The Pakistan Credit Rating Agency Limited

ENTITY RATINGS REPORT

ISMAIL INDUSTRIES LIMITED

ENTITY	RATING	OUTLOOK	ACTION	DATE
Ismail Industries Limited (IIL)	Long Term: A Short Term: A1	Stable	Initial	30th December 2017

RATING RATIONALE

Ismail Industries Limited (IIL) is one of the leading confectionary, snacks and biscuit manufacturing company. The ratings reflect IIL's strong presence in the confectionary industry in particular and in packaged food industry in general. Growing middle class coupled with company's expansion related investments led to doubling of revenues in last 5 years. Ratings also take comfort from the company's related diversification of plastic film manufacturing units which itself is one of the leading plastic film manufacturing unit. IIL has a diverse product range delivered through a strong deep rooted distribution network all over the country. Bisconni – Biscuit Brand, is now the leading food segment of the company with 34% share in total revenues closely followed by Candyland with 31% share. In FY17, the company converted some of its short term loan into long term which led to decreased finance cost and hence better profitability. Better profitability coupled with lower finance cost led to better coverages YoY. The ratings also incorporate the company's its strategic investment in The Bank of Khyber. IIL has a leveraged capital structure due to procurement of expansion related debt.

The Ratings are dependent on upholding of the Company's business as well as financial risk profile. The company plans to further increase its product lines by introducing new products to the market. Prudent management of this expansion related debt to meet its financial obligations will remain a key factor for going forward any rating movement

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DECEMBER 2017

ISMAIL INDUSTRIES LIMITED PROFILE	
Incorporated	1988
Major business lines	▪ Confectionary, Biscuits, Snacks and Packaging material
Legal status	Listed
Head office	Karachi

INDUSTRY SNAPSHOT

- Pakistan's confectionary, Snacks and Biscuit industry is of ~130bln
- Candyland is the leading market player in Confectionary industry followed by Halal Foods and volka foods.
- Fritolays – Lays, is the market leader in snacks industry followed by United snacks - and SnackCity.
- EBM, LU and Bisconni are three largest biscuit manufacturers of the industry with EBM being market leader.

OWNERSHIP — GOOD

- Ismail Industries Limited (IIL) is a listed confectionary company incorporated in 1988 by Mr. Muhammad Ismail with his brothers.
- Ismail Industries is majorly owned by Ismail Family. Three brothers through their family owns 98.8% shareholding of the company.
- Mr. Muhammad Ismail – chairman of the company and Miftah Ismail directly owns 29.24% and 30.91% whereas wife of third brother Maqsood Ismail – Ms. Almas Maqsood owns 32.59% shares of the company.
- Mr. Muhammad Ismail, elder of the three brothers, is the chairman of the board and leads Ismail group as well. He has done his B.S. in Industrial Engineering from the University of Florida, USA in 1974.

GOVERNANCE — ADEQUATE

- The board is dominated by the Ismail family. The board comprises of total 9 members including CEO. The board has three executive members and five non-executive members and one independent director
- Board members have significant industry experience as Ismail Family is involved in the confectionary business for decades.
- The board has formed two committees Audit committee and Human Resource Committee. Audit Committee is chaired by an independent director – Mr. Zubair Motiwala.

MANAGEMENT — GOOD

- Mr. Munsarim Saifullah – close associate of the sponsors heads the management team of the company as Chief Executive Officer.
- Mr. Munsarim Saifullah has done his Bachelors of Engineering from N.E.D. University of Engineering and Technology, Karachi. He has been associated with the company since the start of the operations.
- IIL has broad management structure comprising many divisions but mainly it has 5 division which includes i) Bisconni & SnackCity (ii) Candyland (iii) Plastic Segment (iv) Finance & Accounts and (v) Supply Chain.
- Mr. Hamid Ismail s/o Maqsood Ismail and Mr. Ahmed Ismail s/o Mr. Muhammad Ismail leads Bisconni & SnackCity Division and Candyland Division respectively.

SYSTEM & CONTROLS — GOOD

- IIL maintains good IT infrastructure and related controls. The company has in house software but it is in the process of installing SAP. The company plans to install all modules except HR module of SAP by mid-2018.
- The company maintains a comprehensive MIS reporting system for the management to keep track of activities.
- IIL has good quality control systems and all products of Candyland, Bisconni and SnackCity are ISO 22000 certified. The company has availed Halal certifications from SANHA.

