RATING REPORT

Bunny's Limited

REPORT DATE:
April 6, 2023

RATING ANALYSTS:
Hasan Rashid
Hasan.rashid@vis.com.pk

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	*April 6, 2023*		*February 1,'22*	

COMPANY INFORMATION

Incorporated in 1964	**External auditors:** M/s Aslam Malik & Co. Chartered Accountants
Public Limited Company (listed)	
	Chairperson of the Board: Mrs. Saadia Omer
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Omar Shafique Chaudhary
General Public -- 44.5%	
Mr. Omer Shafiq Chaudhry -- 29.7%	
National Bank of Pakistan -- 9.6%	
Ms. Mahnoor Chaudhry -- 9.6%	
Ms. Mahnan Omar -- 4.8%	

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 Chairperson 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 HY23: Rs. 1.97b; FY22: Rs. 1.90b; FY21: Rs. 1.77b;

Net Profit: HY23: Rs. 75m; FY22: Rs. 138m; FY21: Rs. 178m.

RATING RATIONALE

Bunny's Limited "BL" is operating in the FMCG market, selling daily use bakery products, while operating in Lahore and central Punjab. BL has over 40% overall share in Lahore and adjacent areas. The company has strong ties with established market players like Pepsi Cola International, which sells Nimko made by BL under the name of "Kurkure". The overall sales to corporate sector is around 20%.

Key Rating Drivers

Enhancement of existing capacities of various product lines, which has positively impacted sales and operating efficiencies:

The increase in production capacity is tabulated below:

Capacity in Metric Tons

Products	FY'21		FY'22		HY'23	
	Actual Capacity	Production Capacity	Actual Capacity	Production Capacity	Actual Capacity	Production Capacity
Bakery Division	13,500	12,000	13,500	12,400	15,000	13,700
Snacks Division	1,800	765	1,800	925	1,800	950

To cater to the increasing demand, BL has installed new bun/burger line. The management plans to introduce couple of new products during the current year. The automation process has reduced waste, thereby improving operational efficiencies.

In addition, BL has added cargo lifts, fork lifts, conveyor belt and completed warehouse related civil works. Given the current economic uncertainties, the management has shelved any further BMR till FY25.

Topline growth as a result of volumetric increase and higher prices:

BL is currently manufacturing more than 125 different products related to bakery and snacks division. The major sales emanate from bakery products, which include bread, Shawarma bread, buns, fruit buns, burger buns, rusk, short cakes and Nimkos.

In absolute terms, the sales increased to Rs. 4.4b (FY21: Rs. 3.5b) during FY22. The gross margins decreased to 22.2% (FY21: 26.4%) during FY22 mainly due to increase in fuel & power (FY22: Rs. 260.6m; FY21: Rs. 160.9m), and higher raw material related cost (FY22: Rs. 2.4b; FY21: Rs. 1.8b). Similarly, net margins have also decreased (FY22: 3.1%; FY21: Rs. 5%) due to lower gross margins and higher selling and distribution expense.

During HY23, net sales were recorded higher at Rs. 2.7b vis-à-vis Rs. 2.1b in the corresponding period last year mainly on the back of higher volumetric sales. Gross margins increased to 24% mainly on account of improving operating efficiency. However, net margins decreased to 2.8% mainly due to increase in vehicle running and maintenance cost along with higher financial charges. The projected sales for FY23 are Rs. 5.5b while gross margins are projected remain range bound.

Overall liquidity position remain adequate

Funds from operations (FFO) are Rs. 159m at HY23 (FY22: Rs. 253m; FY21: Rs. 300m) which is in line with some improvement in first half profitability. Annualized FFO to total debt and FFO to long-term debt improved to 0.29x (FY22: 0.23x) and 0.49x (FY22: 0.35x), respectively in HY23.

