RATING REPORT

Bunny's Limited

REPORT DATE:
December 30, 2020

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating Long-term	Latest Rating Short-term	Previous Rating Long-term	Previous Rating Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable			
Rating Date	*December 30,'20*		*December 05th, '19*	

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 :** Mrs. Sadia Omer
	Chief Executive Officer: Mr. Haroon Shafiq Chaudhry
Mr. Omer Shafiq Chaudhry : 23.9%	
Miss Mahnoor Chaudhry : 9.6%	
Pak Brunei Investment Company Limited : 10.4%	
National Bank of Pakistan : 9.5%	

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

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 CEO

Mr. Haroon Chaudhary has been serving as the CEO of the company since its inception. He has over thirty years of experience in food industry and is the president of the Board of Management Vocational Training Institute since 2009.

Profile of Chairperson

Mrs. Sadia Omar was appointed as Chairman of the board in April'20 after demise of ex-chairman, Mr. Younus Shafiq Chaudhary. She has done Masters in Business and has been a board member since 2018.

Financial Snapshot

Core Equity: end-1QFY21: Rs. 1.24b; end-FY20: Rs. 1.19b; end-FY19: Rs. 1.06b

Net Profit: 1QFY21: Rs. 51.8m; FY20: Rs. 127.8m; FY19: Rs. 112.4m

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 and largely established brand name. Liquidity has remained largely intact and is considered adequate as reflected by cash flows in relation to outstanding obligations. Leverage indicators also remained comfortable despite some increase in borrowings. Meanwhile, the ratings remained constrained on account of modest growth in revenues due to limited capacity and distribution network. However, the ongoing capacity enhancement entailing installation of bun line would free some existing capacity for other products. Going forward, the ratings will remain dependent on maintenance of liquidity and capitalization indicators at adequate levels.

Key Rating Drivers

Ongoing capacity expansion: Bun line which was expected to come online in July'20, got delayed mainly due to Covid-19. Total investment on the same is projected to be around Rs. 300m. Out of which, additions amounting Rs. 58m were made during 1QFY21 and additions pertaining to local components of machinery, electrical installation and civil work amounting Rs. 107.7m were made during FY20. Import of customized machinery is under progress and the bun line is expected to be fully operational by June'21. PP&E stood at Rs. 2b (FY20: Rs. 1.9b; FY19: Rs. 1.8b) at end-1QFY21. Due to aforementioned capex, additional revenue of around Rs. 400m is expected to be generated each year. Free capacity would be available for other products which have showed increase in demand.

While demand is considered relatively stable, continuous improvement in production and distribution network is considered important amid high competition: Revenue from bread department comprised around 90% of the topline. Bakery items such as bread, buns, rusks etc. are considered to be semi-staple food items and have relatively stable demand. Some seasonality is also present as demand of bakery items decreases with closure of schools and in the month of Ramadhan. As per 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. BL holds more than 30% share of Lahore market including suburbs and a share of around 15% of the overall market in Punjab. BL have widespread sales network in Lahore and surrounding areas and cities such as Gujrat, Gujranwala, Jhelum, etc. BL distribution network is more centralized and factory premises continues to be the principal point of distribution. Distributors are located in outstations whom are serviced daily and operate under their own respective zonal sales managers. The management is currently working on arranging warehouses at different places in Lahore to enhance outreach and for efficient delivery.

Product mix and strategy: BL product portfolio comprises two broad segments, namely; Bread and Snack. Under bread segment, BL produces bread loaves, buns, rusks, cakes, cake rusk, baqarkhani, 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 two brand names, 'Bunny's' and 'Muncherz' – a fast moving ethnic snack food. 'Muncherz' brand mainly targets high-end customers on account of premium pricing and large packaging sizes. However, in efforts to expand its customer base, BL has started selling some products of 'Muncherz' in smaller stock keeping units (SKUs). Further, the company has also widened the product range in SKUs by introducing the same for cakes and baqarkhani.

Bunny's is also involved in co-manufacturing and supplying of nuts, dry fruits and snack chips to large institutional clients and retail chains such as Wall's, Pepsi Cola, Hico, Engro, Hyperstar, Makro etc. Most of the production capacity of snack foods is being utilized under co-manufacturing/bulk supplies for recurring institutional clients leading to limited focus by the company on in-house snack products. However, as per arrangements with these companies, the products from Bunny's own division cannot be similar to the products that the company co-manufactures both in terms of flavor and texture, thereby mitigating product cannibalization.

