



The Pakistan Credit Rating Agency Limited

## Rating Report

### Ismail Industries Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
09-Dec-2022	A+	A1	Stable	Upgrade	-
10-Dec-2021	A	A1	Stable	Maintain	-
14-Dec-2020	A	A1	Stable	Maintain	-
27-Dec-2019	A	A1	Stable	Maintain	-
28-Jun-2019	A	A1	Stable	Maintain	-
31-Dec-2018	A	A1	Stable	Maintain	-
29-Jun-2018	A	A1	Stable	Maintain	-
30-Dec-2017	A	A1	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The confectionery, biscuits, and snacks industry in Pakistan is highly price elastic and has a major emphasis on mass marketing. Pakistan has a large retail base though it is highly fragmented and dominated by small retailers, competing in terms of location, personal relationships and product ranges etc. However, a major shift has been observed with the opening of a growing number of large retail chains, especially in metropolitan cities. Growth in the urban middle class and an increase in personal disposable income have improved the consumption pattern and influx of branded non-essential items.

The ratings reflect Ismail Industries Limited's ('Ismail Industries' or 'the Company') diversified revenue stream emanating from well-established brands - Candyland, Bisconni, Snackcity, Ismail Nutrition, and Astro Films. This provides a competitive advantage to the Company. Ismail Industries has been able to sustain growth trajectory owing to a substantial increase in both, local and export market sales. This coupled with capacity enhancements has supported the Company's topline. Despite cost-push inflation and rupee devaluation, margins remain supplemented with sustained profitability. Moreover, stable share of profit from associated companies provides support to the Company's bottom line. Ismail Industries envisions becoming a self-sustaining entity by vertically integrating and setting up a flour and cereal plant. Moreover, lately, the introduction of new food products indicates a strong business profile of the Company. Ismail Industries maintains a strong financial risk profile. The capital structure is considerably leveraged; however, major borrowings remain from SBP at subsidized rates. The Company's working capital management and coverages remain strong.

The ratings are dependent on continued revenue growth and maintenance of margins. Prudent management of expansion and investment-related debt in order to meet financial obligations is important. Stringent controls on the Company's debt levels remain imperative for sustaining the ratings. Any significant decline in coverages and/or erosion of margins may adversely impact the ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Ismail Industries Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Food Products(Dec-21)
<b>Rating Analysts</b>	Faiqa Qamar   faiqa.qamar@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Founded in 1988, Ismail Industries Limited ('ISIL' or 'the Company') was incorporated as a public listed company in 1989.

**Background** The Company was founded by Mr. Muhammad Ismail along with his brothers. 'Candyland', which operates in the confectionary segment, is the flagship brand of the Company. In addition, the Company operates in biscuits, snacks, nutritional products and plastic segments under the brands 'Bisconni', 'Snackcity', 'Ismail Nutrition' and 'Astro Films' respectively.

**Operations** ISIL's head office is located in Karachi, while production facilities are located in Hub, Port Qasim and Sundar. The Company has total production capacity of 246,288 MT. Utilization levels for FY22 stood at ~57%.

## Ownership

**Ownership Structure** Major shareholding of the Company lies with the Ismail Family (~99%) through Mr. Muhammad Ismail (~16%), Mr. Miftah Ismail (~31%), Ms. Almas Maqsood, wife of Maqsood Ismail, (~30%), Mr. Ahmed Muhammad (~15%) and associates (~7%). The remaining shareholding is held by the general public.

**Stability** The ownership structure is stable as the Ismail family owns majority shares of the Company. Mr. Muhammad Ismail has been leading the Company for several years and has vast experience in the industry.

**Business Acumen** The sponsors have been operating in the industry for over three decades and have very strong industry knowledge.

**Financial Strength** In addition to being a major player in the confectionery, biscuits and snacks industry, the Group has interests in plastic films and wind power sectors.

## Governance

**Board Structure** The Company's Board of Directors is dominated by the sponsoring family and consists of seven members, including the Chairman, two non-executive directors, two executive directors, and two independent directors.

**Members' Profile** The Board members have strong profiles and specialize in diverse fields such as industrial engineering and economics, in addition to having strong knowledge of the confectionery, biscuits, and snacks industry.

**Board Effectiveness** There are two Board committees, namely HR and Remuneration Committee, and Audit Committee. Minutes of the meetings were well recorded and reflected adequate participation and discussion from members including independent directors.

