RATING REPORT

International Brands Limited

REPORT DATE:
July 2, 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 (Entity)	*2nd July'21*		*21st 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):	**Chief Executive Officer:** Mr. Munis Abdullah
Abdulla Family ~89%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Industrial Corporates (May, 2019) https://s3-us-west 2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

International Brands Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

IBL, previously named Kehkashan (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 Ops).

In the ongoing year, the position of CEO was filled by Mr. Munis Abdullah in place of late Mr. Rashid Abdulla. Furthermore, 2 directors (Mr. Shahid Abdulla and Mr. Asad Abdulla) tendered their resignation from the position of director; one of which was filled by appointing Mrs. Faiza Naeem.

Investment portfolio and update on the sale of two wholly-owned subsidiaries and an investment property.

IBL's long-term investment portfolio, representing more than four-fifth of total asset base, comprises investment in six subsidiaries and one associate. Three-fourth of the portfolio is represented by Searle and IBL Ops. Total long-term investments in subsidiary companies increased to Rs. 7.7b (FY20: Rs. 5.3b) at end-HFY21 on account of subscription in Searle's right share issue which was funded through a related party (Universal ventures) equity investment in IBL.

During the period under review, IBL sold 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 with immediate payment settlement. Moreover, all the 22 monthly sale proceeds, which pertained to the land sale agreement signed by IBL in FY19 with a local pharmaceutical firm, adding up to Rs. 3.45b have been fully realized.

Sukuk restructuring, principal deferment for a six month period and resumption of the same.

The company raised Rs. 2.83b through a privately placed Sukuk issue in FY18. Sukuk's principal repayment structure was revised from bullet to monthly payments in FY19 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 Covid-19 pandemic, its impact on the Group and in line with the deferment policy announced by SBP, principal payment for six-month period were deferred by the Sukuk certificate-holders with the continuation of quarterly profit payments. As planned, the principal payments resumed from Nov'20 onwards.

Principal Repayment Schedule (Revised)			
(PKR millions)	**FY20**	**FY21**	**FY22**
Principal	807.2	861.5	1,161.3

Fall back arrangement of shares encashment is the rating strength for sukuk

Security structure of Sukuk entails a pledge of 21.2m shares of Searle. 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, the instrument carries a feature of timely sale or convertibility into shares of Searle which is a fall back arrangement and provides added comfort to the assigned rating.

Profitability profile has witnessed a turnaround during the ongoing year on account of rationalization in expense base.

Post FY18, overall dividend income has witnessed a declining trend given no dividend contribution from IBL Ops while inflows from Searle also reduced on a timeline basis. Going forward, recent acquisition of OBS Pakistan by Searle and transfer of distribution business to IBL Ops is expected to fuel growth in sales and profitability of aforementioned subsidiaries in the forthcoming years, increasing substantially the flow of dividend streams to IBL in view of its control over these subsidiary companies.

Dividend Income					
(PKR millions)	**FY17**	**FY18**	**FY19**	**FY20**	**11M'FY21**
IBL Unisys	5.0	4.9	-	-	-
United Brands	-	5.2	-	-	-
Searle	484.7	672.7	500.3	287.7	287.7
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**	**288.0**

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 along with significant reduction in administrative overheads has translated into a net profit after tax of Rs. 193.4m post two consecutive years of negative bottom-line.

Substantial projected growth in dividend income provide comfort to debt servicing

Overall debt profile of the company is largely long-term in nature. Total long-term debt outstanding at end-11M'FY21 amounted to Rs. 1.8b (FY20: Rs. 2.9b). In terms of debt servicing, comfort is drawn from the sale proceeds of land and subsidiaries along healthy projected growth in dividend inflows from Searle and particularly from IBL Ops (which would be issued as advance against future dividends). Realization of projected dividend stream is an important rating driver, going forward.

Long-term Debt (Including current portion)				
(PKR millions)	**FY18**	**FY19**	**FY20**	**11M'FY21**
IBL Healthcare Limited	262.8	249.6	229.0	-
DIB	915.9	709.5	698.8	485.1
Sukuk	2,830.0	2,830.0	2,002.8	1,253.9
SBP Refinance Scheme for employees' salaries	-	-	23.9	57.5
Finance Lease Obligations	-	20.9	3.2	0.9
Long term Debt	**4,008.7**	**3,810.0**	**2,953.8**	**1,797.4**

Performance of flagship subsidiary companies

The Searle Company Limited

Operating for over five decades in the industry, The Searle Company Limited is a public listed company primarily engaged in the manufacturing and sales of pharmaceutical and consumer goods. Searle is one of the leading local pharmaceutical firms in Pakistan and is currently ranked second in terms of volume and fourth in terms of value. As of 11M'FY21, 56.7% of Searle's holdings are vested with IBL. During the outgoing year, the company acquired OBS Pakistan (OBS) with 100% ownership which has significantly improved the profitability profile and cash flows.

