

Press Release

VIS Reaffirms Entity Rating of Unity Foods Limited

Karachi, November 1, 2023: VIS Credit Ratings Company Ltd. (VIS) has reaffirmed entity ratings of 'A/A-2' (Single A/A-Two) of Unity Foods Limited ("UFL" or "the Company"). Medium to long term rating of 'A' signifies good credit quality with adequate protection factors. Risk factors may vary with possible changes in the economy. Short term ratings of 'A-2' denotes 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 'Negative'. Previous rating action was announced on August 30, 2022.

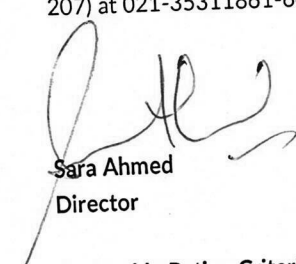
Unity Foods Limited (UFL) was established in Pakistan in 1991 as a private limited company and was subsequently converted into a public limited company on June 16, 1991. The primary business activity of the Company has transitioned from yarn manufacturing to encompass edible oil extraction, refining, and related operations. The Company also produces industrial fats, and various feed ingredients for the poultry and livestock sector.

Ratings reflect business risk profile of the industry that UFL primarily operates in which is characterized by high levels of business risk. This mainly stems from the sensitivity of profitability to fluctuations in foreign exchange rates and international commodity prices. Furthermore, the edible oil industry is highly competitive, with fragmented market dynamics and low entry barriers. However, ratings draw comfort from the Company's decision to convert its supply credit facilities into PKR-denominated lines, effectively reducing the impact of the exchange risk factor. Moreover, assigned ratings take into account, UFL strong sponsor, Wilmar International Limited (WIL). WIL is a prominent conglomerate in Asia which provides both financial and technical support to UFL.

Maintenance of rating outlook takes into account constraints in overall profitability. Despite improved gross margins and revenue growth in FY23, operating and net margins were adversely impacted by substantial exchange losses and higher financing costs against increased debt utilization. Elevated working capital requirements, stemming from its recent expansions as well as the support extended to its Subsidiary, were financed by additional short-term debt. Consequently, leading to pressure on its capitalization and liquidity profile. However, healthy debt servicing capacity continues to provide comfort to overall ratings.

Going forward, ratings remain sensitive to materialization of projected plans on the back of aggressive expansions undertaken by the Company in recent years. Improvement in margins together with maintenance of capitalization profile and debt coverages will remain critical rating drivers for assigned ratings.

For further information on this ratings announcement, please contact Mr. Saeb Muhammad Jafri (Ext: 202) or the undersigned (Ext: 207) at 021-35311861-64 or email at info@vis.com.pk.


Sara Ahmed
Director

Applicable Rating Criteria:

Industrial Corporates (May 2023)

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

VIS Issue/Issuer Rating Scale

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

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