



The Pakistan Credit Rating Agency Limited

Rating Report

Ismail Industries Limited | PPSTS | PKR 4bln | Feb 24

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Apr-2024	A+	A1	Stable	Initial	-
08-Dec-2023	A+	A1	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

Pakistan's food products sector (divided into biscuits, snacks, confectionery and condiments segments, for the purpose of this report) exhibited a CAGR of ~6.0% over the past five years (FY18-22). During FY23, Sector's market size, comprising the Biscuits & Cracker, Snacks/ Chips and Sugar Confectionery segments, was recorded at PKR~101bln in FY23, increasing by ~48.2% YoY. Condiments, a sub-category of food products, posted a revenue growth of ~8.0% YoY during the same year, recording at PKR~29bln. The increase in revenue across these segments is reflective of inflationary impact and consequent increase in food products prices (national CPI rose ~140.5% YoY during FY23). Meanwhile, the sector remains highly competitive with influx of new players, while marketing and distribution costs also remain high. The ratings reflect Ismail Industries Limited's ('Ismail Industries' or 'the Company') diversified revenue stream generating from the well established brands Candyland, Bisconni, Snackcity, Ismail Nutrition, Ghiza Flour and Astro Films. The Company has promising profits in 2QFY24 due to its exports (2QFY24: PKR 28.9bln, 2QFY23: PKR 13.6bln). The prime reason of this increase in exports is due to the international projects of the Company. Total revenue of the Company increased and stood at PKR 60bln during 2QFY24 (2QFY23: PKR 41bln). Ismail Industries Limited have investments in its subsidiaries and associates. The company holds 78.53% shares of Hudson Pharma (Pvt) Limited. The Company also holds 75% of Ismail Resin (Pvt) Limited that deals with manufacturing of PET resin. The associates of Ismail Industries include Bank of Khyber, Plastiflex Films (Pvt) Limited and Innovita Nutrition (Pvt) Limited. Whereas, Introduction of a new product line named Giza Flour adds the value in the Company's profile. While being adequate leveraged, the Company has changed its borrowing mix and introduced a new PPSTS amounting PKR 4bln during Feb 24 which is fully subscribed by investors.

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. Brand reputation through customer satisfaction remains a crucial parameter for the rating.

Disclosure

Name of Rated Entity	Ismail Industries Limited PPSTS PKR 4bln Feb 24
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Corporate Rating(Jul-23),Methodology Rating Modifiers(Apr-23),Methodology Debt Instrument Rating(Dec-23)
Related Research	Sector Study Food Products(Dec-23)
Rating Analysts	Muhammad Zain Ayaz zain.ayaz@pacra.com +92-42-35869504

Issuer Profile

Profile Founded in 1988, Ismail Industries Limited ('ISIL' or 'the Company') was incorporated as a public listed company in 1989. Mr. Muhammad Ismail, in collaboration with his brothers, established the Company. The flagship brand of the Company is 'Candyland,' operating within the confectionery segment. Additionally, the Company engages in the biscuits, snacks, nutritional products, and plastic segments through the brands 'Bisconni,' 'Snackcity,' 'Ismail Nutrition,' and 'Astro Films,' respectively. 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 282,932 MT. Utilization levels for FY23 stood at ~55%.

Ownership 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 (~0.7%). The remaining shareholding is held by the general public. 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. The sponsors have been operating in the industry for over four decades and have very strong industry knowledge. 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 The Board of Directors of the company is primarily composed of members from the sponsoring family, totaling seven individuals. This composition includes the Chairman, two non-executive directors, two executive directors, and two independent directors. 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. 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. 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, 2023.

Management 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. 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. 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. The Company has implemented SAP to streamline the flow of information within the Company. 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 The convenience food market in Pakistan continues to be a competitive landscape, primarily dominated by domestically produced products. As of 2024, the market is projected to grow annually by 7.64% (CAGR 2024-2028). This growth indicates a robust demand for convenience foods despite the challenges posed by price sensitivity and competition. 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. The company derives its sales from food (86.5%) and plastic segment (13.44%). The Company derives its major revenue from its local sales increased that stood at PKR 38.4bln during 2QFY24 (2QFY23: PKR 33.1bln). Whereas export sales also increased and stood at PKR 28.9bln during 2QFY24 (2QFY23: PKR 13.6bln). During 2QFY24, total sales of the Company including local and export sales stood at PKR 60bln (2QFY22: PKR 41bln). The increase in sales is due to higher domestic and export demand of the products. Gross profit margin of the Company stood at 21% during 2QFY24. Whereas net profit margin of the Company stood at 6.4% during 2QFY24 (2QFY23: 6.7%).

Financial Risk The company has been able to maintain an adequate working capital cycle as the average inventory days stood at 41 days during 2QFY24 (2QFY23: 29 days). Net working capital stood at 69 days during 2QFY24 (2QFY23: 57 days). Interest coverage ratio decreased and stood at 2.4x during 2QFY24 (2QFY23: 4.0x). Leverage of the Company remains adequate and stood at 70% during 2QFY24 (2QFY23: 73%).

Instrument Rating Considerations

About The Instrument The Company has successfully issued a rated, privately placed, unsecured short-term Sukuk or Islamic commercial paper, Ismail Industries Limited | PPSTS | PKR 4bln | Feb 24 of PKR 4bln in Feb'24. The drawdown will be in one tranche. Tenor of the instrument will be 6 months. The purpose of the instrument is to be utilized to meet Working capital requirements. The profit rate consists of 6MK+50bps Profit payment and principal would be made in a bullet payment at the time of maturity

Relative Seniority/Subordination Of Instrument The instrument is unsecured.

