

RATING REPORT

International Brands (Private) Limited

REPORT DATE:

May 21, 2020

RATING ANALYSTS:

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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Sukuk	AA	N/A	AA	N/A
Rating Outlook (Sukuk)	Rating Watch-Developing		Stable	
Entity	A	A-2	A	A-2
Rating Outlook (Entity)	Stable		Stable	
Rating Date	21 st May'20		4 th April'19	

COMPANY INFORMATION

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

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (May, 2016) <http://www.vis.com.pk/kc-meth.aspx>

International Brands Private Limited

OVERVIEW
OF THE
INSTITUTION

RATING RATIONALE

IBPL, previously named Kebkashan (Private) Limited, was incorporated in January, 1981 as a private limited company. IBPL was converted into a public limited company in October, 2013 with principal business activity to hold and manage investments in other group companies.

Corporate Profile

International Brands (Private) Limited (IBL) is a holding company with a diversified business profile and investments in various sectors including pharmaceuticals, foods, distribution, technology and retail. However, pharmaceutical segment remains the major contributor to revenues and profitability. The group drives its major revenues in form of dividend income from two subsidiaries namely; The Searle Company Limited (Searle) and IBL Operations (Private) Limited (IBL Operation).

Corporate Governance Framework

Over the last 18 months, the corporate governance framework has witnessed improvement with effective board oversight and formalized organogram implemented at the holding company level. Group level heads for senior management positions were hired. However, turnover was witnessed at key positions during the review period which have been filled through internal promotions by giving additional responsibility to existing resources.

Balance Sheet Composition

Asset base of the company was reported at Rs. 9.4b (FY19: Rs. 8.5b; FY18: Rs. 8.1b; FY17: 4.9b) at end-HFY20. This growth in asset base was largely funded by higher long-term financing (Sukuk issued in FY18). At present, long-term investments in subsidiaries and investment property represent more than four-fifth of total assets. Total investment portfolio comprises 17 companies while three-fourth of the portfolio is represented by Searle and IBL Operations.

During outgoing year FY19, IBL entered into an agreement with a local pharmaceutical firm for the sale of investment property at Rs. 3.3b while sale proceeds are to be received in a twenty two equal monthly installments of Rs. 150m each. Of total consideration, the company has received Rs. 1.3b (9 out of 22 installments) as at end-HFY20.

Sukuk

In FY18, IBL raised Rs. 2.83b through a privately placed Sukuk issue in order to fund the acquisition of investment property and to subscribe right shares issuance undertaken by subsidiary company (United Brands Limited). Security structure of Sukuk entails a pledge of 21.2m shares of Searle. The principal payment of the Sukuk was revised from bullet payment to monthly payment during the ongoing fiscal year. As per revised terms, 28 fixed installments (monthly principal plus quarterly profit payments) of Rs. 120m each is to be paid to Sukuk holders per month. The arrangement has been functioning smoothly since August 2019 till April 2020. However, in light of the impact of COVID-19 on the Group, a deferment of the principal payment had been sought from the Sukuk certificate-holders. The deferment of principal payment has been agreed for a 6 month period (quarterly profit payment would continue during the period) subsequent to which monthly installment payment to Sukuk certificate-holders would commence from November 2020. Ratings assigned to the Sukuk take into account fall back debt servicing mechanism of the Sukuk issue that carries the feature of timely sale or convertibility into shares of Searle, to the extent of any shortfall prior to due date for each installment.

Sukuk Repayment Schedule			
(PKR millions)	FY20	FY21	FY22
Principal	976.4	1,263.2	590.4

Overall dividend income has witnessed a declining trend but cash flows are supported by inflows from sale of investment property.

Dividend Income (PKR millions)	FY17	FY18	FY19	HFY20
IBL UniSys	5.0	4.9	-	-
United Brands	-	5.1	-	-
Searle	484.7	672.7	500.3	287.7
IBL Health	0.1	0.2	0.1	0.2
IBL Operations	90.4	119.9	4.7	5.4
Others	0.4	0.1	-	3.0
Total	580.6	802.9	505.1	296.3

Post FY18, overall dividend income has witnessed a declining trend primarily due to lower dividend contribution from IBL Operations while inflows from Searle have also reduced during the ongoing year.

Expense base primarily includes information technology and corporate charges incurred on behalf of group companies (income) which is offset through reimbursement of the same. Finance charges almost doubled in FY19 due to considerable jump in benchmark rates. During HFY20, finance cost was reported at Rs. 252.6m (FY19: Rs. 476.1m). Net profit was reported at Rs. 48.7m (FY19: Loss of Rs. 119.1m) in HFY20.

Debt servicing is expected to remain comfortable

Total interest bearing debt of the company amounted to Rs. 4,324.3m (FY19: Rs. 4,380.0m) as at end-HFY20; of which ~79% constitutes long-term debt. Around three-fourth of outstanding long-term debt pertains to privately placed Sukuk with remaining pertaining to long term Islamic financing facility from Dubai Islamic Bank (DIB) and a loan from subsidiary company (IBL Healthcare Limited). In terms of debt servicing, monthly proceeds received from the sale of land and dividend inflows remain sufficient for debt servicing.

