



The Pakistan Credit Rating Agency Limited

## Rating Report

**Ismail Industries Limited | PPSTS | PKR 6bln | June 24**

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### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-Aug-2024	A+	A1	Stable	Initial	-
29-Apr-2024	A+	A1	Stable	Preliminary	-

### Rating Rationale and Key Rating Drivers

Based on mass marketing, the confectionery, biscuits and snack industry in Pakistan is highly price sensitive. Pakistan's large retail base is highly fragmented and dominated by small retailers. However, a major transformation of establishing large retail chains has been observed, particularly in urban centers. The ratings reflect Ismail Industries Limited's ('the Company') diversified revenue stream generating from the well established brands Candyland, Bisconni, Snackcity, Ismail Nutrition, Ghiza Flour and Astro Films. The ratings further draw comfort from IIL's strong organizational structure designed to oversee its subsidiaries' strategic direction. Strong governance framework of the Company lends further support. 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. During the 9MFY24, the company achieved a topline of ~PKR 86bln (9MFY23: PKR 64bln) out of which ~44% of this revenue came from exports, driven primarily by international projects. Gross margins improved slightly to 22% in 9MFY24, compared to 21% in 9MFY23. Net profit also increased to ~PKR 5.2bln from (9MFY23: PKR 4.3bln). However, the net profit margin decreased to 6% from 7% due to higher finance costs.

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

<b>Name of Rated Entity</b>	Ismail Industries Limited   PPSTS   PKR 6bln   June 24
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Debt Instrument Rating
<b>Applicable Criteria</b>	Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Debt Instrument Rating(Dec-23),Methodology   Rating Modifiers(Apr-24),Methodology   Corporate Rating(Jul-24)
<b>Related Research</b>	Sector Study   Food Products(Dec-23)
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## 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 (~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** Based on mass marketing, the confectionery, biscuits and snack industry in Pakistan is highly price sensitive. Pakistan's large retail base is highly fragmented and dominated by small retailers. However, a major transformation of establishing large retail chains has been observed, particularly in urban centers. On the other hand, growth in disposable personal income of middle and upper middle class has led to improvement in the consumption pattern of branded non-essential items. Traditional events like religious and wedding seasons drive notable increases in sales, especially among children and young adults. 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 earns revenue from two segments. During 9MFY24, out of total sales (9MFY24: PKR 86bln, 9MFY23: PKR 64bln, FY23: PKR 89bln, FY22: PKR 55bln), Food and Plastic segment contributed 86% and 14% respectively. Whereas, operating profit of the Company also increased and stood at PKR 11bln during 9MFY24 (9MFY23: PKR 7.1bln, FY23: PKR 10bln, FY22: PKR 4bln). The increased demand has led to increase in sales of the Company. The Company posted growth in margins. During 9MFY24, Gross profit margin of the Company stood at 22% (9MFY23: 21%, FY23: 21%, FY22: 18%). Following the trend, operating profit margin of the Company also increased and stood at 14% during 9MFY24 (9MFY23: 11%, FY23: 12% FY22: 8%). Whereas, net profit margin of the Company somehow remained consistent (9MFY24: 6.1%, 9MFY23: 6.8%, FY23: 7%, FY22: 5%).

**Financial Risk** The Company has been able to maintain adequate working capital days, during 9MFY24 net working capital days improved and stood at 59 days (9MFY23: 65 days, FY23: 56 days, FY22: 54 days). Whereas, average inventory days remained consistent and stood at 38 days during 9MFY24 (9MFY23: 38 days, FY22: 36 days). Trade receivable days stood at 40 days during 9MFY24 (9MFY23: 39 days, FY23: 33 days, FY22: 30 days). Finance cost is a part of Interest coverage. During 9MFY24, interest coverage ratio decreased and stood at 2.3x (9MFY23: 3.6x, FY23: 3.1x, FY22: 4.6x) due to increased finance cost (9MFY24: PKR 5.5bln, 9MFY23: PKR 2.4bln, FY23: PKR 4.2bln, FY22: PKR 1.3bln). Following this, total coverage also experienced decline in trend and stood at 1.0x during 9MFY24 (9MFY23: 1.7x, FY23: 1.6x, FY22: 1.3x) owing to increased markup rates. Debt payback ratio stood at 3.1x during 9MFY24 (9MFY23: 3.2x, FY23: 3.1x, FY22: 5.0x). IIL has a high leveraged capital structure that stood 69% during 9MFY24 (9MFY23: 73%, FY23: 71%, FY22: 72%). The Company has issued a Privately Placed Short term Sukuk amounting PKR 4bln during Feb 24. This changed the borrowing mix of the Company. The short-term borrowings of the Company increased and stood at PKR 20bln during 9MFY24 (9MFY23: PKR 18bln, FY23: PKR 15bln, FY22: PKR 9bln). Whereas, total debt of the Company also increased and stood at PKR 51bln during 9MFY24 (9MFY23: PKR 45bln, FY23: PKR 42bln, FY22: PKR 32bln). Moreover, the Company has also issued another short term Sukuk amounting PKR 6bln to meet the working capital requirements of the Company.

