The Pakistan Credit Rating Agency Limited

Rating Report

Ismail Industries Limited - PPSTS - PKR 5bln - Aug-24

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
17-Oct-2024	A+	A1	Stable	Initial	-
13-Aug-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 reflect IIL's robust organizational structure, which is adeptly designed to provide strategic oversight of its subsidiaries. The company's strong governance framework provides additional support to its credit profile. 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. Also, IIL is preparing to establish a new Bisconni subsidiary in the UAE. The Company reported a robust revenue growth, achieving PKR 108,887mln (FY23: PKR 88,906mln), a 22.5% increase from the prior year driven by enhanced operational efficiency and favorable pricing. Out of this topline, 45% revenue was derived from exports, largely supported by contributions from international projects. Gross margins of the Company stood at 22% during FY24 (FY23: 21%). Increase in finance costs has exerted pressure on the company's net profit, leading to a slight decline compared to the prior year (FY24: PKR 6,132mln, FY23: PKR 6,382mln). In Aug 24, the company successfully completed the issuance of a new PPSTS amounting PKR 5bln, following the redemption of its previously issued PKR 4bln PPSTS. This latest issuance brings the company's total funding raised through debt instruments to PKR 11 billion.

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 5bln - Aug-24
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology | Debt Instrument Rating(Dec-23),Methodology | Rating Modifiers(Apr-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24)
Related Research	Sector Study | Food Products(Dec-23)
Rating Analysts	Muhammad Atif Chaudhry | Atif.Chaudhry@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 361,356 MT. Utilization levels for FY24 stood at ~63% (FY23: ~56%).

Ownership The Company’s major shareholding is concentrated with the Ismail Family, holding approximately 99% of the shares. Key stakeholders include Mr. Muhammad Ismail with around 16%, Mr. Miftah Ismail at approximately 31%, Ms. Almas Maqsood (spouse of Mr. Maqsood Ismail) at roughly 30%, and Mr. Ahmed Muhammad with 15%, alongside other associates holding about 0.7%. The remaining shares are held by the general public. This ownership structure remains stable, with the Ismail Family as the primary shareholders. Mr. Muhammad Ismail, who has led the Company for several years, brings substantial industry expertise, supported by the sponsors' vast experience spanning over four decades. In addition to a significant presence in the confectionery, biscuits, and snacks sector, the Group is also active in the plastic films and wind power industries.

Governance The Company’s Board of Directors primarily comprises seven members from the sponsoring family, including the Chairman, two non-executive directors, two executive directors, and two independent directors. The Board members bring strong credentials with expertise in diverse fields, including industrial engineering and economics, complemented by in-depth knowledge of the confectionery, biscuits, and snacks sector. The Board operates through two committees: the HR and Remuneration Committee, and the Audit Committee. Meeting minutes are meticulously documented, showing active engagement and substantive discussions from all members, including independent directors. Grant Thornton Anjum Rahman Chartered Accountants serve as the Company’s external auditors and provided an unqualified opinion on the Company’s financial statements for the fiscal year ending June 30, 2024.

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’s revenue is driven by two main segments: food (FY24: PKR 93bln, FY23: PKR 74bln) and plastics (FY24: PKR 15bln, FY23: PKR 14bln). A significant portion of revenue is generated from local sales (FY24: PKR 72bln, FY23: PKR 59bln). Company’s gross profit margin improvement from 21% in FY23 to 22% in FY24 reflects a positive trend in operational efficiency and pricing power, supported by a substantial increase in total sales (FY24: PKR 108bln, FY23: PKR 88bln). The continued growth in sales and margin stability contributes positively to the Company's credit profile, supporting strong earnings resilience and cash flow generation. Whereas, the decline in Company’s net operating profit margin from 7% in FY23 to 6% in FY24 reflects the impact of elevated finance costs, which rose significantly from PKR 4.3bln to PKR 7bln year-over-year. This increase in finance costs suggests rising interest rates and a potentially higher reliance on debt, which may signal increased leverage risk and pressure on operating profitability.

Financial Risk The Company has maintained an adequate working capital cycle. Net working capital days of the Company improved and stood at 55 days during FY24 (FY23: 56 days) owing to improved inventory days (FY24: 37 days, FY23: 38 days). Also, trade receivables of the Company stood at 40 days during FY24 (FY23: 33 days). Whereas, trade payables of the Company stood at 21 days during FY24 (FY23: 16 days) driven by higher volumes resulting from the Company's introduction of new confectionery products. Leverage of the Company (FY24: 68%, FY23: 71%) improved on the back of increased equity shows room to borrow. The Company has issued a Privately Placed Short term Sukuk amounting PKR 5bln during Aug 24, in addition to the previously issued PPSTS of PKR 6 billion. This has changed the borrowing mix of the Company. Whereas, another PPSTS amounting PKR 4bln has been redeemed successfully. Total borrowings of the Company stood at PKR 50bln during FY24 (FY23: PKR 42bln). On the other hand, interest cover ratio stood at 2.3x during FY24 (FY23: 3.1x) largely attributable to elevated finance cost.

