

RATING REPORT

International Brands Limited

REPORT DATE:

February 18, 2021

RATING ANALYST:

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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Sukuk	AA	-	AA	-
Rating Outlook (Sukuk)	Stable		Rating Watch-Developing	
Entity	A	A-2	A	A-2
Rating Outlook (Entity)	Stable		Stable	
Rating Date (Sukuk)	18 th Feb'21		21 st May'20	

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. Munis Abdullah

APPLICABLE METHODOLOGY(IES)

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

International Brands Limited

OVERVIEW
OF THE
INSTITUTION

RATING RATIONALE

IBL, previously named Kebkashan (Private) Limited, was incorporated in January, 1981 as a private limited company. IBL 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 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 Operations).

Investment Portfolio

At present, long-term investments in subsidiaries and investment property represent more than four-fifth of total asset base. Total investment portfolio comprises 17 companies while three-fourth of the portfolio is represented by Searle and IBL Operations.

Sukuk Issue

IBL raised Rs. 2.83b through a privately placed Sukuk issue in FY18 in order to fund acquisition of investment property and subscription of right shares issuance undertaken by subsidiary company (United Brands Limited). Security structure of Sukuk entails a pledge of 21.2m shares of Searle.

Sukuk restructuring, principal deferment for a six month period and resumption of the same. Outlook assigned to instrument's rating has been revised to 'Stable'

In FY19, the principal repayment structure was revised from bullet to monthly payments and 28 fixed monthly installments (principal plus quarterly profit) of Rs. 120m each were committed to Sukuk holders. The arrangement functioned smoothly from Aug'19 to Apr'20 and Rs. 807.2m (9 out of 28 installments) was paid. However, with the advent of Covid19 pandemic and its impact on the Group, a deferment of principal payment for six-month period with the continuation of quarterly profit payments was sought with Sukuk certificate-holders. As planned, the principal payments have resumed from Nov'20 onwards.

Principal Repayment Schedule (Revised)			
(PKR millions)	FY20	FY21	FY22
Principal	807.2	861.9	1,160.9

Fall back arrangement of shares encashment is a rating strength

IBL adequately maintains a separate debt service account for sukuk repayment in which funds are made available 10 days prior to each due date. In case of any shortfall in the same, the sukuk issued carries a feature of timely sale or convertibility into shares of Searle which is a fall back arrangement and provides additional comfort to the assigned rating.

Inflows from sale of land & two subsidiaries provide comfort to debt servicing

In FY19, IBL entered into an agreement with a local pharmaceutical firm for the sale of investment property (land) at Rs. 3.45b; out of which Rs. 150m was received upon execution of the agreement and 21 out of total 22 installments of Rs. 150m each have been received which amounted to Rs. 3.15b. Further in Nov'20, IBL disposed two of its

subsidiaries namely, United Distribution Pakistan Limited (UDPL) and International Franchises (Private) Limited (IFL) to Universal Ventures (Private) Limited at a total consideration of Rs. 1.16b.

Improvement in profitability profile in the ongoing year

Dividend Income (PKR millions)	FY17	FY18	FY19	FY20	HFY21
IBL Unisys	5.0	4.9	-	-	-
United Brands	-	5.2	-	-	-
Searle	484.7	672.7	500.3	287.7	300.6
IBL Health	0.1	0.2	0.1	0.2	0.3
IBL Operations	90.4	119.9	-	-	-
United Distributors	-	-	4.7	5.4	-
Others	0.4	0.1	-	3.3	-
Total	580.6	803.0	505.1	296.6	300.9

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 on a timeline basis.

Expense base primarily includes information technology and corporate charges incurred on behalf of group companies (income) which is offset through reimbursement of the same. Given the significant decrease in benchmark rates, finance cost incurred by IBL has reduced by half in HFY21 vis-à-vis corresponding period last. This has translated into a net profit after tax of Rs. 193.9m post two consecutive years of negative bottom-line.

International Brands Limited

Appendix I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>				
BALANCE SHEET	FY18	FY19	FY20	HFY21
Total Non-Current Assets	7,923.6	8,315.6	6,195.7	8,815.3
Long Term Investments	5,711.9	5,746.3	5,479.3	8,060.9
Investment Property	2,196.7	2,196.7	-	-
Other Receivables	93.4	138.5	883.0	2,139.3
Total Assets	8,085.7	8,515.3	9,342.8	13,512.4
Trade and Other Payables	235.0	108.6	146.1	145.4
Long Term Finances <i>(Including current portion)</i>	4,008.7	4,260.0	2,953.8	5,111.3
Total Interest Bearing Debt	4,008.7	4,830.0	3,193.8	2,568
Total Liabilities	4,427.1	5,226.3	6,309.6	10,074.2
Paid -up Capital	2,350.8	2,350.8	2,350.8	2,350.8
Total Equity <i>(Including surplus)</i>	3,658.6	3,289.0	3,033.2	3,438.2
INCOME STATEMENT				
Total Income	848.8	532.5	384.3	303.6
Administrative Expenses	(66.0)	(172.2)	(42.5)	36.8
Finance Cost	(240.3)	(476.1)	(505.9)	(146.5)
Other Operating Expense	-	-	(112.3)	-
Profit / (Loss) Before Tax	542.5	(115.8)	(276.4)	193.9
Taxation	(9.4)	(3.3)	(1.4)	(0.5)
Profit / (Loss) After Tax	533.1	(119.1)	(277.8)	193.4
RATIO ANALYSIS				
Gearing (x)	1.10	1.47	1.25	1.58
Debt Leverage (x)	1.21	1.59	2.08	2.93
Current Ratio (x)	0.21	0.08	0.21	0.36

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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 Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: SUKUK				
	18/02/2021	AA	-	Stable	Reaffirmed
	05/06/2020	AA	-	Rating Watch-Developing	Maintained
	04/04/2019	AA	-	Stable	Final
	18/07/2017	AA	-	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. In FY19, 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.				
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