## Instrument Rating Considerations

**About The Instrument** The Company has issued a rated, privately placed, unsecured short-term Sukuk or Islamic commercial paper, Ismail Industries Limited | PPSTS | PKR 6bln | June of PKR 6bln in June 24. Currently, there are two instruments in the issue amounting PKR 6bln and PKR 4bln respectively. A new short-term Sukuk amounting PKR 5bln will be issued to replace the existing PPSTS amounting PKR 4bln, which is set to mature on 13-Aug-24. After this new issuance, the total outstanding amount will be PKR 11bln. The instrument will have a tenor of 6 months. Profit will be paid monthly in arrears on the outstanding principal amount at the rate of 1MK+25bps. The principal payment 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").



Ismail Industries Limited	Mar-24	Jun-23	Jun-22	Jun-21
Food Products	9M	12M	12M	12M

**A BALANCE SHEET**

1 Non-Current Assets	31,949	28,867	25,157	20,941
2 Investments	1,414	1,151	965	318
3 Related Party Exposure	9,585	8,751	7,146	5,278
4 Current Assets	46,800	34,286	18,076	14,453
<i>a Inventories</i>	14,878	15,885	8,338	7,570
<i>b Trade Receivables</i>	14,777	10,505	5,746	3,346
5 Total Assets	89,748	73,056	51,344	40,990
6 Current Liabilities	12,487	10,469	4,239	4,736
<i>a Trade Payables</i>	6,434	5,908	1,666	1,870
7 Borrowings	51,252	42,397	32,166	22,688
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	2,854	2,474	2,359	2,291
10 Net Assets	23,154	17,716	12,580	11,275
11 Shareholders' Equity	23,154	17,716	12,580	11,275

**B INCOME STATEMENT**

1 Sales	85,908	88,906	55,261	37,308
<i>a Cost of Good Sold</i>	(67,411)	(70,474)	(45,415)	(30,114)
2 Gross Profit	18,497	18,432	9,845	7,194
<i>a Operating Expenses</i>	(6,939)	(8,102)	(5,601)	(4,887)
3 Operating Profit	11,558	10,330	4,244	2,306
<i>a Non Operating Income or (Expense)</i>	725	1,601	557	601
4 Profit or (Loss) before Interest and Tax	12,283	11,931	4,801	2,907
<i>a Total Finance Cost</i>	(5,883)	(4,399)	(1,414)	(694)
<i>b Taxation</i>	(1,161)	(1,150)	(836)	(437)
6 Net Income Or (Loss)	5,239	6,382	2,551	1,777

**C CASH FLOW STATEMENT**

<i>a Free Cash Flows from Operations (FCFO)</i>	13,035	13,098	5,929	3,845
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	7,410	13,098	4,726	3,747
<i>c Changes in Working Capital</i>	(11,741)	(9,763)	(1,345)	(1,650)
1 Net Cash provided by Operating Activities	(4,331)	3,335	3,381	2,097
2 Net Cash (Used in) or Available From Investing Activities	(5,446)	(7,769)	(8,621)	(3,208)
3 Net Cash (Used in) or Available From Financing Activities	4,845	1,439	5,339	1,203
4 Net Cash generated or (Used) during the period	(4,932)	(2,995)	99	92

**D RATIO ANALYSIS**

1 Performance				
<i>a Sales Growth (for the period)</i>	28.8%	60.9%	48.1%	12.3%
<i>b Gross Profit Margin</i>	21.5%	20.7%	17.8%	19.3%
<i>c Net Profit Margin</i>	6.1%	7.2%	4.6%	4.8%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	1.5%	3.8%	8.3%	5.9%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sl</i>	34.2%	42.1%	21.4%	16.8%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	78	71	66	74
<i>b Net Working Capital (Average Days)</i>	59	56	54	54
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	3.7	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>	1.0	1.6	1.3	0.9
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	3.1	3.1	5.0	5.1
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	68.9%	70.5%	71.9%	66.8%
<i>b Interest or Markup Payable (Days)</i>	66.4	95.7	105.7	97.9
<i>c Entity Average Borrowing Rate</i>	15.6%	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	<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+	
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-	
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	
CC	<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.
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)

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- 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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- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
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- (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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