Press Release

VIS Reaffirms Entity Ratings of Unity Foods Limited

Karachi, November 13, 2020: VIS Credit Rating Company Limited (VIS) has reaffirmed entity ratings of Unity Foods Limited (UFL) at 'A-/A-2' (A-minus /A-Two). 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'. The previous rating action was announced on October 1, 2019.

The assigned ratings incorporate sound profile and established track record of the sponsors in the edible oil business and affiliation with Wilmar International Limited (Singapore), one of Asia's leading agribusiness groups, which is a shareholder in the company. As per the latest shareholding pattern, total equity stake of Wilmar International (held through Unity Wilmar Agro Private Limited (UWA) and Wilmar Pakistan Holdings PTE Ltd. (WPH)) in UFL accumulates to 23.5%. The assigned ratings take into account 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.

High business risk characterized by the edible oil industry in Pakistan is a key rating driver. Pakistani edible oil industry is broadly segregated into two segments; the first segment 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. On overall basis, Pakistani edible oil industry is characterized by high competitive intensity due to fragmentation and low barriers of entry which results in limited pricing power and thin profitability margins. No single entity commands double digit market share in the industry indicates the extent of fragmentation in the industry. Changes in raw material prices (resulting in inventory losses) and foreign exchange rate fluctuations are other key business risk factors.

Assessment of the financial risk profile indicates that sales of the company have depicted sizeable growth in FY20 primarily on account of volumetric increase. Decrease in global commodity prices and inventory losses due to rupee devaluation resulted in lower gross margins. Overall bottom-line was also reported lower on account of increasing finance costs due to higher utilization of debt and increase in selling and distribution expenses. With recovery in margins, profitability has witnessed improvement during Q1'FY21 in comparison to the corresponding period in the preceding year. Continuity of improvement in profitability metrics is considered important from ratings perspective.

Leverage indictors increased in FY20 on account of increase in short term borrowings to fund working capital requirements. However, subsequent improvement has been noted in the leverage indicators due to increase in equity base on account of a rights issue amounting to Rs. 4.5b. Ratings remain dependent upon effective working capital management and maintenance of leverage indicators in line with the assigned ratings. Liquidity profile is constrained as the entire edible oil industry is subject to import stage taxation on raw material. Improvement in internal cash generation to support the liquidity profile is considered important from ratings perspective.

For further information on this rating announcement, please contact Mr. Javed Callea (Ext: 201) or Mr. Narendar Shankar Lal (Ext: 203) at 021-35311861-71 or email at info@vis.com.pk.

Faheem Ahmad
CEO

Applicable Rating Criteria: Industrial Corporates (April 2019)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf