RATING REPORT

Bunny's Limited

REPORT DATE:
December 18, 2019

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	*December 05th, '19*		*September 11th, '18*	

COMPANY INFORMATION

Incorporated in 1980	**External auditors:** Aslam Malik & Co. Chartered Accountants
Public Limited Company (listed)	
Key Shareholders (with stake 5% or more):	**Chairman of the Board :** Mr. Yunus Shafiq Chaudhry
	Chief Executive Officer: Mr. Haroon Shafiq Chaudhry
Mr. Omer Shafiq Chaudhry : 24.0%	
Miss Mahnoor Chaudhry : 9.6%	
Pak Brunei Investment Company Limited : 10.4%	
National Bank of Pakistan : 9.5%	
Mr. Zeeshan Chaudhry : 5.8%	
Mr. Taimur Chaudhry : 5.7%	
Mr. Ahsan Chaudhry : 5.8%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Industrial Corporates (May 2019)
https://www.vis.com.pk/kc-meth.aspx

Bunny's Limited (BL)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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. Further the company was listed on stock exchange in July 2015 through reverse-merger.

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: FY19:Rs. 1.0b; FY18: Rs. 955m - FY17: Rs. 799m

Net Profit: FY19: Rs. 112m; FY18: Rs. 138m - FY17: Rs. 138m

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 and largely established brand name. The ratings also derive strength from adequate cash flows in relation to outstanding debt and sound debt service coverage. However, the ratings remained constrained on account of market based limitations including range bound growth in revenues, decline in margins, delayed capacity expansion and minimal initiatives of the company towards new market development. Going forward, the ratings will remain dependent on maintenance of liquidity indicators and cash coverages above the benchmark level.

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. During the review period, in order to improve market presence coupled the company introduced smaller stock keeping units (SKU) for various product lines. As per the management, once the bun line is operational in July'20, the company would introduce smaller SKUs for the cake segment as well. Further, under a manufacturing and supply agreement with PepsiCo International, BL manufactures and stores 'Kurkure'. The agreement between BL and PepsiCo International is currently intact and will be continued for the next two years. Moreover, the company signed another agreement with Hico Ice Cream during FY19 under which BL provides roasted nuts. The company mainly 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 the organized sector of 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. However, the company does not plan on rapid growth in revenues in the medium to long-term owing to capacity constraints; hence the company is in the maturity phase with consolidation strategy opted.

Key Rating Drivers

Presence in confectionary market with favorable demand prospects; however price risk exists due to competition

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 However high inflation, depleting purchasing power parity of end-consumers, has led to the company introducing smaller size packaging of its product range over the last two years. The same has resulted in improved market penetration resulting in slight enhancement in scale of operations. As per the management, the demand of company's products is in excess of the supply therefore sell side risks are largely subsided. However, owing to highly competitive market landscape the pressure on prices of end products prevailed despite increase in input cost; therefore BL had to maintain the existing prices leading to decline in margins. Furthermore, inventory risk is mitigated by dovetailing procurement orders with precise sale forecasts. In addition, BL has an established raw material sourcing channel; supplier audits are conducted as per Supplier Quality Assurance schedule.

Sales Mix: The sales revenue of the company has increased moderately on a timeline basis mainly on account of improved outreach and higher quantum of product volumes sold. As per the management, the prices of major products have remained stagnant since the last three years. The proceeds from bread department, including cakes, comprised over 90% of the total net sales while snack department sales constituted the remaining. The most popular products of BL include bread, bun fruit, short cake and rusk; these collectively contributed more than two-fifths of net sales during FY19. The company surpassed its sales target of Rs. 2.5b for FY19; meanwhile the target for FY20 is projected at Rs. 3.0b; the company is on track of meeting its projected target for the current year as the sales for 1QFY20 stood at Rs. 684.0m. 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, Hico and Metro. During FY19, the company made CAPEX amounting to Rs. 132.3m primarily pertaining to replacement of ovens in the bread segment. Currently, the production facilities for buns and bread are being shared; the management plans to shift bun manufacturing towards dedicated fun line, which would further enhance production capacity for bread and bun manufacturing. The total capex projected for this investment is estimated at Rs.250m, out of which Rs. 150 is expected to met through long-term financing which is expected to be procured during the ongoing year. The extension is likely to be operational by July'20.