Instrument Rating Considerations

About The Instrument The Company has successfully issued a rated, privately placed, unsecured short-term Sukuk or Islamic commercial paper of PKR 5bln in Aug 24 to finance the working capital requirement of the Company. The instrument will be having a tenor of 6 months. Profit will be paid monthly in arrears on the outstanding principal amount at the rate of 1MK+15bps. 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 are 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 Food Products	Jun-24 12M	Mar-24 9M	Jun-23 12M	Jun-22 12M
A BALANCE SHEET				
1 Non-Current Assets	32,666	31,949	28,867	25,157
2 Investments	1,568	1,414	1,151	965
3 Related Party Exposure	9,556	9,585	8,751	7,146
4 Current Assets	47,127	46,800	34,286	18,076
a Inventories	*12,640*	*14,878*	*15,885*	*8,338*
b Trade Receivables	*13,135*	*14,777*	*10,505*	*5,746*
5 Total Assets	90,917	89,748	73,056	51,344
6 Current Liabilities	13,261	12,487	10,469	4,239
a Trade Payables	*6,749*	*6,434*	*5,908*	*1,666*
7 Borrowings	50,278	51,252	42,397	32,166
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	3,169	2,854	2,474	2,359
10 Net Assets	24,209	23,154	17,716	12,580
11 Shareholders' Equity	24,209	23,154	17,716	12,580
B INCOME STATEMENT				
1 Sales	108,887	85,908	88,906	55,261
a Cost of Good Sold	*(84,865)*	*(67,411)*	*(70,474)*	*(45,415)*
2 Gross Profit	24,022	18,497	18,432	9,845
a Operating Expenses	(10,042)	(6,939)	(8,102)	(5,601)
3 Operating Profit	13,980	11,558	10,330	4,244
a Non Operating Income or (Expense)	*1,080*	*725*	*1,601*	*557*
4 Profit or (Loss) before Interest and Tax	15,061	12,283	11,931	4,801
a Total Finance Cost	*(7,384)*	*(5,883)*	*(4,399)*	*(1,414)*
b Taxation	*(1,544)*	*(1,161)*	*(1,150)*	*(836)*
6 Net Income Or (Loss)	6,132	5,239	6,382	2,551
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*16,159*	*13,035*	*13,098*	*5,929*
b Net Cash from Operating Activities before Working Capital Changes	*16,159*	*7,410*	*13,098*	*4,726*
c Changes in Working Capital	*(10,889)*	*(11,741)*	*(9,763)*	*(1,345)*
1 Net Cash provided by Operating Activities	5,270	(4,331)	3,335	3,381
2 Net Cash (Used in) or Available From Investing Activities	(6,692)	(5,446)	(7,769)	(8,621)
3 Net Cash (Used in) or Available From Financing Activities	2,691	4,845	1,439	5,339
4 Net Cash generated or (Used) during the period	1,268	(4,932)	(2,995)	99
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	22.5%	28.8%	60.9%	48.1%
b Gross Profit Margin	22.1%	21.5%	20.7%	17.8%
c Net Profit Margin	5.6%	6.1%	7.2%	4.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	4.8%	1.5%	3.8%	8.3%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	29.3%	34.2%	42.1%	21.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	77	78	71	66
b Net Working Capital (Average Days)	55	59	56	54
c Current Ratio (Current Assets / Current Liabilities)	3.6	3.7	3.3	4.3
3 Coverages				
a EBITDA / Finance Cost	2.5	2.6	3.4	5.2
b FCFO / Finance Cost+CMLTB+Excess STB	0.7	1.0	1.6	1.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	4.0	3.1	3.1	5.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	67.5%	68.9%	70.5%	71.9%
b Interest or Markup Payable (Days)	73.5	66.4	95.7	105.7
c Entity Average Borrowing Rate	14.7%	15.6%	10.7%	4.8%

Credit Rating

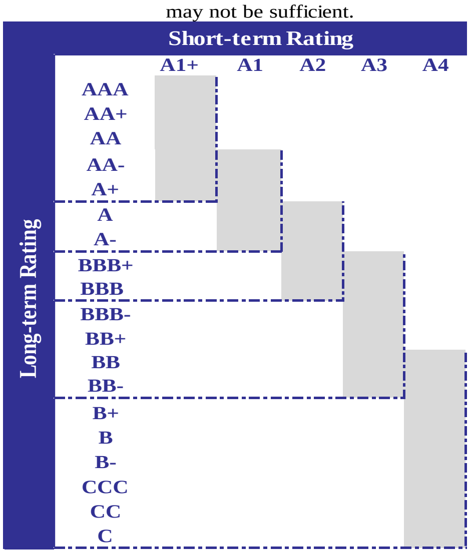
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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 Rating

Scale	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
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 surveill 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

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

Rating Team Statements
(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**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
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

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(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).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(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
(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)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(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)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(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)
Proprietary Information
(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA’s prior written consent

Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee
Rated, Unsecured, Privately placed, Short-term Sukuk (PPSTS)	PKR 5,000mln	Up to 6 months from the date of issue	Unsecured	N/A	N/A	Pak Oman Investment Company Limited

Name of Issuer	Ismail Industries Limited
Issue Date	August-24
Maturity	February-25
Profit Rate	1M Kibor + 15bps

Ismail Industries Limited | PPSTS | Redemption Schedule

Sr.	Due Date Principal	Opening Principal	Markup/Profit Rate (1M Kibor + 15bps)	Markup/Profit Payment	Principal Payment	Total	Principal Outstanding
		PKR		PKR			
Issue Date	8/20/2024	5,000,000,000			-	-	5,000,000,000
1	9/20/2024	5,000,000,000	20.05%	84,911,202		84,911,202	5,000,000,000
2	10/20/2024	5,000,000,000	17.96%	73,606,557		73,606,557	5,000,000,000
3	11/20/2024	5,000,000,000	17.96%	76,060,109		76,060,109	5,000,000,000
4	12/20/2024	5,000,000,000	17.96%	73,606,557		73,606,557	5,000,000,000
5	1/20/2025	5,000,000,000	17.96%	76,060,109		76,060,109	5,000,000,000
6	2/20/2025	5,000,000,000	17.96%	76,060,109	5,000,000,000	5,076,060,109	-
				460,304,645	**5,000,000,000**	**5,460,304,645**	