The Pakistan Credit Rating Agency Limited

Rating Report

Ismail Industries Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
08-Dec-2023	A+	A1	Stable	Maintain	-
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

While having the major dependency 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.
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 a promising profits in FY23 amounting PKR 6bln (FY22: PKR 2bln). The surge in the profit is due to export sales of the Company, which is increased to PKR ~40bln (FY22: PKR ~15bln). The total revenue of the company stood at PKR ~99bln in FY23 (FY22: PKR ~65bln). This coupled with increased food processing capacity, providing a competitive edge to Ismail Industries and allows the company to maintain its growth trajectory due to a significant surge in both domestic sales and exports. 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. Despite inflation and devaluation, a surge can be seen in the margins of the company as operating profit margin stood at ~12% in FY23 (FY22: ~8%) and net profit margin stood at ~7% in FY23 (FY22: ~5%). The introduction of new product line Giza Flour adds value in the company's profile and profits. The company holds a strong financial risk profile as the capital structure of company is moderately leveraged at ~71%, at FY23 (FY22: ~72%). However, major borrowings remain from SBP at subsidized rates. The Company's working capital management and coverages remain adequate.

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
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Food Products(Dec-22)
Rating Analysts	Muhammad Zain Ayaz | zain.ayaz@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 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.

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 282,932 MT. Utilization levels for FY23 stood at ~55%

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 four 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 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.

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 Thorton 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

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 implemented 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 In Pakistan, the convenience food market is mainly controlled by products produced domestically. This industry is fiercely competitive and the products are sensitive to changes in prices. The market operates with unbranded segment as a sizeable player. The food industry in Pakistan is growing at a rapid pace (CAGR of 6.6% during 2020-2025) due to increasing population, urbanization, and changing lifestyles. Going forward, cashflow and liquidity is expected to remain stable. It is also noteworthy that Pakistan's Consumer Price Index (CPI) increased by ~26.89% in Oct-23 YoY basis, mainly due to significant increases in food, beverage, and transportation prices. The ongoing inflationary trend may affect the demand for convenience food products in the retail market due to the lower purchasing power of consumers.

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 (~83%) and plastic films (~17%). the major part of sales in derived from local sales that stood at PKR 59bln in FY23 (FY22: PKR 50bln). Export sales also increased and stood at PKR 39bln in FY23 (FY22: PKR 15bln). During FY23, the sales revenue increased and stood at PKR 99bln (FY22: PKR 65bln). Increase in sales is mainly attributable to increase in demand of the products and due to higher prices.

Margins In FY23, gross profit margin increased and stood at 20.7% (FY22: 17.8%). The operating profit margin of company also increased and stood at 11.6% in FY23 (FY22: 7.7%) backed by higher gross profits backed by higher profits. Net profit of the company also witnessed an increase and stood at 7.2% in FY23 (FY22: 4.6%). Total finance cost of the company increased and stood at PKR 4.3bln in FY23 (FY22: PKR1.4bln).

Sustainability The company is consistently committed to optimizing its operations and is currently in the phase of introducing a new segment to achieve vertical integration across its businesses. Furthermore, ISIL is actively pursuing the introduction of new products through its subsidiaries and various business segments

Financial Risk

Working Capital The company has been able to maintain an adequate working capital cycle as the average inventory days increased and stood at 53 days in FY23 (FY22: 50 days). Trade receivable slightly increased and stood at 33 in FY23 (FY22: 30 days). Company's net working capital also showed a slight improvement and stood on 68 days in FY23 (FY22 : 71 days).The company has significant capacity to leverage short-term trade assets for borrowing purposes.

Coverages In FY23, company experienced a significant increase in free cash flows from operations (FY23: PKR 13bln , FY22: PKR 5.9bln) on the back of higher profitability (FY23 PKR 6.3bln, FY22: PKR 2.5bln). The Company's interest coverage ratio witnessed deterioration and stood at 3.1x in FY23 (FY22: 4.6x). While total interest cover increased to 1.6x in FY23 (FY22: 1.3x).

Capitalization ISIL has a highly leveraged capital structure with a leveraging ratio of ~70% as of FY23 (FY22: ~71%). However, major borrowings remain from SBP at subsidized rates. Total Debt of the Company stood at PKR 42bln in FY23 (FY22: PKR 32bln).