Profitability: The gross margins declined during FY19 owing to inability of the company to timely pass the incremental raw material cost into final retail prices. The decline mainly attributed to increased utility charges, petrol and lubricant cost and packing material cost that out casted better capacity utilization. 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. There was slight increase selling and administrative expense mainly as a result of higher employee related expense as a result of annual salary adjustments and higher headcount in line with increase in scale of operations. Further, the finance cost was largely rationalized as a result of procurement of additional long-term loan during the end of FY19. The impact of low margins coupled with higher operating cost resulted in a lower profit generation for the company; the profit after tax stood at Rs. 112.4m during FY19 compared to Rs. 138.2m in the preceding year.

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 and increased during the outgoing year on accunt of increase in operations. FFO to total debt decreased during FY19, 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 37% (FY18: nil) for the year end-FY19. Around two-thirds of the company's debt comprised long-term borrowings. During FY19, BL obtained additional long-funding amounting to Rs. 150.0m from an investment company to fund the capex requirements; the loan carries a markup charge of 6M Kibor + 2.25% and is secured against charges on fixed assets of the company. The loan carries a six month grace period with last installment payable in Oct'23. With higher relatively higher borrowings, gearing and debt leverage have increased slightly, albeit remained low. Going forward, the projected increase in funding is likely to be offset by enhancement in equity base; therefore leverage indicators are likely to remain at current levels.

Corporate Governance: Senior management has largely remained stable with 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, 2016	June 30, 2017	June 30, 2018	June 30, 2019
Non-Current Assets	1,616	1,661	1,802	1,864
Stock-in-Trade	210	219	242	266
Trade Debts	202	221	211	246
Cash & Bank Balances	2	17	5	7
Other Assets	97	102	98	121
Total Assets	2,127	2,220	2,358	2,504
Trade and Other Payables	471	337	270	228
Short Term Borrowings	120	75	162	143
Long Term Borrowings	141	355	296	412
Other Liabilities	222	242	213	245
Total Liabilities	954	1,009	941	1,028
Paid Up Capital	492	514	514	514
Core Equity	761	799	955	1,014
Revaluation Surplus (land)	412	412	462	462
Total Equity	1,173	1,211	1,417	1,476
INCOME STATEMENT	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019
Net Sales	2,111	2,181	2,314	2,569
Gross Profit	523	601	674	688
Operating Profit	181	233	229	223
Profit Before Tax	150.6	180.4	155.7	148.7
Profit After Tax	132	138	138	112
FFO	205	232	197	214
RATIO ANALYSIS	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019
Gross Margin (%)	24.8	27.6	29.1	26.8
Net Working Capital	-178.9	46	30	132
Current Ratio (x)	0.74	1.09	1.06	1.26
FFO to Total Debt (x)	0.79	0.54	0.43	0.39
FFO to Long Term Debt (x)	1.45	0.65	0.67	0.52
Debt Service Coverage Ratio (x)	-	2.04	1.62	1.93
ROAA (%)	6.2	6.4	5.9	4.6
ROAE (%)	11.5	17.7	15.6	11.4
Gearing (x)	0.34	0.54	0.48	0.55
Debt Leverage (x)	1.25	1.26	0.99	1.01

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure 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 — Annexure III

Name of Rated Entity	Bunny's Limited
Sector	Consumer Goods
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
Instrument Structure	N/A
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
05/12/2019	A-	A-2	Stable	Reaffirmed
11/09/2018	A-	A-2	Stable	Reaffirmed
21/03/2017	A-	A-2	Stable	Initial