

Press Release

VIS Maintains Entity Ratings of Unity Foods Limited

Karachi, August 30, 2022: VIS Credit Rating Company Limited (VIS) has maintained the entity ratings of Unity Foods Limited (UF) at 'A/A-2' (Single A/A-Two). The medium to long-term rating of 'A' denotes good credit quality; protection factors are adequate. Moreover, risk factors are considered variable if changes occur 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 has been revised to 'Negative' from 'Stable'. The previous rating action was announced on April 29, 2021.

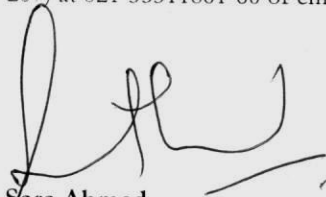
The ratings assigned to UF takes into account high business risk profile of local edible oil industry characterized by highly competitive intensity due to fragmentation and low barriers to entry resulting in limited pricing power and thin profitability margins. The operating dynamics of the industry further include foreign exchange and price volatility risks in imported raw material procurement. The assigned ratings also incorporate established track record of sponsors in the edible oil business, market position, significant brand recognition and favorable demand prospects for edible oil in the domestic market.

Assessment of financial risk profile incorporates both volume and price driven increase in topline, upbeat margins, satisfactory profitability and adequate liquidity indicators coupled with leveraged capital structure. The margins increased during the outgoing year due to international increase in oil prices and focus of the Company on high margin segment. Overall liquidity profile is expected to come under pressure due to limited funds generated from operations and extended working capital cycle which requires utilization of short-term borrowing.

Revision in outlook takes into account elevated business risk of the sector and projected stress on liquidity given sharp reversal in edible oil prices contributing to inventory losses coupled with FX losses owing to currency volatility. In addition, despite raising equity through right issue, the Company has not been able to curtail short term borrowing that will impact liquidity. Hence, with higher inflationary environment and rising interest rates, profitability metrics and cash coverages may come under pressure.

The Company is currently undertaking capital expenditure for back process integration through commencement of additional Oil Refinery and development Oil Storage terminal; the same would result in both increased nameplate capacity and improved operational efficiencies through cost rationalization. Going forward ratings will remain dependent upon achievement of projected plans, maintenance in margins, cash flow coverages and capitalization indicators.

For further information on this rating announcement, please contact Ms. Syeda Batool Zehra Zaidi (Ext. 210) or the undersigned (Ext: 207) at 021-35311861-66 or email at info@vis.com.pk.



Sara Ahmed
Director

Applicable rating criterion: Corporates (August 2021)
<https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf>

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