RATING REPORT

Bunny's Limited

REPORT DATE:
February 1, 2022

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	*February 1,'22*		*December 31, '20*	

COMPANY INFORMATION

Incorporated in 1964	**External auditors:** M/s Aslam Malik & Co. Chartered Accountants
Public Limited Company (listed)	
	Chairman of the Board: Mrs. Sadia Omer
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Omar Shafique Chaudhary
General Public -- 48.2%	
Mr. Omer Shafiq Chaudhry -- 22.3%	
National Bank of Pakistan -- 9.6%	
Miss Mahnoor Chaudhry -- 9.6%	
Miss Sadia Omer -- 5.4%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Bunny's Limited (BL)

OVERVIEW OF THE INSTITUTION

Bunny's Limited (BL) was incorporated as a private limited company in 1980 and was later on converted into a Public Listed Company in July 2015. The company is principally engaged in bakery and other food products. The registered office and the manufacturing facility are situated at 105/A Quaid-e-Azam Industrial Estate Kot Lakhpat.

Profile of CEO

Mr. Omar Shafique Chaudhary was appointed as the CEO of the company in Jul'21. He has been associated with BL for around two decades and has gained extensive experience in operational and marketing side over this time span.

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-1QFY22: Rs. 1.81b; end-FY21: Rs. 1.77b; end-FY20: Rs. 1.60b

Net Profit: 1QFY22: Rs. 39.3m; FY21: Rs. 178.0m; FY20: Rs. 127.8m

RATING RATIONALE

The ratings assigned to Bunny's Limited (BL) take into account the company's moderate business risk profile owing to presence in fast moving consumer goods market and largely established brand name. The ratings incorporate growth in topline on the back of volumetric increase and higher prices. Overall liquidity position is considered adequate, however, debt service coverage decreased during the outgoing year, owing to higher long-term repayments on account of early retirement of some loans. Leverage indicators, albeit increased remained comfortable despite increase in borrowings. The ratings will remain dependent on improving cash flow coverages and maintaining capitalization indicators at adequate levels. The management has embarked upon increasing automation to improve operational efficiencies, and also enhance capacities and expand distribution network at the same time. Meanwhile, the ratings derive comfort from projected growth in revenues driven by increasing demand and higher capacities. The increasing cost due to higher inflation and increase in benchmark rates may put some pressure on profit margins. Materialization of in-progress capacity enhancement, BMR plans and achieving projected growth in revenues will be important for the assigned ratings, going forward.

Key Rating Drivers

Increase in capacity utilization; the company is also in process of enhancing capacities of various product lines while improving operational efficiencies: Production capacity of bakery division remained unchanged at 13,500 MT per annum and the company manufactured 12,000 MT of products (FY20: 11,400), resulting in capacity utilization of 88.9% (FY20: 84.4%) in FY21. Snacks division production capacity remained at 1,800 MT while its capacity utilization increased to 42.5% (FY20: 31.3%). In view of sizeable increase in orders from institutional clients for snacks (co-manufacturing) and focus on increasing production of company's own snack products, the management plans to enhance automation in snack division mainly by adding continuous friers. In this regard, Letters of Credit (LCs) have been opened for an amount of Rs. 65m and machinery is expected to arrive in about three months period while commercial operations are expected to be started by end-FY22. The management also plans to add a new cake line as the existing facility is currently operating at nearly full capacity. Total capex is estimated at Rs. 250m, out of which financing arrangements from banks amounting Rs. 200m are at an advanced stage while the rest would be met through own sources. The company would be able to produce center filled cakes on the new line that would further diversify its product mix. The management is also planning to enhance automation of the bread line that is presently at initial stages. This would require a capital expenditure of around Rs. 250m out of which Rs. 180m would be financed through bank borrowings while the rest is expected to be met through internal cash flows. These projects would enable the company to expand capacities, lower labor cost, reduce wastages while improving product quality. Bun and burger line became operational in 1QFY22 and has started commercial operations in Dec'21 after trial runs. The management expects the new line to attain full capacity utilization in 2-3 years with an incremental revenue of Rs. 1b.

Property, plant and equipment (PP&E) stood higher at Rs. 2.4b (FY20: Rs. 1.9b) at end-FY21 due to additions of Rs. 235.6m in plant and machinery, and motor vehicles and Rs. 525m in capital work in progress. PP&E stood at Rs. 2.5b at end-1QFY22, additions of Rs. 189.1m were made in plant and machinery and capital work in progress amounted to Rs. 398.3m. The additions in plant and machinery in 1QFY22 and FY21 are mainly related to capitalization of bun and burger line. Capital work in progress largely pertained to automated conveyer belt, cargo lifts, civil work related to warehouse and BMR on ovens in the bread department.

Improvements in distribution network amidst rising demand and high competition: As per management, BL holds more than 30% share of Lahore market including suburbs, and a share of around 15% of the overall market in Punjab. The company has 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. 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.

