 400,000MT/annum, respectively. In 2015, the Group entered in the processed and packaged food market by the brand name of Sabroso. The Group's latest venture, Sabirs' vegetable Oil with a crushing capacity of 700 MT/day was set up in 2017, as a backward integration plan.

Operations Sabirs' Oil is primarily engaged in the process of seed filtering, crushing, oil extraction and refining by mechanical and chemical processes from soybean seed. During FY23, the Company utilization levels posted a dip and stood at 45% (FY22: 72%) due to import constraints and plant remained closed for 182 days, Sabir Vegetable oil has installed another plant with crushing capacity of 350 MT/day which has increased the total plant capacity to 700 MT/day due to inhouse increasing demand for soybean meal.

Ownership

Ownership Structure Major ownership resides with Dr. F.M Sabir (22.7%). Mr. F.M Sabir have five sons which collectively hold ~70.65% of the Shareholding. The remaining stake resides with two associated companies Sabirs' Poultry (Pvt.) Ltd. (3.76%) and Shahzor Feeds (Pvt.) Ltd. (2.89%).

Stability The Company is completely owned by the sponsoring family. Sabirs' Oils succession plan is not formally documented; however, the succession is planned to be effectively transmitted among his sons.

Business Acumen Dr. Sabir has been associated with the poultry supply chain for more than 40 years. He is a DVM and is experienced in the relating fields including feed production, poultry production, breeding, hatching, broiler production and processing plants.

Financial Strength Sabirs' Group of Companies comprises entities operating across the whole poultry supply chain. The Group's poultry farms and feed mill remains its main revenue generating ventures. The Group has third largest capacity for DOC standing at ~1,000,000 chicks per day and contributing towards Group financial strength.

Governance

Board Structure Sabirs' Oil's BoD comprises six Executive Directors, from the sponsoring family. Lack of independent oversight and diversity indicates a room for improvement in the governance structure.

Members' Profile The BoD is a key source of guidance for all Group Companies. The Board's Chairman, Dr. Sabir has an experience of more than 40 years in poultry and allied chain. Mr. M. Zeeshan, the eldest son of Dr. Sabir, is an Executive Director and is associated with the BoD since inception. He has an overall experience of more than 2 decades.

Board Effectiveness Board's effectiveness indicates room for improvement as it lacks committees and formal structure.

Financial Transparency The external auditors of the Company, BDO Ebrahim and Co. Chartered Accountants, have expressed an unqualified opinion on the financial statements for the year ended Jun-23. The firm is placed in 'category A of SBP' panel of auditors.

Management

Organizational Structure The organizational structure has been centralized with less efficient delegation of responsibilities. The Company operates through five functions: Production, Sales, Accounts, Audit and HR. All functional managers' report to the respective Departmental Heads who then reports to the CEO. The CEO then makes all the pertinent decisions.

Management Team Dr. Sabir, Group CEO, is a DVM with an exposure in veterinary medicine, breeding, feed production and broiler production. He is assisted by a team of professionals. Mr. Ijaz Haider, Chief Accountant, has been associated with the Group for a decade.

Effectiveness Management's effectiveness and efficiency is ensured through timely information provided at the Group level. However, there are no committees and management minutes are not prepared indicating a room for improvement.

MIS The Company has ERP-Oracle that generates reports daily. The whole data base regarding customers, ageing, sales and production is integrated into the MIS system.

Control Environment The Company has setup an internal audit function, which is headed by Mr. M. Ramzan.

Business Risk

Industry Dynamics Pakistan's edible oil industry is heavily reliant on imports since oilseeds and edible oil account for ~80% of the cost of production. Edible oil is one of the highest imported commodities in Pakistan. In line with population growth, edible oil demand is forecasted to grow about 5% and palm oil imports are forecasted to grow accordingly, reaching 3.6mln tons in FY24. The price of Soybean oilseed stood at 650 USD/MT in Jun-23, whereas the price of Palm Oil stood at 221 USD/MT in Jun-23, forecasted to ease further. Comparatively higher selling prices have increased revenues substantially for the refineries. Due to the rise in input cost, especially raw material cost, many companies have experienced a reduction in their profit margins and faced working capital shortages. With expectations for better cottonseed production, total oilseed production in FY24 is projected to increase to 2.95 million tons, 24% above than FY23. This has given local extraction units and refineries hope that import substitution will ensure smooth operations and reduce supply constraints of oilseed. The future outlook look of the industry is developing due to price volatility and PKR depreciation.

Relative Position Sabirs' Oil's holds a market share of ~15% in terms of revenue. However, the Company is positioned to grow as it partially fulfills the soybean meal demand of associates with an upward trajectory.

Revenues The Company mainly generates revenue by selling Soybean Meal (~59%), Soybean oil in bulk (~39%) and others (~2%). All of the Company's meal is sold to the Group companies as part of its integration strategy. The Company's top 10 customers generate around ~88% revenue for the Company indicating customers concentration. Currently, the Company generates revenue by selling only in the central region. During FY23, the topline posted a minor decline due to import restrictions consequently shutdown of plant for 182 days and stood at ~PKR 10.8bln (FY22 ~PKR 11.1bln).

