RATING REPORT

Bunny's Limited

REPORT DATE:
September 18, 2018

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	*September 11th, '18*		*March 31th, '17*	

COMPANY INFORMATION

Incorporated in 1980	**External auditors:** Javed & Co. Chartered Accountants
Public Limited Company (un-listed)	and Fazal Mahmood & Co. Chartered Accountants
Key Shareholders (with stake 5% or more):	**Chairman of the Board / CEO:** Mr. Yunus Shafiq Chaudhry
Mr. Yunus Shafiq Chaudhry : 20.0%	
Mr. Omer Shafiq Chaudhry : 20.0%	
Miss Mahnoor Chaudhry : 10.0%	
Pak Brunei Investment Company Limited : 10.9%	
National Bank of Pakistan : 10.0%	
Mr. Zeeshan Chaudhry : 6.0%	
Mr. Taimur Chaudhry : 6.0%	
Mr. Ahsan Chaudhry : 6.0%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Industrial Corporates (May 2016)
http://www.jcrvis.com.pk/kc-meth.aspx

Bunny's Limited (BL)

OVERVIEW OF THE INSTITUTION

Bunny's Limited (BL) was incorporated as a private limited company in 1980 as small unit, manufacturing bread, buns and rusks, catering to the local market of Lahore. BL was converted into a Public Limited Company (un-listed) in March 2005.

Profile of the Chairman

Mr. Younus Shafiq Chaudhry carries over 40 years of professional experience. Mr. Younus is a Mechanical Engineer by profession and had previously managed his own construction company in Dubai.

Financial Snapshot

Core Equity: 1HFY18: Rs. 873m - FY17: Rs. 799m

Net Profit: 1HY18: Rs. 74m - FY17: Rs. 138m

RATING RATIONALE

The ratings assigned to Bunny's Limited (BL) take into account the company's moderate business risk profile owing to its presence in fast moving consumer goods market, largely established brand name and stable pricing leading to sustained margins and profitability. The ratings also derive strength from adequate debt service coverage and low leverage indicators. However, the ratings remained constrained on account of slow growth in revenues, and minimal initiatives of the company towards new market development.

Product Mix and Strategy: BL product portfolio comprises two broad segments, namely; Bread and Snack. Under bread segment, BL produces bread loaves, buns loaves, rusks, cakes, cake rusk, baqer khani, shawarma bread, cookies and frozen parathas. The snack food division produces nimko and similar products with different flavorings. The company is selling its products under three different brands namely; Bunny's, Muncherz – a fast moving ethnic snack food – and Grain Mill – a high end bread product. Muncherz brand also mainly targets high-end customers on account of premium pricing and large packaging sizes. In order to improve market penetration, the company introduced further smaller stock keeping units under Bunny's brand during the outgoing year. Under a manufacturing and supply agreement with PepsiCo International, BL manufactures and stores 'Kurkure'. The agreement between BL and PepsiCo International has been renewed in January 2018 for the next two years. The company markets its products mainly in Lahore and adjacent areas. As per the management, BL and 'DAWN' are the market leaders under the bread segment in Lahore. The remaining market is shared by other small players including a large number of bakeries. Going forward, BL's business strategy entails greater focus and enhanced marketing efforts on snack segment as the same fetches relatively higher margins.

Key Rating Drivers

Presence in confectionary market with favorable demand prospects
Demand driven price risk is largely curtailed given BL's involvement in the sale of consumer products used in day to day consumption of an average household. Moreover, with growth in population coupled with increased trend of consumption of bread and bun products have created a sustainable market for the company. In addition, inventory risk is mitigated by dovetailing procurement orders with precise sale forecasts. Moreover, BL has an established raw material sourcing channel; supplier audits are conducted as per Supplier Quality Assurance schedule.

Sales Mix: Sales largely remained stagnant during FY17; however, the revenue stood higher during 1HFY18 mainly on the back of enhanced marketing efforts. The proceeds from bread department, including cakes, comprised almost 92% of the total net sales while snack department sales constituted the remaining 8%. The company has projected sales to augment to Rs. 2.4b during FY18. The most popular products of BL include bread, bun fruit, shawarma bread and short cake; these collectively contributed more than 50% of net sales during FY17. Over 90% of BL's sales comprised non-institutional sales while the remaining constituted institutional sales to renowned brands including PepsiCo, Walls Unilever, Engro Foods, Hyperstar, Makro and Metro. Going forward, BL expects positive momentum in earnings as a result of increase in production capacity and improved marketing campaigns. The company made CAPEX amounting to Rs. 86.6m to increase the production capacity of bread, bun, rusk and cake rusk during the period under review. Currently, the production facilities for buns and bread are being shared; the management plans to shift bun manufacturing to other facility, which would further enhance production capacity for bread and bun manufacturing. For the above mentioned purpose, the management has projected additional capital investment amounting Rs.

150m, going forward.

