RATING REPORT

International Brands Limited

REPORT DATE:
April 08, 2019

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**
Entity	**A**	**A-2**	**A**	**A-2**
Rating Outlook	Stable		Stable	
Rating Date	*04th April'19*		*18th July'17*	

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):	**Chief Executive Officer:** Mr. Faisal Farooq
Abdulla Family – 89%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (May 2016)
https://www.vis.com.pk/kc-meth.aspx

International Brands Limited

OVERVIEW OF THE INSTITUTION

IBPL, 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named Kehkashan (Private) Limited, was incorporated on January 26th, 1981 as a private limited company under the now repealed Companies Act, 1913.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. IBPL 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 and Governance

International Brands Limited (IBL) was formed as a private limited company in 1981 and operates under a holding company structure. The Company has a diversified investment portfolio in various sectors including pharmaceuticals, foods, distribution, technology and retail. The principal activity of the company is to hold and manage investments. Since last review, the company has undertaken a detailed exercise through an external consultant for growth strategy and governance. Post this exercise, board composition has been revamped to align with best practices while qualified and experienced professionals have been inducted in the senior management team to oversee overall group and operations of subsidiaries.

Balance Sheet Composition

Total asset base of IBL amounted to Rs. 8.08b (FY17: Rs. 4.97b). Increase in asset base has primarily been funded by higher borrowings. Long-term investment in subsidiary companies and investment property held on balance sheet represent over 90% of total assets. The investment portfolio comprises 17 companies. However, investment in The Searle Company Limited (Searle) and IBL Operations (Private) Limited (IBL Operations) represent the major portion of the investment portfolio at around three-fourth of the total investment portfolio. Dividend income from Searle and IBL operations represented 98.7% of total dividend income during FY18.

Performance of key investments: The Searle Company Limited

Searle is a listed entity incorporated to manufacture pharmaceutical and other consumer goods. IBL holds 56.71% shareholding in the company with a controlling stake. Searle had a market capitalization of Rs. 52.2b (2017: Rs. 58.16b) at end-Dec'2018. The Company has a diverse therapeutic area coverage including cardiovascular, cold & cough, diabetes, infant formula, probiotic and antibiotics. Diversifying product portfolio and enhancing share of specialty branded portfolio remains a key focus area. Going forward, the Company plans to diversify into nutraceuticals, medical devices, bio-similar and genome sciences.

Over the last few years, the company has witnessed a healthy growth trajectory with revenue base increasing at a 5 year Compounded Annual Growth Rate (CAGR) of 20.18%. Growth in sales has been a function of diversified & mature product portfolio, enhanced branding efforts and expansion in doctor coverage. However, gross margins witnessed a declining trend on account of rupee depreciation. Despite a dip in gross margins and profitability, liquidity and capitalization indicators have remained healthy. Dividend payout ratio has declined on a timeline basis while the Company has not paid any interim dividend during FY19. Recent 15% price increase to pass on the impact of rupee depreciation and government's healthcard initiative is expected to bode well for outlook of the pharmaceutical sector and Searle.

Searle	FY16	FY17	FY18	1HFY19
EPS	13.77	14.29	16.51	6.85
DPS	5	10	5	-
Payout Ratio	36%	70%	30%	-
Gross Margins	39%	39%	34%	50.3%
Gearing	0.136	0.16	0.23	0.31
Leverage	0.36	0.35	0.49	0.65
FFO	1,851	2,621	3,075	1,538
FFO/Total Debt	166%	160%	112%	82%

Total Equity	8,180	9,925	11,740	12,277

Performance of key investments: 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. Sales of the company have been on an upward trajectory while profit before tax growth remained limited due to pressure on margins and rising cost of doing business. As per the management, the company has recently added a new client which would facilitate in expanding the revenue base besides organic growth in sales of existing clients. With no long-term debt on balance sheet, dividend payout ratio (FY18: 84%; FY17: 78%) has remained on the higher side.