Margins During FY23, the Company's gross margin increased and stood at 9% (FY22: ~3.6%) owing to decrease in the import cost and COGS. On operational level, the Company's margins witnessed a similar trend. Operating margin surged and stood at ~8.9% during FY23 (FY22: ~3.5%). Operating expenses remained at the same level (FY23: ~PKR 19mln, FY22: ~PKR 19mln). At net level, the Company's net income stood at ~PKR 311mln during FY23 (FY22: ~PKR 179mln) with net margin standing at ~3% during FY23 (FY22: ~1.6%).

Sustainability Sabirs' Oils operates as part of the supply chain integration strategy so to mitigate customer base risk.

Financial Risk

Working Capital The Company's inventory days increased and stood at 107 days in FY23 (FY22: 81 days). The Company's receivable days improved and stood at 8 days in FY23 (FY22: 19 days) indicating improvement by proactive collection of payment. Payable days stood constant at 1 day in FY23 (FY22: 1 days). Overall, the Company's net cash cycle increased and stood at 114 days as of FY23 (FY22: 99 days).

Coverages The Company's interest cover is a function of free cash flows and finance cost. Free cash flows increased due to increasing profitability and finance cost which stood at PKR 1,034mln in FY23 (FY22: PKR 464mln). The Company finance cost increased to PKR 631mln in FY23 (FY22: PKR 186mln). As a result, interest cover soared and stood at ~1.6x in FY23 (FY22: ~2.5x). Core and Total interest cover also remained at 1.6x each in FY23.

Capitalization The debt of the Company comprises 100% short-term borrowings. Total debt of the Company stood at PKR 3,048mln in FY23 (FY22: PKR 4,383) due to decrease in running finance availed for the purpose of working capital with an equity base of PKR 2,449mln (FY22: PKR 2,138mln). This led to decrease in leverage ratio (~54% in FY23, FY22: ~67%).

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Financial Summary
PKR mln

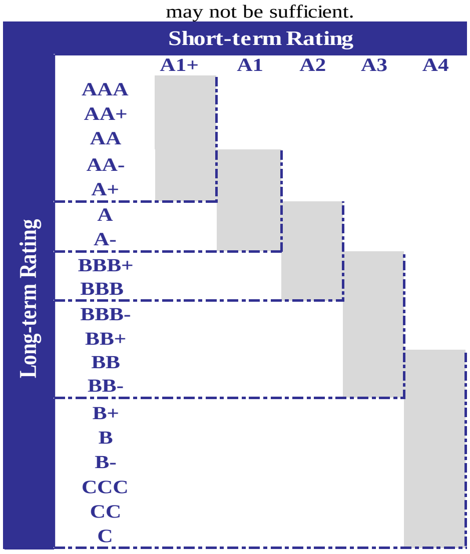
Sabirs' Vegetable Oils (Pvt.) Limited	Jun-23	Jun-22	Jun-21
Edible Oil	12M	12M	12M
A BALANCE SHEET			
1 Non-Current Assets	1,783	1,100	654
2 Investments	-	-	-
3 Related Party Exposure	34	34	15
4 Current Assets	3,919	5,641	2,849
a Inventories	*2,769*	*3,607*	*1,346*
b Trade Receivables	*36*	*420*	*744*
5 Total Assets	5,736	6,776	3,518
6 Current Liabilities	178	166	85
a Trade Payables	*49*	*14*	*34*
7 Borrowings	3,048	4,383	1,995
8 Related Party Exposure	-	-	2
9 Non-Current Liabilities	61	89	78
10 Net Assets	2,449	2,138	1,358
11 Shareholders' Equity	2,449	2,138	1,358
B INCOME STATEMENT			
1 Sales	10,860	11,135	9,079
a Cost of Good Sold	*(9,878)*	*(10,731)*	*(8,641)*
2 Gross Profit	982	404	438
a Operating Expenses	*(19)*	*(19)*	*(18)*
3 Operating Profit	963	384	420
a Non Operating Income or (Expense)	*(41)*	*(10)*	*(15)*
4 Profit or (Loss) before Interest and Tax	922	374	405
a Total Finance Cost	*(631)*	*(186)*	*(196)*
b Taxation	*20*	*(9)*	*(18)*
6 Net Income Or (Loss)	311	179	191
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*1,006*	*464*	*498*
b Net Cash from Operating Activities before Working Capital Changes	*403*	*302*	*220*
c Changes in Working Capital	*1,490*	*(2,562)*	*1,109*
1 Net Cash provided by Operating Activities	1,892	(2,260)	1,329
2 Net Cash (Used in) or Available From Investing Activities	(753)	(531)	(72)
3 Net Cash (Used in) or Available From Financing Activities	(1,343)	2,987	(1,406)
4 Net Cash generated or (Used) during the period	(204)	195	(149)
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	-2.5%	22.6%	--
b Gross Profit Margin	9.0%	3.6%	4.8%
c Net Profit Margin	2.9%	1.6%	2.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	23.0%	-18.8%	17.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	13.6%	10.3%	14.0%
2 Working Capital Management			
a Gross Working Capital (Average Days)	115	100	84
b Net Working Capital (Average Days)	114	99	83
c Current Ratio (Current Assets / Current Liabilities)	22.0	34.1	33.5
3 Coverages			
a EBITDA / Finance Cost	1.6	2.5	2.5
b FCFO / Finance Cost+CMLTB+Excess STB	1.6	2.5	2.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	55.4%	67.2%	59.5%
b Interest or Markup Payable (Days)	33.6	59.5	11.3
c Entity Average Borrowing Rate	17.0%	5.8%	9.8%

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

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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 | 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