During the ongoing year, the company has added five warehouses out of which four are located in Lahore and one in Gujranwala, previously the company had four warehouses, outside Lahore. In addition, area sales managers and sales team have been appointed who reside near these warehouses in order to utilize more time in exploring market than in travelling. The company also has an established distribution setup, comprising a sales manager and 15 sales representatives, for company's own snack products sales in Northern regions of the country.

Growth in topline backed by volumetric increase and higher prices: Currently, BL manufactures around 102 products in different packaging sizes. Some of the more popular products for the company include bread, fruit bun, shawarma bread and short cake. During FY21, net sales amounted to Rs. 3.6b (FY20: Rs. 2.8b), depicting a growth of 28%. Around 85% (FY20: 92%) of BL's sales constituted non-institutional sales while the rest pertained to bulk supplies to recurring institutional clients and retail chains such as Wall's, Pepsi Cola, Hico, Engro, Carrefour, Metro etc. Gross profit increased to Rs. 942.4m (FY20: Rs. 766.7m) while the gross margin decreased marginally to 26.4% (FY20: 27.5%) in FY21. Cost of sales increased to Rs. 2.6b (FY20: Rs. 2.0b) mainly due to higher raw material consumed amounting Rs. 1.84b (FY20: Rs. 1.31b). Prices of flour, sugar and cooking oil increased by 25-38% that constituted around 70% of the raw materials. Packing material consumed also increased to Rs. 232.5m (FY20: Rs. 198.1m) in line with higher sales and average costs. Almost all other cost components increased in line with inflationary adjustments.

Administrative expenses increased to Rs. 209.8m (FY20: Rs. 159.5m) largely in line with enhanced operations. Selling and distribution expenses were recorded higher at Rs. 399.7m (FY20: Rs. 328.5m) primarily due to higher commission and other sales incentives, vehicle running and maintenance, and advertisement expenses. Other income increased to Rs. 24.4m (FY20: Rs. 6.6m) mainly due to amortization of deferred grant and gain on sale of fixed assets. Despite higher average borrowings, finance cost decreased to Rs. 84.0m (FY20: Rs. 93.5m) due to lower average markup rates during FY21. Accounting for taxation, the company generated higher net profits of Rs. 178.0m (FY20: Rs. 127.8m) in FY21.

During 1QFY22, net sales were recorded higher at Rs. 1.1b vis-à-vis Rs. 802.1m in the corresponding period last year mainly on the back of increase in volumetric sales. Whereas gross margin decreased to 23.2% (1QFY21: 26.2%) due to rising trend in raw material prices which were partly passed on to consumers during the period. According to the management, product prices were increased further in 2QFY22 in order to recoup margins. Sales are projected to increase to Rs. 4.6b in FY22 and gross margins to 29.4%. Meanwhile, distribution expenses are projected to increase by around two folds in the ongoing year owing to new warehouses and increase in sales resources. Maintaining profit margins amidst rising inflation and increasing benchmark rates is considered important, going forward.

While overall liquidity position is expected to remain adequate going forward, higher quantum of long-term repayment has put some pressure on debt service coverage during the outgoing year: Funds from operations (FFO) increased to Rs. 300m (FY20: Rs. 234.5m) largely in line with higher profitability. However, due to overall increase in borrowings, FFO to total debt and FFO to long-term debt decreased to 0.27x (FY20: 0.38x) and 0.37x (FY20: 0.47x), respectively by end-FY21. Debt service coverage ratio decreased to 0.86x (FY20: 1.49x) owing to higher long-term repayments of Rs. 362.0m (FY20: Rs. 127.0m) in FY21 due to early repayments of some facilities.

Stock in trade increased to Rs. 363.0m (FY20: Rs. 273.7m) by end-FY21 mainly due to higher raw materials inventory. Around three-fourth of stock in trade comprised raw material while finished goods stock has remained at relatively low levels given limited shelf-life of most products. Trade debts amounted to Rs. 342.3m (FY20: Rs. 270.1m) and remained around 10% of the net sales. Aging is considered satisfactory given 87% falls within 0-3 months credit bracket and 11% within 3-6 months while only 2% fall above 6 months period. Advances, deposits and prepayments increased to Rs. 173.6m (FY20: Rs. 142.5m) mainly due to increase in advances to suppliers (FY21: Rs. 160.0m; FY20: Rs. 135.3m). Current ratio decreased to 1.18x (FY20: 1.40). Coverage of short-term borrowings via trade debts and stock in trade albeit decreased is considered adequate at 2.33x (FY20: 4.79x) at end-FY21. Net operating cycle of the company remained manageable at 58 days (FY20: 54 days; FY19: 49 days). Liquidity is projected to improve in line with higher profitability, going forward.

Leverage indicators have remained comfortable despite increase in overall borrowing levels: Tier-1 equity stood higher at Rs. 1.8b (FY20: Rs. 1.6b) on account of internal capital generation. Paid up capital increased to Rs. 668.0m (FY20: Rs. 513.9m) due to issuance of 30% stock dividend during the outgoing year.