Given inflationary trend, the management has partially built raw material inventory to have sufficient stocks at lower cost. Being perishable in nature, finished goods inventory is typically on the lower side. Aging of receivables is considered satisfactory as given in table below:

Ageing of receivables

Amount in Millions

Ageing of Receivable	FY'20	FY'21	FY'22	HY'23
0-3 Months	224.97	299.13	359.41	356.17
3-6 Months	38.40	36.00	42.89	43.00
6-9 Months	4.10	4.90	5.90	6.30
9-12 Months	1.50	1.40	2.40	2.50
1-2 Years	0.90	0.80	0.80	0.90
Above	0.20	0.10	0.50	0.40
Total Receivable	**270.07**	**342.33**	**411.90**	**409.27**

The current ratio stood at 1.04x (FY22: 1.02x; FY21: 1.18x) mainly due to higher trade payables, an outcome of increase in bills payable which were not reported in previous year. The cash conversion cycle improved to 43 days (FY21: 58 days) in FY22. Furthermore, liquidity is projected to improve with higher profitability.

The equity stood higher on account of internal capital generation. Leverage indicators have remained at comfortable levels.

Given profit retention, total equity stood higher at Rs. 1.98b (FY22: Rs. 1.90b; FY21: 1.77b) at end-HY23. Total long term liabilities decreased to Rs. 744.4m (FY22: Rs. 770.50m; FY21: Rs. 865.7m) primary due to timely payment of long term loans. The long term borrowings reduced to Rs. 654m (FY22: Rs. 732m; FY21: Rs. 804m).

Outstanding short-term borrowings were Rs. 434m (FY22: Rs. 385m) at end-HY23 while the company has aggregate working capital lines of Rs. 450m (FY22: Rs. 450m). Trade and other payables increased to Rs. 511m (FY22: Rs. 400m) mainly due to increase in trade creditors to Rs. 217m (FY22: Rs. 184m) and higher bills payable of Rs. 191m (FY22: Rs. 120m). Debt leverage and gearing remained manageable at 1.0x (FY22: 0.99x) and 0.55x (FY22: 0.59x), respectively.

Corporate Governance: The Board composition remained unchanged. Presently, the board comprised seven members including CEO and Chairman, two independent directors and three female directors. The board has three committees, which include Audit Committee

(AC), HR & Remuneration Committee (HR&RC) and IT Committee. During the outgoing year, six BoD meetings were held while four AC, three HR&RC and two IT Committee meetings were conducted. Senior management has depicted stability over the years. BL has its own accounting system with a team of 7 software engineers headed by IT head.

Bunny's Limited				**Annexure I**
Balance Sheet	**FY20**	**FY21**	**FY'22**	**HY'23**
Non-Current Assets				
Property, Plant and Equipment	1,898	2,420	2,577	2,588
Stock in Trade	274	363	489	574
Trade Debts	270	342	411	403
Advances, Deposits and Prepayments	142	174	225	298
Total Assets	**2,677**	**3,422**	**3,798**	**3,961**
Trade and other payables	168	195	400	511
Short-Term Borrowings	114	303	385	434
Long-term Debt	499	804	732	654
Total Liabilities	1,075	1,649	1,892	1,982
Paid-up Capital	668	668	668	668
Tier 1 Equity	**1,602**	**1,772**	**1,904**	**1,978**
Income Statement				
Net Sales	2,792	3,570	4,469	2,702
Gross Profit	767	942	991	648
Operating Profit	279	333	276	202
Finance cost	94	84	112	91
Profit Before Tax	180	257	164	96
Profit After Tax	128	178	138	75
FFO	234	300	253	159
Ratio Analysis				
Gross Margin	27.5%	26.4%	22.2%	24.0%
Net Margin	4.6%	5.0%	3.1%	2.8%
Net working capital	200.6	139.3	20.5	54.0
Current Ratio (x)	1.40	1.18	1.02	1.04
FFO to Total Debt (x)	0.38	0.27	0.23	0.29
DSCR (x)	1.49	0.86	1.13	1.33
ROAA (%)	4.9%	5.8%	3.8%	3.9%
ROAE (%)	8.3%	10.5%	7.5%	7.7%
Gearing (x)	0.38	0.62	0.59	0.55
Leverage (x)	0.67	0.93	0.99	1.00
Trade Debts + Inventory / Short Term Borrowing (x)	4.79	2.33	2.34	2.25
Cash Conversion Cycle	54	58	43	66

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure III

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				
06/04/2023	A-	A-2	Stable	Reaffirmed
01/22/2022	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. Muhammad Shafiq	CFO	March 10, 2023