Khadija Edible Oil Refinery (Pvt.) Limited

CREDIT RATING REPORT | DEC-24

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Rating History

Dissemination Date	Long-Term Rating	Short-Term Rating	Outlook	Action	Rating Watch
31-Dec-24	**A-**	**A2**	**Stable**	**Initial**	**-**
28-Nov-24				Suspended	-
28-Nov-23	A-	A2	Stable	Initial	-

About the Entity

Khadija Edible Oil Refinery (Pvt.) Limited was incorporated in Dec-2005 as a Private Limited Company under the Companies Ordinance 1984. The Company is primarily engaged in the process of refining crude palm oil; producing and selling cooking oil/ghee along with shortening. The Company's majority ownership resides with group company, Waheed Hafeez Ghee Industries (Pvt.) Limited (~87%). The remaining shareholding resides with Mr. Abdul Waheed (~13%). The Company is headed by Mr. Abdul Waheed, the CEO. He is ably supported by a team of experienced professionals.

Rating Rationale

The ratings reflect Khadija Edible Oil Refinery (Pvt.) Limited's (or 'the Company') established presence across the edible oil sector including vegetable oil/ghee and shortening. The Company encompasses growing brand equity for its edible oil brands (Fauji Supreme, Islamabad, Perlli, Phool, Zeenat). The Group is presently capable of producing well over a combined 850 million tonnes of vegetable ghee and edible oil every day. The given rating is further supported by the extensive experience of its sponsors in the transport, hotel, construction, and development sectors as well. The operations of the Company are strengthened by an experienced and qualified management team. Pakistan's edible oil industry is heavily reliant on imports since oilseeds and edible oil account for ~80% of the cost of production. During the year, 2.7mln tonnes of edible oil (including oil extracted from imported oilseed) of value PKR 794bln (US $2.8bln) was imported as compared to 2.2mln tonnes in FY23. Local edible oil production remains at 0.47mln tonnes (FY23: 0.504mln tonnes). Pakistan encountered a series of significant challenges, such as widespread disease outbreaks, soaring production costs, the lack of locally grown crops like soybeans, and rising interest rates. However, the industry is expected to be stable in FY25 on account of improving macroeconomic indicators and reduced interest rates. In FY24, edible oil prices, including palm oil reduced by ~20%. However, the international and domestic prices began to follow the increasing trend. The Company has diversified its revenue streams. The Company primarily generates its revenue through the sale of vegetable oil and ghee products, which account for ~88% of total sales. This is followed by sales of shortening, contributing around 10%, and tolling income, which makes up about 3%. During FY24, the Company faced an increase of ~33% in its topline resulting from volumetric sales due to increased production. The revenues stood on the stronger side when compared with peers' universe owing to demand growth in edible oil segments. Margins are functions of timeliness and prudence of raw materials (RBD Palm oil and palm olein) procurement. The Company has demonstrated a marginal decline in its margins this year. The decline is attributed to the inflationary factor resulting in a higher cost of production. However, the Company's financial risk remains strong supplemented by strong coverages and an adequate working capital cycle. On the other side, leverage indicators continue to remain moderate on account of a slight increase in short term borrowing. The Company maintains an aggressive market strategy, relying on short-term borrowings to meet its working capital requirements. The sponsors derive substantial support from the diversity through construction and terminal business.

Key Rating Drivers

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. Brand reputation and customer retention provide support to the ratings.

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RELATED RESEARCH

- Sector Study | Edible Oil | Feb-24

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Khadija Edible Oil Refinery (Pvt.) Limited

RATING ANALYSIS

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Profile

Legal Structure Khadija Edible Oil Refinery (Pvt.) Limited ('Khadija edible oil' or 'the Company') was incorporated in Dec-2005 as a Private Limited Company under the repealed Companies Ordinance 1984 (Now Companies act 2017).