Total liabilities stood higher at Rs. 1.6b (FY20: Rs. 1.1b) largely due to increase in borrowings. Around three-fourth of the company's debt comprised long-term borrowings. Long term financing increased to Rs. 803.6m (FY20: Rs. 498.8m) by end-FY21. This includes long-term loans of Rs. 178.6m (FY20: Rs. 120m; FY19: Nil) to finance salaries and wages under SBP refinance scheme at subsidized rate. The company has mobilized long-term facilities of Rs. 611.1m (FY20: Rs. 213m) in the outgoing year. The company obtained term finance facility of Rs. 200m carrying markup rate of 3 months KIBOR plus 2.25%; tenor for this loan is 5 years with one year grace period. Another term finance facility to the tune of Rs. 150m was mobilized for BMR. The company also obtained a loan of Rs. 150.9m under SBP TERF for the purchase of fully automated bun and burger line. The facility carries markup at rate of 3M KIBOR plus 3%; subsidized markup rates would be charged upon approval from SBP. Total tenor for this facility is 7 years including one year grace period. The company also entered into sale and leaseback arrangement for an amount of Rs. 64.9m, the facility is priced at rate of 6M KIBOR plus 2%. Outstanding short-term borrowings were Rs. 302.7m (FY20: Rs. 113.6m) at end-FY21 while the company has aggregate working capital lines of Rs. 305m (FY20: Rs. 205m). The management intends to enhance short-term lines, going forward, in tandem with higher working capital needs. Trade and other payables increased to Rs. 195.3m (FY20: Rs. 167.3m) mainly due to increase in trade creditors to Rs. 127.3m (FY20: Rs. 93.2m). Debt leverage and gearing, albeit increased to 0.93x (FY20: 0.67x) and 0.62x (FY20: 0.38x), respectively, have remained manageable.

Long-term financing including current portion increased to Rs. 855.2m by end-1QFY22 due to increase in lease liabilities to Rs. 134.0m (FY21: Rs. 50.8m; FY20: Rs. 37.3m). Despite increase in borrowings to support capex, capitalization indicators are expected to remain within comfortable range due to higher equity base and scheduled repayments of long-term financing.

Corporate Governance: The Board composition has changed with an addition of new independent director. Presently, the board comprised seven members including CEO and Chairman, two independent directors and three female directors. The board has two committees including Audit Committee (AC) and HR and Remuneration Committee (HR&RC). During the outgoing year six BoD meetings, five AC meetings and three HR&RC meetings were conducted. Senior management has depicted stability over the years.

Bunny's Limited — Annexure I

BALANCE SHEET	Jun 30, 2019	Jun 30, 2020	Jun 30, 2021	Sep 30, 2021
Property, Plant and Equipment	1,787	1,898	2,420	2,467
Stock-in-Trade	266	274	363	367
Trade Debts	246	270	342	358
Advances, Deposits and Prepayment	98	142	174	214
Other Assets	99	93	123	124
Total Assets	**2,496**	**2,677**	**3,422**	**3,530**
Trade and Other Payables	206	168	195	198
Short Term Borrowings	135	114	303	295
Long Term Borrowings	412	499	804	855
Deferred Liabilities	207	230	262	278
Other Liabilities	60	64	85	92
Total Liabilities	**1,020**	**1,075**	**1,649**	**1,718**
Paid Up Capital	514	514	668	668
Tier-1/Total Equity	**1,476**	**1,602**	**1,772**	**1,812**

INCOME STATEMENT	Jun 30, 2019	Jun 30, 2020	Jun 30, 2021	Sep 30, 2021
Net Sales	2,569	2,792	3,570	1,062
Gross Profit	688	767	942	246
Operating Profit	223	279	333	84
Finance Cost	65	94	84	24
Profit Before Tax	149	180	257	62
Profit After Tax	112	128	178	39
FFO	215	234	300	71

RATIO ANALYSIS	Jun 30, 2019	Jun 30, 2020	Jun 30, 2021	Sep 30, 2021
Gross Margin (%)	26.8	27.5	26.4	23.2
Net Working Capital	132	201	139	175
Current Ratio (x)	1.26	1.40	1.18	1.22
FFO to Total Debt (x)	0.39	0.38	0.27	0.25*
FFO to Long Term Debt (x)	0.52	0.47	0.37	0.33*
Debt Service Coverage Ratio (x)	2.08	1.49	0.86	N/A
ROAA (%)	4.6	4.9	5.8	4.5*
ROAE (%)	9.1	8.3	10.5	8.8*
Gearing (x)	0.37	0.38	0.62	0.64
Debt Leverage (x)	0.69	0.67	0.93	0.95
Trade Debts Plus Inventory to Short-Term Borrowings (x)	3.78	4.79	2.33	2.46

**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	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
01/02/2022	A-	A-2	Stable	Reaffirmed
31/12/2020	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

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.

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Salman Dar	Manager Finance	December 21, 2021