IBL Operations	FY16	FY17	FY18
Net Profit	(177.30)	115.17	143.1
Gross Margins	14.6%	12.88%	10.80%
FFO	(175)	70	157.3
FFO/Total Debt	-25%	10%	23%
Gearing	1.97	1.81	1.73
Leverage	12	10.79	11.56
Equity	349	374	397
Dividends Paid	0	90.35	119.89

Cash flow and dividend stream

Dividend Income (In Mn.)	FY16	FY17	FY18
IBL UniSys	-	5	5
United Brands	10	-	5
Searle	93	485	673
IBL Health	13	0	0
IBL Operations	-	90	120
Other	3	_	_
Total Dividend Income	120	580	803

Dividend income of the company has witnessed notable growth during FY18 owing to higher dividend payout from Searle and IBL operations. The company has also earned rental income on the recently acquired property during FY18. Dividend income is dominated by inflows from Searle and IBL operations while IBL Unisys, United Brands Limited and IBL Healthcare also contribute to the overall dividend income. Expense base primarily includes information technology and corporate charges incurred on behalf of associated companies (income). These are offset by reimbursement charges claimed from these companies. Finance costs exhibited a substantial jump in FY18 primarily owing to higher borrowings in the form of Sukuk and DIB Long Term Loan. However, higher dividend income and absence of sizeable one-off expenses translated into sizeable jump in profitability (FY18: Rs. 533m; FY17: Rs. 294m). Dividend income during 1HFY19 amounted to Rs. 505m.

Debt Servicing

Excluding loan from subsidiary company, total debt outstanding at end-FY18 was Rs. 3.75b. Around three-fourth of the outstanding debt pertains to privately placed Sukuk with remaining pertaining to long term Islamic financing facility from Dubai Islamic Bank (DIB). The long term finance facility from

DIB is repayable in 5 unequal annual installments whereas the Sukuk has a bullet repayment structure which would be due in FY22. The markup charged on DIB loan is 12 months KIBOR plus 1.5% while profit payments on the sukuk is 12 months KIBOR plus 0.5% per annum. Cash flow from dividend income was sufficient to service outstanding debt obligations (principal and interest) for FY18. Going forward, sizeable expected increase in finance cost due to significant jump in benchmark rates and higher overheads will necessitate commensurate rise in dividend income to allow for maintaining cash flow buffer for meeting obligations.

Sukuk

During FY18, the company raised Rs. 2.83b through a privately placed Sukuk issue. Out of the total issue, Rs. 2.19b was utilized to fund the acquisition of investment property while the rest was utilized to subscribe the rights shares issuance undertaken by United Brands Limited. Tenor of the instrument is of 4 years and its redemption will be through a bullet payment at the end of fourth year. The Sukuk is planned to be repaid through a planned Initial Public Offering to be completed prior to the expiry of the Sukuk. Security structure of the Sukuk entails a pledge of 15.14m shares of Searle. Ratings draw support from the fall back debt servicing mechanism of the Sukuk issue that carries the feature of timely convertibility into shares of Searle, to the extent of any shortfall in principal and profit payment. However, margin of Searl shares has witnessed a noticeable decline given the sharp reduction in share price of Searl. At current market price of Searle (Rs. 230/share), the shares pledged offers a coverage of 1.27 times the Sukuk obligation to be paid.

	Margin on the date of issuance of rating	**Margin as on 22nd March 2019**
Sukuk Amount Payable (Rs. Mn)	2,830	2,830
Number of Shares Pledged	15.10	15.10
Market Price (Rs./Share)	341	230
Amount Allotted to investors (Rs. Mn)	5,149	3,473
Coverage (times)	1.82	1.23

International Brands Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*		
BALANCE SHEET	**30-Jun-17**	**30-Jun-18**
Non-Current Assets	4,886	7,923
Long Term Investments	4,865	5,712
Investment Property	-	2,196
Other Receivables	50.1	93.4
Other Assets	31.9	68.6
Total Assets	4,968	8,085
Trade and Other Payables	358.5	235
Long Term Finances – Secured	987.9	3,672
Total Interest Bearing Debt	1,261	4,008
Other Liabilities	307	520
Total Liabilities	1,654	4,427
Total Equity	3,314	3,658
INCOME STATEMENT	**30-Jun-17**	**30-Jun-18**
Total Income	578.5	849
Administrative Expenses	234.2	66.05
Finance Cost	49.3	240.3
Profit before Tax	294.8	542.5
Taxation	0.7	9.3
Profit After Tax	294.1	533.1
RATIO ANALYSIS	**30-Jun-17**	**30-Jun-18**
Gearing (x)	0.29	1
Debt Leverage (x)	0.49	1.21

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: 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				
04/04/2019	AA		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				
04/04/2019	A	A-2	Stable	Reaffirmed
18/07/2017	A	A-2	Stable	Initial

Sukuk Structure	The company has raised Rs. 2.83billion through a Sukuk issue with a tenor of 4 years. Proceeds of the Sukuk were mainly utilized for expansion of business. Principal repayment of the Sukuk is at maturity with annual profit payment frequency. Security structure of the Sukuk entails a fixed pledge of shares of Searle (15.1mn) 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.
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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