The Pakistan Credit Rating Agency Limited

ENTITY RATINGS REPORT

TAHIR OMER INDUSTRIES (PVT.) LTD

ENTITY	RATING	OUTLOOK	ACTION	DATE
Tahir Omer Industries (Pvt.) Ltd	Long Term: BBB Short Term: A2	Stable	Initial	29-Dec-2017

RATING RATIONALE

The ratings reflect TOIL's adequate business profile. Volumetric growth in sales, on the back of recent capacity expansion. Overall gross margins squeezed mainly due to process in-efficiencies, resulting in high cost of production. However, margins are expected to improve in near future, once expansion in enhancing capacities will get streamlined, hence consolidating volumes. Lean inventory management system and related efficiencies continued to remain the competitive edge. Increased topline on account of bulk oil sale as well as management's focus on the front end sale through establishing their brand in the market would enhance the future prospects. However, being a largest importer of seeds (Canaola, soyabean) in Pakistan, there is an inherent risk involved of currency fluctuations and prices of raw material, which would lead to deteriorating margins if not capped. The financial risk profile of the company is characterized by moderate leveraging. However, TOIL's management is committed to reduce their reliance on short-term borrowings, thus resulting in reduced debt levels in next two to three years.

The ratings are dependent on the management's ability to prudently mange the liquidity and debt profile of the company, particularly working capital, while sustaining business margins. However, comfort is drawn from the company's commitment to not involve in trading of commodities. Envisaged improvement in business and financial profile along with effective changes in governance framework would be rating positive.

Report Contents

DECEMBER 2017

TAHIR OMER INDUSTRIES PVT.) LID PROFILE	
Incorporated	1992
Major business lines	▪ Manufacturing and sale of edible oil, ghee, meal and their by-products. ▪ Specializes in cooking oil (Canola & Sunflower), Banaspati Ghee & solvent extracted oil (once refined).
Legal status	Un-Listed

INDUSTRY SNAPSHOT

- Pakistan is the third largest market for cooking oil.
- Import of crude and refined cooking oil has increased to 2.6mln tons per annum.
- While, oil seeds import amounting to 2.2mln tons per annum
- Imports meets 75% of country's demand.

OWNERSHIP — ADEQUATE

- Tahir Omer Industries Private Limited (TOIL) incorporated in 1992 as a private limited company in Pakistan under the Companies Ordinance 1984. However, it is converted into a public company in 2012.
- Khalis Group of Industries has a long history spanning over 26 years. The group has initially started from manufacturing of edible oil and ghee business and later on in 2005, TOIL installed its first solvent extraction plant in Sheikhupura district.
- Majority of the shareholding of TOIL is owned by Mr. Rana Iqbal Hussain (~35%), followed by his two sons, Rana Tahir (~20%), Rana Omer (~20%) and M/s Khalis Welfare Foundation (~25%).
- The CEO & Chairman, Mr. Rana Iqbal Hussain is founder of the group, having vast experience of the international as well as local edible oil / Ghee and seeds market.

GOVERNANCE — NEEDS IMPROVEMENT

- The board is dominated by the sponsor's family. Board comprises of three members including CEO and Chairman. The board does not have any sub-committees.
- CEO/Chairman, Mr. Rana Iqbal Hussain is responsible for the overall working of the company and is instrumental in making strategic decisions for the company.
- Mr. Rana Tahir associated with the Human Resource and Administration department and oversee all the operations of the group.
- Independent oversight is lacking, indicating room for improvement in the company's governance framework as there is no independent non-executive director on the board.

MANAGEMENT — ADEQUATE

- Mr. Rana Iqbal Hussain heads the management team of the company as Chief Executive Officer.
- Mr. Rana Iqbal has done his Bachelors of Arts, and is overseeing the matters of sales, taxation, imports and legal matters on a daily basis by meeting with relevant head of departments. He has been the Chairman of Pakistan Vanaspati Manufacturing Association (PVMA) for 2015-16 term and is associated with the company since inception.
- Mr. Rana Muhammad Arif is a group CFO, is a Chartered Accountant, associated with the group since 1997.
- Key management personnel are qualified having extensive experience in the edible oil industry.

SYSTEM & CONTROLS — ADEQUATE

- TOIL deployed Microsoft Dynamics AX on a group level – as an ERP software in early 2017. Enterprise Resource Planning (ERP) system developed and implemented by Maison (certified Microsoft partner).
- The company maintains a comprehensive MIS reporting system for the management to keep track of activities. Reports including cash position, receivable position, payable position, production, inventory status reports, and segment wise profit & loss statement.
- It holds prestigious certifications i.e. United Kingdom Accreditation Service ('UKAS'), Moody International, Pakistan Standard and Quality Control Authority (PSQCA).
- TOIL is having well-equipped labs ensures the quality control for each batch and state-of-the-art machines, qualified and trained production staff helps the company ensure it produces best quality products.