Background The Waheed Group has a mission of providing the best possible quality of vegetable ghee and edible oil products with the highest standards of production and professionalism, the Group is presently capable of producing well over 850 million tons of vegetable ghee and edible oil every day, which is the largest capacity in Pakistan. Mr. Sheikh Abdul Waheed, founder of Waheed Group of Industries ('the Group') started his business journey in the tea industry in the 1970s. Later, in 1988 he entered the edible oil industry. In 1993, the Group started its first venture Waheed Hafeez Ghee Industries (Pvt.) Limited in Hattar, KPK which currently has the capacity to produce 126,000 MT per annum of vegetable oil/ghee. The Company began its operations by setting up a solvent extraction unit in Karachi. Later, in 2014 the Group set up Fahad Hammad (Pvt.) Limited in Karachi, Sindh with a production capacity of 108,000 MT of vegetable oil/ghee. Furthermore, in 2018 the Group has also set up AK Oil and Ghee Industry (Pvt.) Limited in Hattar, KPK, which has the capacity to produce 108,000 MT of vegetable oil/ghee per annum. Neelum Oil and Ghee Industries (Pvt.) Ltd, in Mirpur. It is a private limited company engaged in the production of Ghee and Cooking oil Subsequently, the combined production of the Group in the vegetable oil/ghee industry currently stands at 450,000 MT of vegetable oil/ghee per annum.

Operations The Company is primarily engaged in the process of refining crude palm oil; producing and selling cooking oil/ghee along with shortening. Capacity utilization is dependent on the local demand and availability of crude palm oil which is primarily imported from Malaysia and Indonesia. The Company also sells shortening with an installed plant capacity of 90 MT per day. The Company produced 53,702 MT of vegetable oil/ghee in FY22 and capacity utilization stood at ~49%. Following that, the production stood at 60,836 MT during FY23 and capacity utilization increased standing at ~56%. The Company is competing in the premium edible oil segment with 'Fauji Supreme Banaspati'

Ownership

Ownership Structure The Company's majority ownership resides with group company, Waheed Hafeez Ghee Industries (Pvt.) Limited (~87%). The remaining shareholding resides with Mr. Abdul Waheed (~13%).

Stability The Company's ownership is notably stable, supported by the presence of its sponsoring family. This strong backing spans multiple economic sectors, including edible oil, hotels, Construction and development, and Terminals. Such a well-established foundation ensures the company's continued growth and stability. Moreover, the Company has a strong customer base for shortening.

Business Acumen The Group has experienced business cycles in edible oil sector and have maintained their league since 30 years. Apart from edible oil, the sponsors also have presence in the transport, hotel, and energy sectors as well.

Financial Strength The Group mainly comprises of entities operating across the edible oil segment. Apart from the Group's financial strength, the sponsors have sufficient net worth to support the Company in times of duress through other businesses including construction and terminal business.

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.

Members' Profile The BoD members are very well equipped with relevant business knowledge. Mr. Abdul Waheed has ~30 years of experience in the edible oil sector. Mr. Abdul Waheed has served as a primary liaison for many government and private agencies which includes and is not limited to Chambers of Commerce, Federations, Associations, and personal and government agencies. With sheer determination, teamwork, and vigor, Mr. Abdul Waheed has so far established 17 companies under the umbrella of Waheed Group of Companies. Mr. Awais Karni is one of the key directors of the group and has described himself as a seasoned veteran of the palm oil industry with an experience of more than 18 years and has credited himself with creating and managing various brands of cooking oil and ghee which includes our flagship premium brand, Fauji Supreme. During his adolescent years, Mr. Awais attended

Beacon House School System and, to further his education, traveled abroad and graduated from the prestigious Everest College, Canada. Ms. Rubina Kausar also have above a decade of experience and are actively managing operations.

Board Effectiveness The Board does not have any sub-committees and meets informally to discuss pertinent matters at hand.

Financial Transparency The external auditors of the Company, Nasir Javaid Maqsood Imran Chartered Accountants, have expressed an unqualified opinion on the financial statements of the Company for the year ended Jun-23. The firm has been QCR-rated by ICAP and is placed in 'category B' of SBP's panel of auditors.

Management

Organizational Structure The Company's organizational structure is designed with clear reporting lines, divided into three functions:- Production, Finance, and Sales & Marketing. Each function is overseen by its respective director or department head, who reports directly to the CEO. This structure ensures effective oversight and accountability across all areas of the company.