Topline depicted a limited growth on a timeline basis: The company recorded net revenue of Rs. 2.8b (FY19: Rs. 2.6b) during FY20. Revenue target of Rs. 3b for FY20 could not be achieved on account of pandemic resulting in lower than expected overall sales owing to closure of schools and offices. Over 90% of BL's sales constituted non-institutional sales while the rest pertained to institutional sales. A slight increase in company's gross margins to 27.5% (FY19: 26.8%) during FY20 was owing to marginal increase in retail prices of majority of products as the company was able to pass some of the impact of higher cost to end consumers. Cost of sales amounted to Rs. 2b (FY19: Rs. 1.9b) during the outgoing year and was largely rationalized. Administrative expenses of Rs. 159.5m (FY19: Rs. 154.8m) were incurred during FY20; slight increase was mainly due to annual adjustments in salaries while some expenses decreased due to strict cost control measures. Selling and distribution expenses were recorded higher at Rs. 328.5m (FY19: Rs. 310.6m) mainly owing to higher commission and other incentives paid to sales staff along with higher vehicle running and maintenance expense. Other expenses related to employee related payments were Rs. 12.2m (FY18: Rs. 10m) and other income comprising gain on sale of fixed assets and amortization of deferred grant and income was Rs. 6.6m (FY19: Rs. 0.4m). Finance cost was recorded higher at Rs. 93.5m (FY19: Rs. 64.8m) in line with higher average markup on borrowings. Given higher gross profit and largely rationalized operating expenses, net profits of the company increased slightly to Rs. 127.8m (FY19: Rs. 112.4m) despite higher effective tax rate and financial charges during FY20.

Sales during 1QFY21 were recorded higher at Rs. 802.1m vis-à-vis Rs. 683.7m in the corresponding period last year mainly on account of increase in product prices and some increase in volumetric sales. However, gross margins decreased slightly to 26.2% due to increase in major raw material prices mainly flour; flour constitutes around 60-70% of cost of raw material.

Liquidity remained largely intact: Annualized Funds from Operations (FFO) remained at Rs. 235.2m (FY20: Rs. 234.5m; FY19: 214.7m) during 1QFY21. Annualized FFO to total and long-term debt decreased slightly to 0.31x (FY20: 0.38x; FY19: 0.39x) and 0.43x (FY20: Rs. 0.47x; FY19: 0.52x) respectively owing to relatively higher overall debt by end-1QFY21. On account of higher long-term repayments during 1QFY21 and FY20 debt service coverage ratio decreased to 1.15x (FY20: 1.49x; FY19: 2.08x).

Stock in trade amounted to Rs. 265.7m (FY20: Rs. 273.7m; FY19: Rs. 265.7m) at end-1QFY21. Around three-fourth of stock in trade comprised raw material while finished goods stock has remained at low levels given limited shelf-life of most products. Around 70% of sales are executed against cash payments and trade debts amounted to Rs. 292.7m (FY20: Rs. 270.1m; FY19: 246.3m) at end-1QFY21. As merely 1% of the trade debts fall over six months' period, aging of trade receivables is considered satisfactory. Advances, deposits and prepayments stood at Rs. 136.5m (FY20: Rs. 142.5m; FY19: Rs. 98.1m) at end-1QFY21; the increase in FY20 was mainly due to higher advances paid to suppliers amounting Rs. 135.3m (FY19: Rs. 89.8m) on account of purchase of bun line components. Trade and other payables stood at Rs. 179.6m (FY20: Rs. 179.1m; FY19: Rs. 227.6m) at end-1QFY21. The decrease in payables in FY20 was primarily due to lower trade creditors (1QFY21: Rs. 101.4m; FY20: Rs. 93.2m; FY19: Rs. 138.4m). Current ratio was 1.23x (FY20: 1.40x; FY19: 1.26x) and coverage of short-term borrowings via trade debts and stock in trade albeit decreased is considered adequate at 2.81x (FY20: 4.79x; FY19: 3.78x) at end-1QFY21.

Leverage indicators have remained comfortable despite some increase in overall borrowing levels: Core equity increased to Rs. 1.24b (FY20: Rs. 1.19b; FY19: Rs. 1.06b) by end-1QFY21 on back on internal capital generation. Given higher fund requirements for ongoing expansion plan, the company has not paid any dividend in FY20. Capital maintenance reserve of Rs. 412.1m (FY20: Rs. 412.1m; FY19: Rs. 412.1m) represented excess of fair value of land over its cost.