Credit Enhancement Facility Covenants to be mutually agreed between the Issuer and the Financial advisors and arrangers in the Facility Documents. All applicable Regulations and Guidelines issue by the Securities & Exchange Commission of Pakistan ("SECP").



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Ismail Industries Limited	Dec-23	Jun-23	Jun-22	Jun-21
Food Products	6M	12M	12M	12M

A BALANCE SHEET

1 Non-Current Assets	31,602	28,867	25,157	20,941
2 Investments	-	1,151	965	318
3 Related Party Exposure	9,063	8,751	7,146	5,278
4 Current Assets	43,246	34,286	18,076	14,453
<i>a Inventories</i>	17,561	15,885	8,338	7,570
<i>b Trade Receivables</i>	19,827	10,505	5,746	3,346
5 Total Assets	83,912	73,056	51,344	40,990
6 Current Liabilities	11,475	10,469	4,239	4,736
<i>a Trade Payables</i>	5,431	5,908	1,666	1,870
7 Borrowings	49,579	42,397	32,166	22,688
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	2,659	2,474	2,359	2,291
10 Net Assets	20,198	17,716	12,580	11,275
11 Shareholders' Equity	21,581	17,716	12,580	11,275

B INCOME STATEMENT

1 Sales	60,718	88,906	55,261	37,308
<i>a Cost of Good Sold</i>	(47,795)	(70,474)	(45,415)	(30,114)
2 Gross Profit	12,923	18,432	9,845	7,194
<i>a Operating Expenses</i>	(4,852)	(8,102)	(5,601)	(4,887)
3 Operating Profit	8,071	10,330	4,244	2,306
<i>a Non Operating Income or (Expense)</i>	730	1,601	557	601
4 Profit or (Loss) before Interest and Tax	8,801	11,931	4,801	2,907
<i>a Total Finance Cost</i>	(4,067)	(4,399)	(1,414)	(694)
<i>b Taxation</i>	(836)	(1,150)	(836)	(437)
6 Net Income Or (Loss)	3,898	6,382	2,551	1,777

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	9,378	13,098	5,929	3,845
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	5,769	13,098	4,726	3,747
<i>c Changes in Working Capital</i>	(9,333)	(9,763)	(1,345)	(1,650)
1 Net Cash provided by Operating Activities	(3,564)	3,335	3,381	2,097
2 Net Cash (Used in) or Available From Investing Activities	(4,307)	(7,769)	(8,621)	(3,208)
3 Net Cash (Used in) or Available From Financing Activities	2,893	1,439	5,339	1,203
4 Net Cash generated or (Used) during the period	(4,978)	(2,995)	99	92

D RATIO ANALYSIS

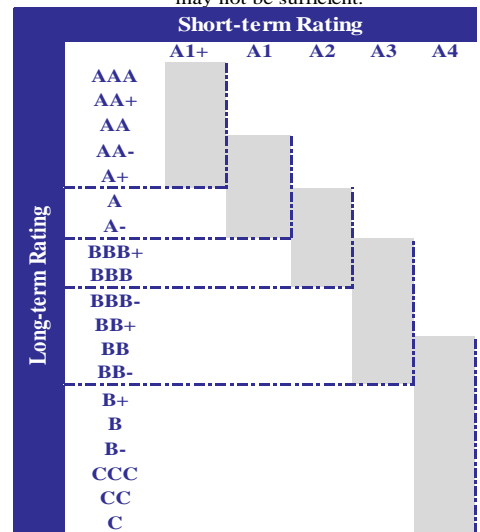
1 Performance				
<i>a Sales Growth (for the period)</i>	36.6%	60.9%	48.1%	12.3%
<i>b Gross Profit Margin</i>	21.3%	20.7%	17.8%	19.3%
<i>c Net Profit Margin</i>	6.4%	7.2%	4.6%	4.8%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	0.1%	3.8%	8.3%	5.9%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]</i>	39.7%	42.1%	21.4%	16.8%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	86	71	66	74
<i>b Net Working Capital (Average Days)</i>	69	56	54	54
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	3.8	3.3	4.3	3.1
3 Coverages				
<i>a EBITDA / Finance Cost</i>	2.6	3.4	5.2	6.7
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.4	1.6	1.3	0.9
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	2.5	3.1	5.0	5.1
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	69.7%	70.5%	71.9%	66.8%
<i>b Interest or Markup Payable (Days)</i>	73.4	95.7	105.7	97.9
<i>c Entity Average Borrowing Rate</i>	17.0%	10.7%	4.8%	2.8%

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB	
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility.
CC	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.
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):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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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)

2) Conflict of Interest

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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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- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (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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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
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- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
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- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Investment Agent	Book Value of Assets (PKR mln)
Rated, Unsecured, Privately placed, Short-term Sukuk (PPSTS)	4,000mln	Up to 6 months from the date of drawdown	Unsecured	N/A	N/A	Pak Oman Investment Company Limited	N/A

Name of Issuer	Ismail Industries Limited
Issue Date	Feb -24
Maturity	6 months after the issuance

Due Date Principal*	Opening Principal	Principal Repayment*	Due Date Markup/ Profit*	Markup/Profit rate	6M Kibor + 50bps	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln							
Issuance								4,000
13-Feb-24	4,000			6M KIBOR + 0.5%	22.23%			4,000
13-Jul-24	4,000	4,000	13-Jul-24	6M KIBOR + 0.5%	22.23%	445	4,445	-
		4,000				445	4,445	

* Sukuk will be issued at a face value of PKR 1,000,000 each or in multiples thereof.