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Ismail Industries	**Jun-23**	**Mar-23**	**Dec-22**	**Jun-22**	**Mar-22**	**Dec-21**	**Jun-21**
Food Products	**12M**	**9M**	**6M**	**12M**	**9M**	**6M**	**12M**
A BALANCE SHEET							
1 Non-Current Assets	28,867	28,278	27,492	25,157	24,010	22,362	20,941
2 Investments	1,151	1,323	1,119	965	961	580	318
3 Related Party Exposure	8,751	7,114	7,160	7,146	5,880	5,899	5,278
4 Current Assets	34,286	34,129	26,956	18,076	20,078	18,932	14,453
a Inventories	*15,885*	*14,628*	*10,911*	*8,338*	*7,952*	*7,634*	*7,570*
b Trade Receivables	*10,505*	*12,534*	*10,335*	*5,746*	*7,631*	*5,969*	*3,346*
5 Total Assets	73,056	70,844	62,726	51,344	50,930	47,773	40,990
6 Current Liabilities	10,469	6,525	5,014	4,239	8,105	6,902	4,736
a Trade Payables	*5,908*	*3,544*	*1,735*	*1,666*	*5,888*	*3,622*	*1,870*
7 Borrowings	42,397	45,170	40,244	32,166	28,438	27,122	22,688
8 Related Party Exposure	-	-	-	-	-	-	-
9 Non-Current Liabilities	2,474	2,540	2,360	2,359	2,339	2,308	2,291
10 Net Assets	17,716	16,609	15,108	12,580	12,048	11,440	11,275
11 Shareholders' Equity	17,716	16,609	15,108	12,580	12,048	11,440	11,275
B INCOME STATEMENT							
1 Sales	88,906	64,151	41,100	55,261	41,627	26,503	37,308
a Cost of Good Sold	*(70,474)*	*(50,997)*	*(32,565)*	*(45,415)*	*(34,149)*	*(21,685)*	*(30,114)*
2 Gross Profit	18,432	13,154	8,535	9,845	7,478	4,818	7,194
a Operating Expenses	(8,102)	(5,982)	(3,969)	(5,601)	(4,389)	(3,018)	(4,887)
3 Operating Profit	10,330	7,172	4,566	4,244	3,089	1,800	2,306
a Non Operating Income or (Expense)	*1,601*	*614*	*67*	*557*	*268*	*283*	*601*
4 Profit or (Loss) before Interest and Tax	11,931	7,785	4,633	4,801	3,357	2,083	2,907
a Total Finance Cost	*(4,399)*	*(2,632)*	*(1,498)*	*(1,414)*	*(963)*	*(585)*	*(694)*
b Taxation	*(1,150)*	*(819)*	*(378)*	*(836)*	*(496)*	*(291)*	*(437)*
6 Net Income Or (Loss)	6,382	4,335	2,757	2,551	1,898	1,207	1,777
C CASH FLOW STATEMENT							
a Free Cash Flows from Operations (FCFO)	*13,098*	*8,715*	*5,410*	*5,929*	*4,122*	*2,506*	*3,845*
b Net Cash from Operating Activities before Working Capital Changes	*13,098*	*6,470*	*4,153*	*4,726*	*3,272*	*1,962*	*3,747*
c Changes in Working Capital	*(9,763)*	*(12,264)*	*(6,589)*	*(1,345)*	*(2,072)*	*(1,913)*	*(1,650)*
1 Net Cash provided by Operating Activities	3,335	(5,793)	(2,436)	3,381	1,200	49	2,097
2 Net Cash (Used in) or Available From Investing Activities	(7,769)	(5,199)	(3,612)	(8,621)	(5,622)	(3,038)	(3,208)
3 Net Cash (Used in) or Available From Financing Activities	1,439	11,744	6,634	5,339	4,755	3,440	1,203
4 Net Cash generated or (Used) during the period	(2,995)	752	585	99	333	451	92
D RATIO ANALYSIS							
1 Performance							
a Sales Growth (for the period)	60.9%	54.8%	48.7%	48.1%	48.8%	42.1%	12.3%
b Gross Profit Margin	20.7%	20.5%	20.8%	17.8%	18.0%	18.2%	19.3%
c Net Profit Margin	7.2%	6.8%	6.7%	4.6%	4.6%	4.6%	4.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	3.8%	-5.5%	-2.9%	8.3%	4.9%	2.2%	5.9%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	42.1%	39.6%	39.8%	21.4%	21.7%	21.3%	16.8%
2 Working Capital Management							
a Gross Working Capital (Average Days)	83	88	78	83	87	84	100
b Net Working Capital (Average Days)	68	77	71	71	62	66	80
c Current Ratio (Current Assets / Current Liabilities)	3.3	5.2	5.4	4.3	2.5	2.7	3.1
3 Coverages							
a EBITDA / Finance Cost	3.4	4.0	4.3	5.2	5.5	5.5	6.7
b FCFO / Finance Cost+CMLTB+Excess STB	1.6	1.7	1.9	1.3	1.2	1.1	0.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3.1	3.2	3.4	5.0	4.3	4.6	5.1
4 Capital Structure							
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	70.5%	73.1%	72.7%	71.9%	70.2%	70.3%	66.8%
b Interest or Markup Payable (Days)	95.7	86.6	82.0	105.7	89.8	72.6	97.9
c Entity Average Borrowing Rate	10.7%	8.9%	8.4%	4.8%	4.5%	4.4%	2.8%

Credit Rating

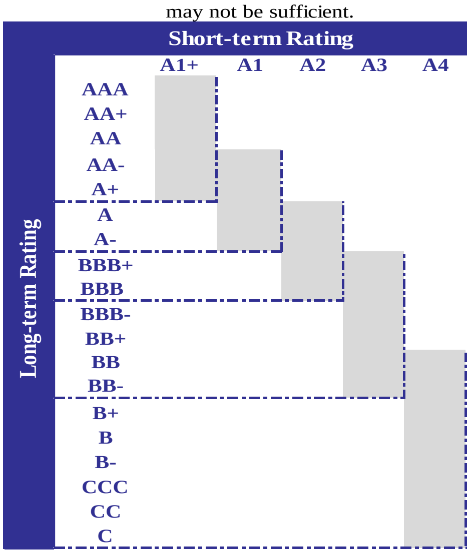
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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