**Financial Transparency** Grant Thornton Anjum Rehman Chartered Accountants are the external auditors of the Company. They gave an unqualified opinion on the Company's financial statements for the year ended June 30, 2022.

## Management

**Organizational Structure** The Company has a well-defined organizational structure. Functions such as Accounts & Finance, HR, IT, and Supply Chain are common to the entire organization while Sales and Marketing departments are specific for each brand.

**Management Team** Mr. Munsarim Saifullah is the Group CEO. A close associate of the sponsors, he has been involved with the Company since its inception. He has significant experience in production and engineering. Mr. Saifullah is aided by a team of experienced professionals.

**Effectiveness** The Company has no management committees in place. However, members of the senior management regularly communicate and discuss ongoing issues and upcoming plans relating to relevant brands and management functions.

**MIS** The Company has installed SAP to streamline the flow of information within the Company.

**Control Environment** All of the Company's products are ISO 22000 certified and have received Halal certifications from SANHA. The Company has an effective internal audit department that reports to the Audit Committee.

## Business Risk

**Industry Dynamics** The confectionery, biscuits and snacks industry in Pakistan is largely dominated by domestic players and is highly price elastic. Distinction between products lies in mass marketing. Pakistan has a large retail base though it is highly fragmented and dominated by small retailers. However, a major shift has been observed with the opening of a growing number of large retail chains especially in the major cities where a higher concentration of middle and upper-income class exists. Growth in the urban middle class and increase in personal disposable income in these cities have slowly but steadily improved the consumption pattern and welcomed the influx of branded non-essential items and luxury goods.

**Relative Position** Ismail Industries Ltd is one of the leading players in the industry. Its flagship brand 'Candyland' is the market leader in the confectionery segment. The 'Bisconni' brand is the third largest in the biscuit segment, while 'Snackcity' is one of several players in the snacks segment who trail the market leader 'Lays'. 'Astro Films' is a major player in the film packaging segment.

**Revenues** The Company earns its revenue from two segments - food (~77%) and plastic films (~23%). While, majority of the top line is derived from local sales (FY22: ~77%, FY21: ~85%), overall export sales also witnessed a significant rise (FY22: PKR 15bln; FY21: PKR 6bln). Consequently, during FY22, sales revenue stood at PKR 55bln (FY21: PKR 37bln). Quarterly sales stood at PKR 19bln (1QFY22: PKR 12bln), attributable mainly to increase in food segment sales (1QFY23: PKR 15bln; 1QFY22: PKR 9bln). This is due to higher price points for newly launched products.

**Margins** During FY22, gross margin dipped slightly and stood at ~17.8% (FY21: ~19.3%), amidst an increase in raw material costs. Subsequently, the operating margin of the Company witnessed slight improvement (FY22: ~7.7%; FY21: ~6.2%) backed by higher gross profits. ISIL's net profit margin also decreased slightly (FY22: ~4.6%; FY21: ~4.8%), on account of rising finance costs. During 1QFY23, the margins improved. Gross profit margin was reported at ~21.4% (1QFY22: ~17.9%), due to lower growth in cost of sales. Operating margin was at ~11.6% (1QFY22: ~7.0%), attributable to higher gross profits, whereas, net profit margin stood at 6.8% (1QFY22: ~4.4%), due to lower exchange rate losses incurred.

**Sustainability** The Company is continuously invested in enhancing its operations, and is in the process of introducing a new segment, targeted at vertically integrating its businesses. In addition to this, ISIL is also aiming to introduce new products through subsidiaries and segments as well.

## Financial Risk

**Working Capital** The Company has been able to maintain a strong position in its working capital management. In FY22, the Company's inventory days improved to 53 days (FY21: 68 days), its receivable days stayed stable at 30 days, while its payable days improved significantly at 12 days (FY21: 20 days). Consequently, the Company's net working capital days stood at 71 days (FY21: 80 days). The Company exhibits ample room to borrow against short-term trade assets. In 1QFY23, ISIL's net working capital days improved to 69 days (1QFY22: 70 days), attributable to improvement in inventory days (1QFY23: 46 days; 1QFY22: 49 days).

**Coverages** In FY22, the Company's free cash flows from operations increased significantly to ~PKR 5.9bln (FY21: ~PKR 3.8bln) on the back of higher profitability. Meanwhile, total finance cost also showed a substantial increase owing to an increase in borrowings and markup rates. Consequently, the Company's interest coverage ratio witnessed deterioration and stood at 4.6x (FY21: 6.3x) while total interest cover stood at 1.3x (FY21: 1.1x). In 1QFY23, ISIL's interest coverage ratio stood at 4.3x (1QFY22: 4.7x), due to higher borrowings and finance cost.