Management Team Khadija Edible oil's management comprises experienced professionals. Mr. Abdul Waheed- CEO, Mr. Abdul Waheed is a seasoned professional businessman with 50 years of experience in managing and maintaining an array of diverse businesses that include handling of special projects publicly and privately at senior executive levels. Mr. Abdul Waheed stepped into the cooking oil industry in 1988 and in 1993 established his own Cooking Oil & Banaspati factory by the name of Waheed Hafeez Ghee Industries. Since stepping into the Cooking Oil and Banaspati trade, Mr. Abdul Waheed has launched over 71 brands in the local and international market over the last 25 years. The Group CFO, Mr. Fawad Hassan, an FCA, has an overall experience of 23 years. His extensive experience suggests that he has been involved in diverse business environments, dealing with complex financial scenarios and adapting to the evolving needs of the Company and the industry.

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

MIS Customized software is installed which is used by the Company in order to generate standard reports.

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

Business Risk

Industry Dynamics Edible oil is one of the highest imported commodities in Pakistan. During the year, 2.717 million tonnes of edible oil (including oil extracted from imported oilseed) of value Rs 794 billion was im-ported. Local edible oil production remains at 0.471 million tonnes. In line with population growth, edible oil demand is forecast to grow about 5% and palm oil imports grew accordingly, reaching 3.6mln tons in FY24. The price of Soybean oilseed stood at 479 USD/MT in Jun-24 as compared to 591 USD/MT in the comparative year, showcasing a decrease of ~18%. On the other side, the price of Palm Oil stood at 873 USD/MT in Jun-24 and 816 USD/MT in Jun-23, forecasted to ease further. Comparatively reductions in selling prices have impacted the revenues substantially for the refineries. 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. With expectations for better cottonseed pro-duction, total oilseed production in FY24 is projected to increase to 2.95 million tons, 24% above that of FY23. The future outlook of the industry is developing due to price volatility and PKR depreciation.

Relative Position The Company being a small player in the edible oil industry of the country has a market share of ~2.3% in terms of revenue and ~3% in terms of vegetable oil/ghee production.

Revenues The Company primarily generates its revenue through the sale of vegetable oil and ghee products, which account for ~88% of total sales. This is followed by sales of shortening, contributing around 10%, and tolling income, which makes up about 3%. In FY24, the Company experienced a substantial year-on-year (YoY) growth in revenue. The top line saw an impressive increase of ~33%, reaching PKR 27 billion in FY24, compared to PKR 20 billion in FY23. This growth was primarily driven by a significant rise in sales volume, which was supported by higher production levels. Looking ahead, the Company is expected to maintain a similar growth trajectory, although the revenue growth will likely be influenced by inflationary pressures in the market. As costs continue to rise, this may impact pricing and profitability, but the overall upward trend in revenue is anticipated to persist.

Margins

The Company is exposed to foreign currency risk as RBD Palm Olein is primarily imported from Malaysia. The import price has volatility depending on the demand and supply mechanics. The company has demonstrated a substantial decline in its financial margins this year. The gross profit margin decreased to ~5.4% during FY24, compared to ~8.1% in FY23. The decline is attributed to the escalating cost of production due to the high procurement cost of imported oil. The Company needs to hedge itself for such international purchases in order to hamper against price fluctuation. This similar trend is mirrored in the operating margin, which decreased to ~4.9% from ~7% over the same period due to increased expenses, mainly administrative and general expenses in an overall inflation environment. Consequently, the net margin has also followed this downward trajectory of 1.6% (FY23: ~4.5%) followed by a dip in net income. Overall, the margins shrink due to the prevailing country situation faced by many edible oil players.

Sustainability Going forward, growth in demand is anticipated in the edible oil industry.

Financial Risk

Working capital Khadija Edible oil's working capital management is supported through short-term running finance facility obtained from a consortium of banks. The Company's inventory days were kept low at 5 days during FY24 which is considerably lower, whereas during FY23 days stood at (11 days) indicating that the Company does not procure excess inventory and sell finished stock efficiently. The Company's receivable days have slightly increased indicating reliance on credit sales. The Company's receivable days stood at 11 days in FY24 (FY23: 9 days). On the payable days side, the Company has been able to meet its obligations timely, and payable days stood at 7 days in FY24 (FY23: 10 days). Subsequently, the Company's net working capital days stood at 10 days in FY24 (FY23: 6 days).

