

RATING REPORT

International Brands Limited

REPORT DATE:

July 20, 2017

RATING ANALYST:

Talha Iqbal

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RATING DETAILS

	Initial Rating
Rating Category	Long-term
Sukuk	AA
Rating Outlook	Stable
Rating Date	18 th July'17

COMPANY INFORMATION

Incorporated in 1981	External auditors: A.F. Ferguson & Company
Public Limited Company	Chairman: Mr. Rashid Abdulla
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Rashid Abdulla
Abdulla Family – 89%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporates (May 2016)*

<http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf>

International Brands Limited

OVERVIEW OF THE INSTITUTION

IBL, previously named Kehkashan (Private) Limited, was incorporated on January 26th, 1981 as a private limited company under the now repealed Companies Act, 1913. Subsequently, the company was renamed International Brands Limited under the Companies Ordinance, 1984. IBL was converted into a public limited company on October 25th, 2013 with principal business activity to hold and manage investments in other group companies.

RATING RATIONALE

Corporate Profile

IBL operates under a holding company structure and has investments in a number of companies from different sectors including pharmaceutical manufacturing, food franchising, agrochemical, fertilizers, marketing, distribution and retail. Largest investment on balance sheet is in The Searle Company Limited (Searle) shares representing around two-third of total investments. Second largest investment is in IBL Operations (Private) Limited, a wholly owned subsidiary of IBL. The company provides marketing and distribution services to FMCG, consumer and pharmaceutical companies.

Searle, major investment on balance sheet and underlying security of proposed Sukuk, has strong financial and business risk profile which a key rating driver. Financial profile of Searle derives strength from healthy cash flows in relation to outstanding obligations, declining leverage indicators and growing profitability. Business risk profile draws support from company's market position, diversified revenue streams and country's demographic profile.

Structure of the Sukuk

The company intends to raise Rs. 4billion (inclusive of a green shoe option of Rs. 1.5billion) through a Sukuk issue with a tenor of 4 years. Proceeds of the Sukuk will be utilized for operational requirements and expansion of business. Principal repayment of the Sukuk is at maturity with annual profit payment frequency. Security structure of the Sukuk entails pledge of shares of Searle (based on one year average share price) with the trustee with 100% margin.

The Sukuk issue will be repaid through a planned Initial Public Offering (IPO) to be completed prior to the expiry of the Sukuk. In case of non-payment of the entire Sukuk amount 10 days prior to maturity, the Sukuk carries a conversion option whereby investors will be eligible for Searle shares based on the past 3 months average price of Searle shares. Profit payment for the Sukuk is planned to be made through dividend income from subsidiaries. Most of the dividend income has been projected to be materialized from two group companies.

The Sukuk rating is dependent upon strict adherence to the following structural features of the Sukuk:

- The Sukuk issue will be repaid through a planned Initial Public Offering (IPO) to be completed prior to the expiry of the Sukuk. Fall back debt servicing of the Sukuk issue carries the feature of convertibility into shares of Searle, to the extent of any shortfall in principal and profit payment.
- The debt leverage of the company is not projected to increase beyond the existing level of debt (Rs. 1billion) plus projected Sukuk (Rs. 4billion).

Financial Profile

IBL posted higher profitability (FY16: Rs. 789.3m; FY15: Rs. 191.3m) during FY16 on account of increase in dividend income and higher realized capital gains. Entity ratings assigned, reflect current and projected capital structure and quantum of cash flows in relation to outstanding obligations. Moreover, there is significant difference between cost of investments held on balance sheet and market value of investments. Given that principal and profit payment of the Sukuk has been secured by way of shares of Searle, JCR-VIS has only factored in existing debt and its principal & profit payments while arriving at gearing and debt servicing coverage of IBL. The ratings also draw comfort from the projected debt leverage of IBL not exceeding beyond the existing level of debt (Rs. 1billion) plus projected Sukuk (Rs. 4billion).

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix I

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

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

[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

'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 II	
Name of Rated Entity	International Brands Limited				
Type of Relationship	Solicited				
Purpose of Rating	Sukuk and Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: SUKUK</u>				
	18/07/2017	AA	n/a	Stable	Preliminary
	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	18/07/2017	A	A-2	Stable	Initial
Sukuk Structure	<p>The company intends to raise Rs. 4billion (inclusive of a green shoe option of Rs. 1.5billion) through a Sukuk issue with a tenor of 4 years. Proceeds of the Sukuk will be utilized for operational requirements and expansion of business. Principal repayment of the Sukuk is at maturity with annual profit payment frequency. Security structure of the Sukuk entails pledge of shares of Searle (based on one year average share price) with the trustee with 100% margin. Fall back debt servicing of the Sukuk issue carries the feature of convertibility into shares of Searle, to the extent of any shortfall in principal and profit payment.</p>				
Statement by the Rating Team	<p>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.</p>				
Probability of Default	<p>JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.</p>				
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