

## RATING REPORT

### National Foods Limited

**REPORT DATE:**

December 9, 2016

**RATING ANALYSTS:**

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**RATING DETAILS**

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity</b>	AA-	A-1	AA-	A-1
<b>Rating Date</b>	December 9, 2016		March 20, 2015	
<b>Rating Outlook</b>	Stable		Stable	
<b>Outlook Date</b>	December 9, 2016		March 20, 2015	

**COMPANY INFORMATION**

<b>Incorporated in 1970</b>	<b>External auditors:</b> A.F. Ferguson & Co. Chartered Accountants
<b>Public Listed Company</b>	<b>Chairman of the Board:</b> Mr. Abdul Majeed
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Mr. Abrar Hasan
Associated Textile Consultants (Pvt.) Ltd – 33.6%	
Kingsway Fund-frontier Consumer Franchises – 13.20%	
Khawar M. Butt – 12.29%	
Abrar Hasan – 9.86%	
Zahid Majeed – 5.89%	

**APPLICABLE METHODOLOGY(IES)**
**JCR-VIS Entity Rating Criteria: Industrial Corporates (October 2003)**
<http://www.jcrvis.com.pk/images/IndustrialCorp.pdf>

## National Foods Limited

### OVERVIEW OF THE INSTITUTION

*National Foods Limited (NFL) was incorporated as a private limited company in 1970. The company was subsequently converted into a public limited company in 1988. Operations of the company formally commenced in 1996. NFL is registered on Pakistan Stock Exchange and registered office of the company is located in Karachi.*

### RATING RATIONALE

National Foods Limited (NFL) is primarily engaged in production of convenience based food products and its product portfolio constitutes over 250 varieties pertaining to 14 different categories. The company also has international presence with sales in 45 countries. International operations are primarily conducted through an independent subsidiary named National Foods, DMCC (NF-DMCC) in Dubai. Under the management of this subsidiary, NFL has established two additional subsidiaries, National Epicure Inc. (Canada) (NEI) and National Foods Pakistan (UK) Ltd. (NFL-UK), in order to satisfy the demand emerging from North American and European markets.

#### Key Rating Drivers

- **Franchise value:** The assigned ratings incorporate NFL's sound franchise value as indicated by sizeable market share and brand strength of majority of its products. Franchise value is considered important as it enables the company to leverage its brand equity in new product categories and aids the company in achieving future growth targets envisaged by the management.
- **Profitability:** Despite depicting sizeable growth on yearly basis, sales of NFL remained below its budgeted growth target of 25% in 2016 on account of delay in launch of one product category coupled with lag caused by change in both local and international distributors. This particular development affected export sales which were lower vis-à-vis the preceding year. Operating expenses including distribution and general & administrative expenses also depicted an upward trajectory. With increase in expenses outpacing growth in revenue base, bottom-line of the company stood lower in FY16 in comparison to the preceding year.
- **Capital Structure:** Capital structure of NFL remains conservative as total debt comprised of short term borrowings only. These primarily included running finance facilities and financings obtained under export refinance scheme. Debt leverage and gearing ratio depicted upward movement in FY16 on account of a sizeable dividend payout. However, leverage ratios improved in Q1'17 on the back of lower short term borrowings utilized.
- **Liquidity:** Liquidity profile draws support from sizeable cash flows in relation to outstanding obligations, adequate working capital cycle and aging profile of trade debts. Recent capacity expansions are likely to improve the company's cash flows for future debt servicing requirements.
- **Corporate Governance:** Overall corporate governance framework remains strong as indicated by adequate board composition and oversight, presence of stable and professional management team, implementation of strong internal controls and emphasis on transparency and disclosures.

#### Future Outlook

The management remains committed to achieve its vision of becoming a Rs. 50b sales company by 2020. In view of the same, management believes that majority of the growth will be organic in nature, while remaining proportion will emanate from inorganic sources such as new product development and mergers and acquisitions. Given the future growth plans of the management, leverage indicators may trend upwards. However, the management intends to maintain the same within prudent limits.

**National Foods Limited**

**Appendix I**

<b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions)</i>			
<b><u>BALANCE SHEET</u></b>	<b>June 30, 2016</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
Non-Current Assets	2,121.0	1,623.9	1,330.0
Stock-in-Trade	3,250.4	2,254.7	2,226.6
Trade Debts	1,000.5	1,150.7	796.6
Cash & Bank Balances	57.0	37.0	78.4
<b>Total Assets</b>	<b>6,575.3</b>	<b>5,555.0</b>	<b>4,982.4</b>
Trade and Other Payables	1,960.4	1,672.7	1,372.4
Short Term Borrowings	1,311.3	384.1	953.8
Other liabilities	819.8	741.4	448.3
<b>Total Equity</b>	<b>2,483.8</b>	<b>2,756.9</b>	<b>2,207.9</b>
<b><u>INCOME STATEMENT</u></b>	<b>June 30, 2016</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
Net Sales	13,183.2	11,581.4	9,752.3
Gross Profit	4,245.7	4,039.6	3,409.1
Operating Profit	1,179.3	1,469.5	1,119.8
Profit After Tax	773.7	993.6	708.5
FFO	1,093.6	1,371.8	981.0
<b><u>RATIO ANALYSIS</u></b>	<b>June 30, 2016</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
Gross Margin (%)	32.2	34.9	35.1
Net Working Capital	457.3	1,245.9	1,022.6
FFO to Total Debt (%)	83.4	357.1	102.9
Debt Servicing Coverage Ratio (x)	19.0	30.8	10.8
ROAA (%)	12.8	18.9	15.3
ROAE (%)	29.5	40.0	36.6
Gearing (x)	0.5	0.1	0.4
Debt Leverage (x)	1.6	1.0	1.3

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

Medium to Long-Term

**AAA**

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

**AA+, AA, AA-**

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

**A+, A, A-**

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

**BBB+, BBB, BBB-**

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

**BB+, BB, BB-**

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

**B+, B, B-**

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

**CCC**

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

**CC**

A high default risk

**C**

A very high default risk

**D**

Defaulted obligations

Short-Term

**A-1+**

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

**A-1**

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

**A-2**

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

**A-3**

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

**B**

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

**C**

Capacity for timely payment of obligations is doubtful.

**Rating Watch:** JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.com.pk/images/criteria_watch.pdf)

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.com.pk/images/criteria_outlook.pdf)

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. [www.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES				Appendix III	
<b>Name of Rated Entity</b>	National Foods Limited				
<b>Sector</b>	Consumer Goods				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	12/9/2016	AA-	A-1	Stable	Reaffirmed
	3/20/2015	AA-	A-1	Stable	Reaffirmed
	3/28/2014	AA-	A-1	Stable	Upgrade
	6/25/2012	A+	A-1	Stable	Maintained
	6/1/2011	A+	A-2	Stable	Reaffirmed
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
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