Profitability: The gross margins exhibited an improving trend during the period under review owing to decline in realized prices of all the major raw materials including flour, eggs, sugar and cooking oil together with increase in retail prices of end products. In the bread segment, flour constitutes more than half of the cost of production. In the recent years, price of flour has largely remained range bound. The decrease in input costs was an outcome of swift payments made to suppliers which, in turn, led to reaping of discounts on cost price. The increase in cash cycle has been financed mainly by short-term borrowings during the review period. However, the improvement in margins did not fully translate into the bottom line of the company on account of inflationary increase in administrative expenses coupled with higher finance cost. Net profit was recorded slightly higher at Rs. 180.4m (Rs. 150.6m) during FY17.

Liquidity and Funding: Liquidity profile derives strength from adequate cash flows in relation to outstanding obligations. Given that more than two-thirds of sales are executed against cash payments, trade debts of the company remained low. Given the aging profile of trade debts, the company is comfortably placed since less than 1% of the receivables fall over one year period. Funds from Operations (FFO) remained sufficient on a timeline basis. FFO to total debt (annualized) decreased during 1HY18, though still remained adequate, on account relatively higher long and short-term borrowings. Debt service coverage has remained strong.

Capitalization Structure and Ownership: Total equity of the company, though still moderate, expanded on account of internal capital generation. The dividend payout ratio was recorded at 71% (FY16: 62%) for the year end-FY17. Around two-thirds of the company's debt comprised long-term borrowings. With higher relatively higher borrowings, gearing levels increased slightly, albeit remained low. However, debt leverage ratio was rationalized on account of reduction in trade payables during the period under review. During FY17, Mr. Haroon Shafiq Chaudary, the company's largest individual shareholder, sold his shares to various financial institutions including National Bank of Pakistan (NBP) (10.0%), Pak Brunei Investment Company Limited (PBIC) (10.9%) and Awwal Mudarabah (2.4%).

Recently, the company has completed reverse-merger with Moonlite (PAKISTAN) Limited - a listed dormant entity. The company has retained the name – 'Bunny's Limited' – subsequent to the merger. As a consequence of the merger, the core equity of the company has augmented in line with realization of current revaluation surplus on land. With enhanced equity base and projected decline in overall borrowings, leverage indicators are projected to decline, going forward.

As a part of the overall strategy of moving from a family owned business to a public listed company, some of the BL's shareholders have sold their shares to institutional investors during the last three years. Going forward, some of the shareholders plan to go for an offer for sale whereby some of the family members or the institutional investors may offer their shares to public to ascertain the fair value, to increase the free float and to ensure liquidity in the stock. The family plans to retain the major shareholding and management control in the business. The recently constituted board of the merged entity comprises two nominee directors from the institutional investors along with one independent and five family members. At present, the board comprises eight directors with four family members and four outsiders.

Corporate Governance: Senior management team of the company comprises experienced resources having relevant experience in the industry. In terms of minuting of Board meetings and formulation of Board level committees, the corporate governance framework exhibits room for improvement.

Bunny's Limited				Annexure I
BALANCE SHEET	**June 30, 2015**	**June 30, 2016**	**June 30, 2017**	**Dec 31, 2017**
Non-Current Assets	1,617	1,616	1,661	1,669
Stock-in-Trade	243	210	219	226
Trade Debts	193	202	221	215
Cash & Bank Balances	4	2	17	27
Other Assets	86	97	102	109
Total Assets	2,143	2,127	2,220	2,246
Trade and Other Payables	476	471	337	247
Short Term Borrowings	125	120	75	163
Long Term Borrowings	207	141	355	315
Other Liabilities	211	222	242	236
Total Liabilities	1,019	954	1,009	961
Core Equity	711	761	799	873
Revaluation Surplus (land)	412	412	412	412
Total Equity	1,123	1,173	1,211	1,285
INCOME STATEMENT	**June 30, 2015**	**June 30, 2016**	**June 30, 2017**	**Dec 31, 2017**
Net Sales	1,971	2,111	2,181	1,162
Gross Profit	487	523	601	329
Operating Profit	168	181	233	206
Profit After Tax	100	132	138	74
FFO	152	205	232	112
RATIO ANALYSIS	**June 30, 2015**	**June 30, 2016**	**June 30, 2017**	**Dec 31, 2017**
Gross Margin (%)	24.7	24.8	27.6	28.3
Net Working Capital	-207.1	-178.9	46	126
FFO to Total Debt (x)	0.46	0.79	0.54	0.47
FFO to Long Term Debt (x)	0.73	1.45	0.65	0.71
Debt Service Coverage Ratio (x)	-	-	2.04	2.21
ROAA (%)	5.2	6.2	6.4	6.7
ROAE (%)	11.2	11.5	17.7	17.8
Gearing (x)	0.47	0.34	0.54	0.55
Debt Leverage (x)	1.43	1.25	1.26	1.10

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Annexure 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: 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.

REGULATORY DISCLOSURES — Annexure III

Name of Rated Entity	Bunny's Limited
Sector	Consumer Goods
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
11/09/2018	A-	A-2	Stable	Reaffirmed
21/03/2017	A-	A-2	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	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.
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