Coverages The coverage ratios of the Company have declined as of FY24. Free cash flows decreased and stood at ~PKR 666mln during FY24 (FY23: ~PKR 988mln) due to a dip in profits. The Company's finance cost decreased to ~PKR 7mln during FY24 (FY23: ~PKR 9mln) owing to reduced interest rates. As a result, Interest cover deteriorated to 95.9x during FY24 (FY23: 110.4x). Core and total interest cover followed similar trend and stood at 1.8x each during FY24 (FY23: 2.8x).Moreover, debt payback stood at (0.6x) days during FY24.

Capitalization The debt of the Company comprises ~98.4% short-term loan - running finance - availed for the purpose of working capital. Total debt of the Company stood at ~PKR 2,460mln as of FY24 (FY23: ~PKR 1,965mln) against an equity base of ~PKR 2,807mln (FY23: ~PKR 2,359mln) due to improved unappropriated profits. As a result, debt to debt plus equity ratio remains moderate and stood at ~46.7% as of FY24 (FY23: ~45.4%).

Khadija Edible Oil Refinery (Pvt.) Limited

FINANCIAL SUMMARY (PKR mln)

	Jun-24 12M	Jun-23 12M	Jun-22 12M
A. BALANCE SHEET			
1. Non-Current Assets	381	323	353
2. Investments	0	0	0
3. Related Party Exposure	2,820	2,411	1,416
4. Current Assets	4,071	3,430	1,910
a. Inventories	464	358	388
b. Trade Receivables	889	799	177
5. Total Assets	7,272	6,163	3,679
6. Current Liabilities	1,992	1,831	863
a. Trade Payables	289	707	376
7. Borrowings	2,460	1,965	1,398
8. Related Party Exposure	0	0	0
9. Non-Current Liabilities	13	8	0
10. Net Assets	2,807	2,359	1,419
11. Shareholders' Equity	2,807	2,359	1,419
B. INCOME STATEMENT			
1. Sales	27,512	20,677	14,586
a. Cost of Good Sold	(26,033)	(19,011)	(13,940)
2. Gross Profit	1,479	1,666	646
a. Operating Expenses	(137)	(215)	(51)
3. Operating Profit	1,342	1,451	595
a. Non Operating Income or (Expense)	(88)	(68)	0
4. Profit or (Loss) before Interest and Tax	1,254	1,383	595
a. Total Finance Cost	(11)	(13)	(3)
b. Taxation	(795)	(429)	(291)
6. Net Income Or (Loss)	448	940	301
C. CASH FLOW STATEMENT			
a. Free Cash Flows from Operations (FCFO)	666	988	368
b. Net Cash from Operating Activities before Working Capital Changes	650	962	345
c. Changes in Working Capital	(450)	(354)	508
1. Net Cash provided by Operating Activities	201	608	854
2. Net Cash (Used in) or Available From Investing Activities	(407)	(1,662)	(873)
3. Net Cash (Used in) or Available From Financing Activities	495	1,272	209
4. Net Cash generated or (Used) during the period	289	218	190
D. RATIO ANALYSIS			
1. Performance			
a. Sales Growth (for the period)	33.1%	41.8%	43.6%
b. Gross Profit Margin	5.4%	8.1%	4.4%
c. Net Profit Margin	1.6%	4.5%	2.1%
d. Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	0.8%	3.1%	6.0%
e. Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	17.3%	49.8%	23.7%
2. Working Capital Management			
a. Gross Working Capital (Average Days)	17	15	17
b. Net Working Capital (Average Days)	10	6	6
c. Current Ratio (Current Assets / Current Liabilities)	2.0	1.9	2.2
3. Coverages			
a. EBITDA / Finance Cost	189.0	160.8	384.7
b. FCFO / Finance Cost+CMLTB+Excess STB	1.8	2.8	1.1
c. Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.6	0.4	1.0
4. Capital Structure			
a. Total Borrowings / (Total Borrowings+Shareholders' Equity)	46.7%	45.4%	49.6%
b. Interest or Markup Payable (Days)	1316.5	561.8	2172.1
c. Entity Average Borrowing Rate	0.3%	0.5%	0.1%

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RATING SCALE