

RATING REPORT

Bunny's Limited

REPORT DATE:
December 31, 2024

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Medium to Long-term	Short-term	Medium to Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook/Watch	Negative		Stable	
Rating Action	Maintained		Reaffirmed	
Rating Date	December 31, 2024		April 06, 2023	

COMPANY INFORMATION

Incorporated in 1980	External Auditors: Aslam Malik & Co. Chartered Accountants
Public Limited Company (listed)	Chairperson of the Board: Mrs. Sadia Omar
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Omar Shafique Chaudhry
Mr. Omar Shafiq Chaudhry – 33.96%	
General Public & Others – 23.83%	
Ms. Mahnoor Chaudhry – 10.97%	
Banks and DFIs – 9.65%	
Joint Stock Companies – 6.78%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates
<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

VIS Rating Scale
<https://docs.vis.com.pk/docs/ratingscale.pdf>

Bunny's Limited (BL)

OVERVIEW OF THE INSTITUTION

Bunny's Limited (BL) was incorporated as a private limited company in 1964 and was later on converted into a Public Listed Company in July 2015. The company is principally engaged in manufacturing of 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 Chaudhry 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 Finance and has been a board member since 2018.

RATING RATIONALE

Bunny's Limited ('BL' or 'the Company') is a renowned player in the bakery and food products sector, operating within the Fast-Moving Consumer Goods (FMCG) market in Lahore and central Punjab. The Company was incorporated as a private limited company in 1964 and later converted into a public listed company in 2015.

With over 40% market share in Lahore and surrounding areas, BL has established strong relationships with notable market participants such as Pepsi Cola International, which markets BL-produced Nimko under the "Kurkure" brand. Revenue from the sale of bakery and snacks represent 85% & 15% of the total revenue of the company, respectively. Ratings are underpinned by the company's moderate business risk profile, owing to presence in the FMCG market and established brand name. As of end-FY23, the directors, along with their spouses and minor children, collectively held 51.7% of BL's shares. During FY24, Mr. Omar inherited and acquired 5.4 million shares, increasing his shareholding to 34% (FY23: 30.8%), while Ms. Mahnoor inherited 0.9 million shares, raising her shareholding to 11.0% (FY23: 9.6%).

Key Rating Drivers

Overview of the Bakery & Snacks Industry

The bakery and snacks segment of the FMCG market in Pakistan has shown consistent growth in revenue, on the back of inflationary trends, while volumetric demand remained largely stagnant. In Pakistan, revenue from the confectionery and snacks market is projected to reach USD 7.55b in FY24, with an expected compound annual growth rate (CAGR) of 7.16% from FY24 to FY29. The bread market is also expected to grow significantly, reaching USD 7.90b in 2024 with a CAGR of 7.54%. Historical data indicates a steady increase in revenue in the bakery and snacks segment, from USD 13.57b in FY18 to an anticipated USD 15.45b in FY24, with corresponding volume growth from 8.58b kgs to 8.79b kgs, on account of inflation and population growth, respectively. Per capita consumption has remained around 36 kgs, reflecting largely a sustained demand.

Increasing capacity utilization & capital expenditures

Production capacity of bakery division remained unchanged at 13,500 MT per annum and the company manufactured 12,725 MT (FY23: 12,550 MT of products), resulting in capacity utilization of 94.3% (FY23: 93.0%) in FY24. Snacks division production capacity remained at 1,800 MT while its capacity utilization increased slightly to 51.1% (FY23: 50.8%).

Bakery Division	2021	2022	2023	2024
Maximum Capacity	13,500	13,500	13,500	13,500
Actual Production	12,000	12,400	12,550	12,725
Capacity Utilization	88.9%	91.9%	93.0%	94.3%

Snacks Division	2021	2022	2023	2024
Maximum Capacity	1,800	1,800	1,800	1,800
Actual Production	765	925	915	920
Capacity Utilization	42.5%	51.4%	50.8%	51.1%

Property, plant and equipment (PP&E) increased to Rs. 2.8b (FY23: Rs. 2.7b) at end-FY24 due to minor new additions in plant and machinery and motor vehicles during the year.

Growth in topline backed by both volumetric increase and higher prices; while margins declined and the Company reported net loss during FY24

During FY24, net sales amounted to Rs. 7.0b (FY23: Rs. 5.7b), depicting a growth of 23.1%. Cost of sales increased mainly due to higher raw material consumed on account of consistent increase in prices of flour, sugar, and cooking oil, major constituents of raw material consumed. Additionally, packing material, fuel & power and other cost components increased in line with higher sales, fuel costs and inflationary pressures. Given higher inflation, BL struggled with passing on the costs to consumers. Gross margins thereby weakened to 20.3% during the period. Higher operating expenses on the back of inflationary trends at Rs. 1.2b (FY23: Rs. 952.0m) and higher finance costs due to further increase in average borrowings put additional stress on the net margins. Resultantly, a net loss of Rs. 108.1m was reported in FY24 as against the profit of Rs. 131.5m in FY23. However, with some improvement in margins, the company reported net profit of Rs. 30.1m in 1QFY25. Improving profit margins amidst challenging macroeconomic environment is considered important, going forward.

Stress on liquidity during the outgoing year

Ratings take into account challenges faced by the company regarding cashflows and liquidity over the review period. During FY24, in line with a reported net loss, the FFO decreased to Rs. 163.3m (FY23: Rs. 309.3m), thereby deteriorating coverages. Debt service coverage ratio worsened to 0.73x (FY23: 1.29x, FY22: 1.12x), owing to the decrease in FFO. Improvement in coverages is a key rating driver.