BUSINESS RISK — GOOD

- IIL has a diverse product portfolio. It has primarily four segments under which many products are sold. Candyland is the premium and first segment of the company. Since the launch of Candyland it has become market leader in confectionary industry. Candyland represents 31% of its total revenue.
- Bisconni sales increased YoY representing 34% of total sales as compared to 28% in previous year. Bisconni sales are mainly derived by Cocomo (30% of Bisconni Sales) and Chocolato (24.4% of Bisconni Sales) which have no direct competitor in market.
- IIL's plastic segment produces CPP, BOPET films which are mainly used in packaging material. IIL is the only manufacturer who provides both CPP and BOPET films. IIL majorly sells to industrial customers with high top ten concentration of 32%.
- IIL managed to increase its overall revenue by 13% keeping its gross margins largely at same lever (FY17: 18.9%, FY16: 18.3%) on the back of increased Bisconni Sales.
- Income from other sources and share of profit from its associates - The Bank of Khyber also constituted about 50% of total bottom line. Overall IIL's net profit increased by 16% and stood firm at PKR 1,166mln (FY16: 1,002mln).
- During 1QFY18, IIL continued its QoQ growth by registering 11% growth in its total revenues. Decreasing finance cost and improved revenues helped IIL to book higher net profit (1QFY18: 282mln; 1QFY17: 266mln).
- Going forward, IIL is planning for further expansion in all of his segments. Continuing its tradition of introducing new products and being a market leader in confectionary industry it plans to launch its first Cake product under Candyland brand.

FINANCIAL RISK — ADEQUATE

- The company meets its working capital needs from a mix of internal cash flow generation and short term borrowing.
- The company has started to deal with its customers on cash basis which led to decrease in net cash cycle (1QFY18: 103days, FY17: 105days, FY16: 117days).
- Increased revenue and profitability led to increase in FCFO however, due to excessive borrowing coverages remained low despite slight improvement YoY (1QFY18: -0.3x FY17: 0.9x, FY16:0.56x).
- IIL during the year converted some of its short term debt into long term and borrowed more for long term in order to finance its expansion which increased overall leverage of the company (1QFY18: 62.7%, FY17: 63.8%, FY16: 61.78%).

PKR mln

ISMAIL INDUSTRIES LIMITED

BALANCE SHEET	30-Sep-17	30-Jun-17	30-Jun-16	30-Jun-15
	1QFY18	FY17	FY16	FY15
Non-Current Assets	**10,560**	**10,430**	**8,035**	**4,420**
Investments (incl. Associates)	**3,946**	**3,926**	**4,310**	**3,178**
Equity	3,946	3,926	4,310	3,178
Debt Securities (incl. income funds)	-	-	-	-
Current Assets	**7,650**	**7,883**	**8,259**	**6,678**
Inventory	4,617	4,864	5,750	5,196
Trade Receivables	1,444	1,443	1,182	779
Others	1,589	1,577	1,327	703
Total Assets	**22,156**	**22,239**	**20,604**	**14,276**
Debt	**12,086**	**12,635**	**11,128**	**8,001**
Short-term	3,372	3,783	4,448	4,040
Long-term (incl. Current Maturity of Long-Term debt)	8,714	8,851	6,680	3,961
Other Short-term Liabilities	1,591	1,217	1,774	1,050
Other Long-term Liabilities	1,289	1,213	800	648
Shareholder's Equity	**7,189**	**7,174**	**6,901**	**4,577**
Total Liabilities & Equity	**22,156**	**22,239**	**20,604**	**14,276**

INCOME STATEMENT				
Turnover	**4,926**	**19,605**	**17,008**	**12,242**
Gross Profit	1,186	3,721	3,109	2,476
Other Income	88	516	541	221
Financial Charges	(178)	(671)	(798)	(730)
Net Income	**282**	**1,166**	**1,002**	**640**

Cashflow Statement				
Free Cashflow from Operations (FCFO)	632	2,285	2,155	1,488
Net Cash changes in Working Capital	(859)	273	(433)	8
Net Cash from Operating Activities	(419)	2,262	1,157	992
Net Cash from InvestingActivities	(333)	(3,145)	(2,237)	(2,686)
Net Cash from Financing Activities	752	838	1,110	1,700
Net Cash generated during the period	0	(45)	31	5

Ratio Analysis				
Performance				
Turnover Growth	11.9%	15.3%	38.9%	13.6%
Gross Margin	24.1%	19.0%	18.3%	20.2%
Net Margin	5.7%	5.9%	5.9%	5.2%
ROE	15.7%	16.3%	14.5%	14.0%
Coverages				
Debt Service Coverage (x)	-0.3	0.9	0.6	0.8
Interest Coverage (x)	3.6	3.4	2.7	2.0
Debt Payback	4.8	5.5	4.9	5.2
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	103	105	117	163
Capital Structure (Total Debt/Total Debt+Equity)	62.7%	63.8%	61.7%	63.6%

CREDIT RATING
SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.
AA+ **AA** **AA-**	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ **A** **A-**	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ **BBB** **BBB-**	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ **BB** **BB-**	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ **B** **B-**	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC **CC** **C**	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short Term Ratings

A1+: The highest capacity for timely repayment.

A1:. A strong capacity for timely repayment.

A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.

A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Outlook (Stable, Positive, Negative, Developing)
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information

Regulatory and Supplementary Disclosure

Name of Rated Entity	Ismail Industries Limited
Sector	Food & Allied
Type of Relationship	Solicited
Purpose of the Rating	Independent Risk Assessment
Related Criteria and Research	
Rating Methodology	Corporate Rating Methodology

Rating Analysts

Muhammad Hassan
muhammad.hassan@pacra.com
(92-42-35869504)

Rai Umar
nadeem@pacra.com
(92-42-35869504)

Rating Team Statement

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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Rating Shopping

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PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

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