BUSINESS RISK — GOOD

- During FY17, TOIL's topline increased to PKR 38,783mln (FY16: PKR 27,553mln, FY15: PKR 21,757mln).
- The company's sales mix is dominated by Banspati (Vanaspati), followed by solvent extraction and meal. However, Banaspati sales are on declining trend (FY17: 42%, FY16: 56%, FY15: 64%).
- However, the company's business margins deteriorated (gross: FY17: 6.0%, FY16: 6.2%, FY15: 5.8%); operating: FY17: 4.7%, FY16: 4.8%, FY15: 4.6%) on the back of high cost of production and factory overheads incurred during the year.
- With consistent growth in revenues over the years, profitability has increased (Net profit; (FY17 PKR 1,031mln, FY16: PKR 524mln, FY15: PKR 386mln), owing to (i) increased sales, and (ii) reduced operating expenses in proportion to increased sales. Consequently, net profit margin thus improved (FY17: 2.7%, FY16: 1.9%, FY15: 1.87%).

FINANCIAL RISK — NEEDS IMPROVEMENT

- The company manages its working capital requirements via a mix of internal generation and short-term borrowing (STB), though utilization of STB increased (FY17: PKR 8,537mln, FY16: PKR 5,849mln, FY15: PKR 3,634mln).
- Despite increased short-term borrowings, increased cash flows, coupled with reduced long-term borrowings resulted in stable interest coverage (FY17: 2.3x, FY16: 2.4x, FY15: 2.0x). However, debt coverage barely kept to 2.1x in FY17 (FY16: 2.2x, FY15: 2.0x) due to a relatively greater amount of debt payments falling due in FY17.
- Being heavily relied on short-term borrowings (STB), resulting in in increased debt / debt-plus-equity ratio to 62.1% in FY17 (FY16: 58.5%, FY15: ~50.0%).

PKR mln

Tahir Omer Industries Limited

BALANCE SHEET	30-Jun-17	30-Jun-16	30-Jun-15
	FY17	FY16	FY15
Non-Current Assets	**2,151**	**1,912**	**1,373**
Current Assets	**12,305**	**8,741**	**6,003**
Inventory	2,485	2,380	1,796
Trade Receivables	6,524	4,122	2,257
Others	3,296	2,238	1,950
Total Assets	**14,456**	**10,652**	**7,376**
Debt	**8,610**	**5,948**	**3,634**
Short-term	8,537	5,849	3,634
Long-term (incl. Current Maturity of Long-Term debt)	74	99	-
Other Short-term Liabilities	272	158	109
Other Long-term Liabilities	313	321	-
Shareholder's Equity	**5,261**	**4,226**	**3,633**
Total Liabilities & Equity	**14,456**	**10,652**	**7,376**
INCOME STATEMENT			
Turnover	**38,783**	**27,553**	**21,757**
Gross Profit	2,321	1,716	1,271
Other Income	2	1	1
Financial Charges	(504)	(377)	(324)
Net Income	**1,031**	**524**	**386**
Cashflow Statement			
Free Cashflow from Operations (FCFO)	1,169	913	645
Net Cash changes in Working Capital	(2,848)	(2,308)	(1,597)
Net Cash from Operating Activities	(2,165)	(1,742)	(1,282)
Net Cash from InvestingActivities	(401)	(351)	(193)
Net Cash from Financing Activities	2,645	2,283	1,394
Net Cash generated during the period	78	190	(81)
Ratio Analysis			
Performance			
Turnover Growth	40.8%	26.6%	13.9%
Gross Margin	6.0%	6.2%	5.8%
Net Margin	2.7%	1.9%	1.8%
ROE	19.6%	12.4%	12.7%
Coverages			
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	2.1	2.2	2.0
Interest Coverage (x) (FCFO/Gross Interest)	2.3	2.4	2.0
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest	0.1	0.2	0.0
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	72	69	60
Capital Structure (Total Debt/Total Debt+Equity)	62.1%	58.5%	50.0%

The Pakistan Credit Rating Agency Limited

STANDARD RATING SCALES & DEFINITIONS

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

Long Term Ratings		Short Term Ratings
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	**A1+:** The highest capacity for timely repayment.
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	**A1:.** A strong capacity for timely repayment.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	**A2:** A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.	**A3:** An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	**B:** The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business, and economic environment.	**C:** An inadequate capacity to ensure timely repayment.
CCC CC C	**Very high credit risk.** "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.	

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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

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'.

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, a suspended 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, or e) the entity/issuer defaults.

Regulatory and Supplementary Disclosure

Rated Entity

Name of Rated Entity	Tahir Omer Industries (Pvt.) Ltd
Sector	Food & Allied
Type of Relationship	Solicited

Purpose of the Rating: Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
29-Dec-17	BBB	A2	Stable	Initial

Related Criteria and Research: Food & Allied- Dec 2017

Methodology: Corporate Rating Methodology

Rating Analysts

Faizan Sufi
faizan.sufi@pacra.com
(92-42-35869504)

Rai Umar Zafar
rai.umar@pacra.com
(92-42-35869504)

Rating Team Statement

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

Disclaimer

Rating Shopping

PACRA maintains principle of integrity in seeking rating business.

PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information.

Conflict of Interest

PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them.

The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest

The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA

The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees

PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities

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 ii) fee mandate - signed with the payer, which can be different from the entity

PACRA ensures that the credit rating assigned to an entity or instrument should 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

Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality

PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

Prohibition

Probability of Default (PD)

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.