Searle's diversified product mix consists of 100+ different products that provide to over more than 19 corrective and curative segments. Revenue proceeds arriving from cardiovascular, respiratory, nervous, alimentary tract and musculo-skeletal system segments have provided comfort to the topline during FY20. Overall therapeutic area coverage and product portfolio has broadened further with acquisition of OBS Pakistan portfolio. The top-five selling products of OBS are Venofer, Decadron, Sinemet, Aldomet and Ferinject which cover the cardiology, neuropsychiatry, gynecology, ophthalmology, endocrinology, vaccines and bone disorder segments.

Over the past five fiscal years (FY15-19), topline has reported double digit CAGR of ~14.8%. The growth momentum sustained in FY20 and the net revenue crossed the Rs. 16b mark. Local sales constitute over 90% of total revenues generated. During 1QFY21, net sales were registered higher at Rs. 5.6b (1QFY20: Rs. 5b) with completion of acquisition of OBS being the key growth driver.

While remaining satisfactory, Searle's cash flow coverages have weakened as at end-1Q'FY21 following a sizeable growth in debt levels. Post-acquisition of OBS, working capital cycle has also increased leading to higher short term borrowings. Capitalization levels of the company have increased on account of internal capital generation and completion of rights issue. Dividend payout ratio has remained similar to prior year's level. Going forward, cash flow coverages are expected to improve due to debt repayments and increase in cash flows.

Searle	FY18	FY19	FY20	3MFY21
EPS (PKR)	16.5	12.4	11.6	2.8
DPS	6.0	2.5	2.5	
Payout Ratio	30.0%	20.1%	20.0%	
Gross Margins	35.0%	33.8%	49.9%	49.4%
Gearing	0.23	0.29	0.35	0.96
Leverage	0.49	0.65	0.55	1.45
FFO (PKR millions)	3,074.3	2,693.9	3,228.0	933.4
FFO/Total Debt	1.12	0.68	0.60	0.24
Total Equity (PKR millions)	11,740.2	13,467.1	15,424.3	16,029.2

IBL Operations (Private) Limited

IBL Operations is a wholly-owned subsidiary of IBL, operating as a private limited company in Pakistan. Primarily, the company serves its purpose as a distribution house for pharmaceutical items, healthcare products and consumer goods but it is also engaged in providing sales related services of telecommunication products.

IBL Ops has witnessed a turnaround in profitability in the ongoing year on account of significant growth in topline given the volumetric growth emanated from managing the distribution business of OBS Pakistan portfolio of Searle.

IBL Operations	FY18	FY19	FY20	11M'FY21
Net Profit (PKR millions)	143.1	26.2	156.5	492.9
Gross Margins	10.8%	10.5%	9.8%	10.0%
FFO (PKR millions)	157.3	119.5	188.9	605.2
FFO/Total Debt	22.9%	10.5%	15.9%	52.5%
Gearing	1.73	2.69	2.04	1.07
Leverage	11.56	14.34	16.47	8.29
Equity (PKR millions)	397.0	424.0	580.5	1,073.5
Dividends Paid (PKR millions)	119.9	-	-	

International Brands Limited **Appendix I**

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**11M'FY21**
Total Non-Current Assets	7,923.6	8,315.6	6,195.7	8,687.8
Long Term Investments	5,711.9	5,746.3	5,479.3	7,933.4
Investment Property	2,196.7	2,196.7	-	-
Other Receivables	93.4	138.5	883.0	1,966.1
Total Assets	8,085.7	8,515.3	9,342.8	10,872.9
Trade and Other Payables	235.0	108.6	146.1	236.2
Long Term Finances *(Including current portion)*	4,008.7	3,810.0	2,953.8	1,797.4
Total Interest Bearing Debt	4,008.7	4,830.0	3,193.8	1,797.5
Advance received against sale of assets	-	450.0	2,250.0	1,157.0
Total Liabilities	4,427.1	5,226.3	6,309.6	3,981.7
Paid -up Capital	2,350.8	2,350.8	2,350.8	2,350.8
Advance Against Equity	-	-	-	2,543.2
Total Equity *(Including surplus)*	3,658.6	3,289.0	3,033.2	6,891.2
INCOME STATEMENT				
Total Income	848.8	532.5	384.3	1,507.6
Administrative Expenses	(66.0)	(172.2)	(42.5)	(24.1)
Finance Cost	(240.3)	(476.1)	(505.9)	(247.5)
Other Operating Expense	-	-	(112.3)	-
Profit / (Loss) Before Tax	542.5	(115.8)	(276.4)	1,236.0
Taxation	(9.4)	(3.3)	(1.4)	(0.9)
Profit / (Loss) After Tax	533.1	(119.1)	(277.8)	1,235.0
RATIO ANALYSIS				
Gearing (x)	1.10	1.47	1.09	0.28
Debt Leverage (x)	1.21	1.59	2.16	0.59
Current Ratio (x)	0.21	0.08	0.21	0.50

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	Entity & 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
21/05/2020	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				
02/07/2021	A	A-2	Stable	Reaffirmed
21/05/2020	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.
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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