Around three-fourth of the company's debt comprised long-term borrowings. Loan facility of Rs. 201.6m (FY20: Rs. 120m; FY19: nil) at end-1QFY21 pertained to SBP Refinance Scheme to support employment and prevent layoff of workers. Total amount of approved facility is Rs. 240m which is fully disbursed as of now. The loan is charged at rate of 3% per annum with tenure of 2.5 years and repayable in eight equal quarterly installments starting from Jan'21. As the loan is below market rate, the difference between the fair value of loan on initial recognition and the amount received has been accounted for as government grant of Rs. 12.2m (FY20: Rs. 12.2m; FY19: nil); the same has been amortized periodically. All long-term financing including term finance facilities and sales & lease back financing, charged at 3-6 months KIBOR *Plus* 2.25% would be retired till 2023. Short term running finance facilities of Rs. 198.8m (FY20: Rs. 113.6m; FY19: Rs. 135.4m) were outstanding at end-1QFY21. Aggregate sanctioned limit of such facilities is Rs. 205m (FY19: Rs. 175m) with markup of 1-3 months KIBOR *Plus* 2.25%-2.5%. Gearing and debt leverage, though increased, have remained comfortable at 0.60x and 0.97x (FY20: 0.51x and 0.90x; FY19: 0.51x and 0.96x), respectively.

Corporate Governance: The Board has complied with requirements of frequency, recording and circulating minutes of the Board. New Chairperson and another female director have been appointed during FY20. Presently, the board comprises eight members including three female directors and one independent director. Senior management has depicted stability over the years.

Bunny's Limited — Annexure I

BALANCE SHEET	June 30, 2018	June 30, 2019	June 30, 2020	September 30, 2020
Property, Plant and Equipment	1,725.5	1,786.6	1,897.7	2,037.7
Stock-in-Trade	241.8	265.7	273.7	265.7
Trade Debts	211.3	246.3	270.1	292.7
Advances, Deposits and Prepayment	82.8	98.1	142.5	136.5
Cash and Bank Balances	4.9	7.6	0.4	34.4
Other Assets	92	92.2	92.5	93.6
Total Assets	2,358.3	2,496.5	2,676.9	2,860.7
Trade and Other Payables	269.9	227.6	179.1	179.7
Short Term Borrowings	162.2	135.4	113.6	198.8
Long Term Borrowings	295.9	411.9	498.8	549.1
Other Liabilities	213.5	245.5	283.8	279.8
Total Liabilities	941.5	1,020.5	1,075.2	1,207.5
Paid Up Capital	513.9	513.9	513.9	513.9
Core Equity	1,004.6	1,063.9	1,189.5	1,241.3
Revaluation Surplus (land)	412.1	412.1	412.1	412.1
Total Equity	1,416.7	1,476	1,601.6	1,653.4

INCOME STATEMENT	June 30, 2018	June 30, 2019	June 30, 2020	September 30, 2020
Net Sales	2,314.2	2,568.9	2,791.9	802.1
Gross Profit	673.9	688.5	766.7	210.4
Operating Profit	229.4	223.1	278.7	93.4
Finance Cost	63.5	64.8	93.5	17.9
Profit Before Tax	155.7	148.7	179.6	70.3
Profit After Tax	138.2	112.4	127.8	51.8
FFO	197.5	214.7	234.5	58.8

RATIO ANALYSIS	June 30, 2018	June 30, 2019	June 30, 2020	September 30, 2020
Gross Margin (%)	29.1	26.8	27.5	26.2
Net Working Capital	29.9	132.4	200.6	140.8
Current Ratio (x)	1.06	1.26	1.40	1.23
FFO to Total Debt (x)	0.43	0.39	0.38	0.31*
FFO to Long Term Debt (x)	0.67	0.52	0.47	0.43*
Debt Service Coverage Ratio (x)	1.62	2.08	1.49	1.15
ROAA (%)	5.9	4.6	4.9	7.5*
ROAE (%)	12.1	10.9	11.3	17.0*
Gearing (x)	0.46	0.51	0.51	0.60
Debt Leverage (x)	0.94	0.96	0.90	0.97
Trade Debts Plus Inventory to Short-Term Borrowings (x)	2.79	3.78	4.79	2.81

**Annualized*

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	Appendix III
Name of Rated Entity	Bunny's Limited
Sector	Consumer Goods
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
30/12/2020	A-	A-2	Stable	Reaffirmed
05/12/2019	A-	A-2	Stable	Reaffirmed
11/09/2018	A-	A-2	Stable	Reaffirmed
21/03/2017	A-	A-2	Stable	Initial

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Salman Dar	Finance Manager	November 03, 2020