Press Release

VIS Assigns Initial Entity Ratings to Unity Foods Limited

Karachi, October 1, 2019: VIS Credit Rating Company Limited (VIS) has assigned initial entity ratings of 'A-/A-2' (A-minus /A-Two) to Unity Foods Limited (UFL). The long-term rating of 'A-' signifies good credit quality; Protection factors are adequate, Risk factors may vary with possible changes in the economy. The short-term rating of 'A-2' signifies good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small. Outlook on the assigned ratings is 'Stable'.

Ratings derive strength from established track record of sponsors in the edible oil business and association with Wilmar International Limited, one of Asia's leading agribusiness groups, which is an indirect shareholder in UFL. The assigned ratings also reflect sizeable growth in UFL's sales in the last two years, ongoing capex to enhance value addition in manufacturing operations, projected improvement in financial profile post capex completion and positive demand prospects for edible oil in the domestic market. Business risk profile is supported by diversification into animal feed sales which have gained significant traction and account for ~25% of UFL's revenue. Despite increase in borrowings, leverage indicators have remained manageable on account of a sizeable equity base. However, limited funds generated from operations are a constraint on the company's liquidity profile.

High business risk characterized by the edible oil industry in Pakistan is key rating driver. Pakistani edible oil industry is divided into two segments; the first comprises a few large players in the organized sector having sizeable individual capacities targeting the middle and high income groups and enjoying strong brand equity. The other but larger segment is highly fragmented and caters to middle and lower income groups. Edible oil industry is highly fragmented and characterized by intense competition and low margins. Business risk relates to management of foreign exchange and price volatility risks in imported raw material procurement.

As part of a planned strategy, UFL has pivoted its product portfolio towards the popular and discounted customer segments. Accordingly, achieving volumetric growth in these segments is the core focus area of the company. In order to achieve envisaged business growth, the company completed acquisition and commenced operations of a 500 MT per day capacity Crude Palm Oil refinery at Port Qasim during ongoing year. Going forward, in order to realize its long-term vision of integrating the business value chain, UFL is undertaking various additions to its manufacturing facilities and planning to establish an oil storage terminal. The capex has been funded through a rights issue of Rs. 3.75b which concluded in May 2019. The ongoing projects are envisaged to improve liquidity and financial profile of UFL through integration, lower costs and tax benefits (under Section 65E of Income Tax Ordinance) resulting in higher margins. Going forward, timely project completion and realization of projected financial indicators would be the key rating sensitivities while efficient working capital management is also considered important.

For further information on this rating announcement, please contact the undersigned (Ext: 201) or Mr. Jamal Abbas Zaidi (Ext: 207) at 021-35311861-71 or fax to 021-35311872-3.

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Applicable Rating Criteria: Industrial Corporates (April 2019)
http://www.vis.com.pk/kc-meth.aspx