Long-term Debt (Including Current Portion)			
(PKR millions)	FY18	FY19	HFY20
IBL Healthcare Limited	262.8	249.6	249.6
DIB	915.9	709.5	709.5
Sukuk	2,830.0	2,830.0	2,421.7
Finance Lease Obligations	-	20.9	20.0
Long term Debt	4,008.7	3,810.0	3,400.8

Performance of flagship subsidiary companies has remained satisfactory with limited impact due to coronavirus outbreak

The Searle Company Limited

Searle is a public listed local pharmaceutical company engaged in manufacturing and sale of medicines and consumer products for over five decades. Searle is relatively ranked at number third in terms of volume and fourth in terms of value amongst local pharmaceutical

firms. IBL currently holds 56.6% shareholding of the company.

Searle's product portfolio is well diversified comprising 100+ products catering to over 19 therapeutic segments with overall 93% therapeutic area-wise coverage. As per management's long term strategic vision, strong focus on treatment of chronic diseases has positively contributed to sustainability of customer base and repeat business. Going forward, key focus area will remain on cardiovascular, nutraceutical and pain management segments. Overall therapeutic area coverage and product portfolio has broadened further with acquisition of OBS Pakistan portfolio.

Over the past ten fiscal years (FY08-18), topline has registered a double digit CAGR growth of ~22.1% outpacing the industry growth of ~12%. Significant new molecule introductions, expanding doctors' coverage, higher sales volume and efficiencies brought in the sales process have been the major drivers of this growth. Moreover, Searle's financial profile is supported by low leveraged capital structure and healthy cash flow coverages. While remaining within comfortable levels, cash flow coverages and debt serving cushion are expected to weaken vis-à-vis current levels as additional debt is undertaken. Dividend payout ratio has declined on a timeline basis.

Searle	FY17	FY18	FY19
EPS (PKR)	14.3	14.3	12.4
DPS	10	5	2.5
Payout Ratio	69.9%	34.8%	20.1%
Gross Margins	38.9%	35.0%	33.8%
Gearing	0.16	0.23	0.29
Leverage	0.35	0.49	0.65
FFO (PKR millions)	2,621.4	3,074.3	2,719.0
FFO/Total Debt	160.1%	112.3%	68.8%
Total Equity (PKR millions)	9,924.8	11,740.2	13,467.1

IBL Operations (Private) Limited

IBL Operations was incorporated as a private limited company for the purpose of distribution of pharmaceutical, healthcare items and consumer goods. The company also provides sales related services of telecommunication products. It is a fully owned subsidiary of IBL with 100% shareholding vested with its parent company.

IBL Operations	FY16	FY17	FY18
Net Profit (PKR millions)	(177.3)	115.2	143.1
Gross Margins	14.6%	12.8%	10.8%
FFO (PKR millions)	(175.0)	70.0	157.3
FFO/Total Debt	-25.5%	10.4%	22.9%
Gearing	1.97	1.81	1.73
Leverage	12.36	10.79	11.56
Equity (PKR millions)	349.0	374.0	397.0
Dividends Paid (PKR millions)	-	90.3	119.9

International Brands Private Limited
Appendix I

FINANCIAL SUMMARY				
<i>(amounts in PKR millions)</i>				
BALANCE SHEET	FY17	FY18	FY19	HFY20
Non-Current Assets	4,886.9	7,923.6	8,315.6	8,502.0
Long Term Investments	4,866.6	5,711.9	5,469.9	5,472.2
Investment Property	-	2,196.7	2,196.7	2,196.7
Other Receivables	50.1	93.4	144.9	703.4
Total Assets	4,968.9	8,085.7	8,515.3	9,403.3
Trade and Other Payables	358.6	235.0	118.8	227.4
Long Term Finances <i>(Including current portion)</i>	1,260.9	4,008.7	3,810.0	3,400.8
Total Interest Bearing Debt	1,260.9	4,008.7	4,380.0	4,324.3
Total Liabilities	1,654.2	4,427.1	5,226.3	6,063.1
Paid -up Capital	2,350.8	2,350.8	2,350.8	2,350.8
Total Equity <i>(Including surplus)</i>	3,314.7	3,658.6	3,289.0	3,340.1
INCOME STATEMENT				
Total Income	578.5	848.8	532.5	315.8
Administrative Expenses	234.2	66.0	172.2	13.7
Finance Cost	49.3	240.3	476.1	252.6
Profit before Tax	294.8	542.5	(115.8)	49.5
Taxation	0.7	9.4	3.3	0.8
Profit After Tax	294.1	533.1	(119.1)	48.7
RATIO ANALYSIS				
Gearing (x)	0.40	1.13	1.37	1.33
Debt Leverage (x)	0.52	1.25	1.63	1.87
Current Ratio (x)	0.15	0.21	0.07	0.30

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERSMedium 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 moderate 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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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.

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
	RATING TYPE: SUKUK				
	05/06/2020	AA	N/A	Stable	Reaffirmed
	04/04/2019	AA	N/A	Stable	Final
	18/07/2017	AA	N/A	Stable	Preliminary
	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	05/06/2020	A	A-2	Stable	Reaffirmed
	04/04/2019	A	A-2	Stable	Reaffirmed
	18/07/2017	A	A-2	Stable	Initial
Sukuk Structure	The company raised Rs. 2.83b through a privately placed Sukuk issue mainly to fund business expansion needs. During the ongoing year, Sukuk underwent restructuring whereby the principal is now repayable on monthly basis along with quarterly profit payments frequency. Security structure of Sukuk entails a fixed pledge of shares of Searle (21.2m) with the trustee with 110% 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.				
Statement by the Rating Team	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.				
Probability of Default	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.				
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Due Diligence Meetings Conducted	Name		Designation	Date	
	1	Mr. Mobeen Alam	CFO	5-May-2020	