By end-FY24, the inventory level reduced to Rs. 445.3m (FY23: Rs. 590m; FY22: Rs. 489m). Trade debts increased to Rs. 576.1m (FY23: Rs. 484m; FY22: Rs. 412m) meanwhile aging profile was manageable, however, bad debts of Rs. 29.6m were reported in FY24. Trade debts as a percentage of sales declined to 6.4% (FY23: 10.4%, FY22: 10.9%) in FY24.

Current ratio decreased to 0.80x (FY23: 0.94x, FY22: 1.02x) by end-FY24, indicating deteriorating liquidity. Coverage of short-term borrowings via trade debts and stock in trade also decreased on a timeline basis to 1.42x (FY23: 1.72x, FY22: 2.37x) at end-FY24. Net operating cycle of the company remained manageable at 29 days (FY23: 38 days; FY22: 44 days). Improvement in liquidity indicators is crucial from the ratings perspective.

Leverage indicators have remained adequate

Accounting for net loss, tier-1 equity stood lower at Rs. 1.83b (FY23: Rs. 1.96b, FY22: Rs. 1.83b) by end-FY24, while paid-up capital remained unchanged at Rs. 668m. While repayments led to lower long-term borrowing of Rs. 401m (FY23: 565m, FY22: 742m), BL continued to mobilize higher short-term borrowings. Resultantly, gearing and leverage indicators remained at 0.61x (FY23: 0.59x, FY22: 0.58x) and 1.27x (FY23: 1.08x, FY22: 1.03x), respectively.

Corporate Governance

The Board composition has changed with an addition of new independent director. The board comprised seven members including CEO and Chairman, two independent directors and four non-executive directors, at end-FY24. 5 out of 7 board members are female. The board has two committees including Audit Committee (AC) and HR and Remuneration Committee (HR&RC). During FY24, four AC meetings and six HR&RC meetings were conducted.

	Additionally, Mr. Muhammad Shafique resigned (w.e.f. 12 th June, 2024) from the position of CFO and Mr. Muhammad Zubair (former Company Secretary) has been appointed new CFO. Furthermore, Mr. Zahid Rasheed Alvi has been appointed as Company Secretary.
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Bunny's Limited
Annexure I

FINANCIAL SUMMARY				
<i>(amounts in Rs. millions)</i>				
<u>BALANCE SHEET</u>	FY22	FY23	FY24	1QFY25
Operating Fixed Assets	2,586.1	2,695.3	2,759.3	2,734.0
Stock-In-Trade	489.2	590.2	445.3	443.7
Trade Debts	411.9	483.5	576.1	622.5
Cash & Bank Balances	1.4	6.4	0.9	1.9
Total Assets	3,728.2	4,060.6	4,142.1	4,181.4
Trade and Other Payables	400.3	450.0	553.2	577.7
Short Term Debt	385.5	632.2	721.5	719.7
Long Term Debt	673.4	522.3	401.0	355.4
Total Debt	1,058.9	1,154.5	1,122.5	1,075.1
Total Liabilities	1,894.5	2,105.6	2,316.0	2,325.1
Equity	1,833.7	1,955.5	1,826.2	1,856.3
<u>INCOME STATEMENT</u>	FY22	FY23	FY24	1QFY25
Net Sales	4,468.9	5,686.6	7,009.3	1,800.4
Gross Profit	990.7	1,359.7	1,423.9	452.3
Finance Cost	110.7	208.3	271.9	59.6
Profit Before Tax	165.5	198.2	(5.1)	70.4
Profit After Tax	139.3	131.5	(108.1)	30.1
<u>RATIO ANALYSIS</u>	FY22	FY23	FY24	1QFY25
Gross Margin	22.2%	23.9%	20.3%	25.1%
Net Margin	3.1%	2.3%	-1.5%	1.7%
Current Ratio (x)	1.02	0.94	0.80	0.83
Cash Conversion Cycle (days)*	44	38	29	22
FFO	253.6	309.3	163.3	(4.5)
FFO to Total Debt (x)*	0.23	0.25	0.15	(0.03)
FFO to Long Term Debt (x)*	0.35	0.54	0.41	(0.05)
Debt Servicing Coverage Ratio (x)*	1.12	1.29	0.73	0.74
Short Term Debt Coverage (x)	2.34	1.70	1.42	1.48
ROAA*	3.9%	3.4%	-2.6%	2.9%
ROAE*	7.9%	6.9%	-5.7%	6.5%
Gearing (x)	0.58	0.59	0.61	0.58
Leverage (x)	1.03	1.08	1.27	1.25

*Annualized

REGULATORY DISCLOSURES		Appendix II			
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
	<u>RATING TYPE: ENTITY</u>				
	31/12/2024	A-	A2	Negative	Maintained
	06/04/2023	A-	A2	Stable	Reaffirmed
	01/02/2022	A-	A2	Stable	Reaffirmed
	30/12/2020	A-	A2	Stable	Reaffirmed
	05/12/2019	A-	A2	Stable	Reaffirmed
	11/09/2018	A-	A2	Stable	Reaffirmed
	21/03/2017	A-	A2	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.				
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Due Diligence Meetings Conducted	Name		Designation		Date
	N/A				