**Capitalization** ISIL has a highly leveraged capital structure with a leveraging ratio of ~71% as of FY22 (FY21: ~67%). However, major borrowings remain from SBP at subsidized rates. Total Debt of the Company stood at PKR 32bln. In 1QFY23, the leverage ratio was reported at ~71% (1QFY22: ~67%), with total debt amounting to PKR35bln.



The Pakistan Credit Rating Agency Limited

Financial Summary  
PKR mln

	Sep-22	Jun-22	Jun-21	Jun-20
	3M	12M	12M	12M

Ismail Industries  
Food Products

#### A BALANCE SHEET

1 Non-Current Assets	26,685	25,157	20,941	19,666
2 Investments	961	965	318	200
3 Related Party Exposure	7,146	7,146	5,278	5,276
4 Current Assets	24,432	18,076	14,453	12,366
a Inventories	11,402	8,338	7,570	6,252
b Trade Receivables	9,127	5,746	3,346	3,345
5 Total Assets	59,224	51,344	40,990	37,508
6 Current Liabilities	7,747	4,239	4,736	4,082
a Trade Payables	3,327	1,666	1,870	2,225
7 Borrowings	35,196	32,166	22,688	21,457
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	2,378	2,359	2,291	2,070
10 Net Assets	13,903	12,580	11,275	9,900
11 Shareholders' Equity	13,903	12,580	11,275	9,900

#### B INCOME STATEMENT

1 Sales	19,514	55,261	37,308	33,218
a Cost of Good Sold	(15,334)	(45,415)	(30,114)	(26,341)
2 Gross Profit	4,179	9,845	7,194	6,878
a Operating Expenses	(1,911)	(5,601)	(4,887)	(5,063)
3 Operating Profit	2,268	4,244	2,306	1,815
a Non Operating Income or (Expense)	6	557	601	664
4 Profit or (Loss) before Interest and Tax	2,274	4,801	2,907	2,478
a Total Finance Cost	(695)	(1,414)	(694)	(1,156)
b Taxation	(256)	(836)	(437)	(391)
6 Net Income Or (Loss)	1,323	2,551	1,777	932

#### C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	2,743	5,929	3,845	2,820
b Net Cash from Operating Activities before Working Capital Changes	2,146	4,726	3,747	1,776
c Changes in Working Capital	(1,738)	(1,345)	(1,650)	2,578
1 Net Cash provided by Operating Activities	408	3,381	2,097	4,354
2 Net Cash (Used in) or Available From Investing Activities	(2,077)	(8,621)	(3,208)	(8,909)
3 Net Cash (Used in) or Available From Financing Activities	1,819	5,339	1,203	4,574
4 Net Cash generated or (Used) during the period	150	99	92	19

#### D RATIO ANALYSIS

1 Performance				
a Sales Growth (for the period)	41.2%	48.1%	12.3%	10.4%
b Gross Profit Margin	21.4%	17.8%	19.3%	20.7%
c Net Profit Margin	6.8%	4.6%	4.8%	2.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	5.1%	8.3%	5.9%	16.2%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity) ]	40.0%	21.4%	16.8%	10.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	81	83	100	119
b Net Working Capital (Average Days)	69	71	80	100
c Current Ratio (Current Assets / Current Liabilities)	3.2	4.3	3.1	3.0
3 Coverages				
a EBITDA / Finance Cost	4.5	5.2	6.7	2.9
b FCFO / Finance Cost+CMLTB+Excess STB	1.8	1.3	0.9	1.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.7	5.0	5.1	8.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	71.7%	71.9%	66.8%	68.4%
b Interest or Markup Payable (Days)	67.8	105.7	97.9	62.2
c Entity Average Borrowing Rate	8.6%	4.8%	2.8%	5.8%

**Credit Rating**

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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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.
AA-	
A+	
A	<b>High credit quality.</b> 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.
A-	
BBB+	
BBB	<b>Good credit quality.</b> 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.
BBB-	
BB+	<b>Moderate risk.</b> 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.
BB	
BB-	
B+	
B	<b>High credit risk.</b> 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.
B-	
CCC	<b>Very high credit risk.</b> 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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
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.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*\*The correlation shown is indicative and, in certain cases, may not hold.*

**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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

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- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
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- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

### **Probability of Default**

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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