RATING REPORT

Hilal Foods (Pvt) Limited

REPORT DATE:
June 26, 2019

RATING ANALYSTS:
Muniba Khan
muniba.khan@vis.com.pk

Raveena Kumari
raveena.kumari@vis.com.pk

Rating Category	Long-term	Short-term
Entity	A	A-2
Rating Date	*May 14, 2019*	
Rating Outlook	Stable	
Outlook Date	*May 14, 2019*	

COMPANY INFORMATION	
Incorporated in 1986	**External auditors:** EY Ford Rhodes, Chartered Accountants
Private Limited Company	
Key Shareholders :	**Chief Executive Officer:** Mr. Fahad Munshi
Naeem Ali Muhammad Munshi ~ 93.36%	
Naqiba Naeem Munshi ~ 1.66%	
Fahad Munshi ~ 1.99%	
Faisal Munshi ~ 1.99%	
Neha Munshi ~ 0.99%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria *Corporates (May 2016)*
https://www.vis.com.pk/kc-meth.aspx

Hilal Foods (Pvt) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Incorporated in 1986, Hilal Foods (Pvt) Limited is a private limited company. The company operates under the ownership and control of Naeem Ali Mohammad Munshi, who owns 93.36%, and the remaining ownership is held by his wife and children.

Hilal Foods (Pvt) Limited (HFPL) was incorporated in 1986 under the name of Hilal Confectionery (Pvt) Limited. Hilal Confectionery (Pvt) Limited merged with King foods (Pvt) Limited in 2013, and was renamed as HFPL in 2015. The company is a privately owned entity with shareholding vested within a single family. The ownership structure is shown below:

Shareholding Pattern	Holding
Mr. Naeem Ali Muhammad Munshi	93.36%
Ms. Naqiba Naeem	1.66%
Mr. Fahad Munshi	1.99%
Mr. Faisal Munshi	1.99%
Ms. Neha Munshi	0.99%

Associates: In addition to HFPL, the group also comprises four other associate companies in the confectionary, personal care, food and plastic film industry. These entities are classified as associates based on Mr. Naeem Ali Mohammad Munshi's majority shareholding in group companies and chairmanship in Macpac Films

Entity Name	Shareholding
Hilal Foods (Pvt.) Limited	93.40%
Shalimar Food Products	100%
Unique Food Service Company (Pvt.) Limited	99.98%
Hilal Care (Pvt.) Limited	96.00%
Macpac Films Limited	15.35%

Key Rating Drivers

Sales: Top line of the company amounts to Rs. 11.6b (FY17: Rs. 9.2b) with it being contributed largely by its cake product. In accordance with the market dynamics, HFPL leads in two categories of products namely cakes and confectionary, which operates through the brands of CupKake and BakeTime along with other brands of candies, jellies and gums. The company is currently the leader in the cakes and gums market. HFPL reported a gross margin of 26.7% in FY18.

Operational Capacity: The company operates at a total production capacity of 8.9m cartons while producing 6.6 m cartons operating at utilization levels of 74% in FY18. Production has grown by 26.3% during FY18 on the back of strong demand in the market. This trend is expected to persist given the increasing population of the younger generation.

Asset Mix: Resource base of the business has increased, on a timeline basis, standing at Rs 7.1b, which majorly comprises plant & machinery, long term deposits, stock in trade and other receivables from associated undertakings and from government for sales tax and income tax refunds. Given capital intensive nature of the industry, fixed assets comprise 54.4% of total assets. Property, plant and equipment increased during the outgoing year on account of capital expenditure in developing an extension in the production line of one of its products. Assets are primarily funded by equity followed by borrowings.

Capitalization and Funding: Equity base of the company stands at Rs. 3b with growth largely been a function of profit retention. With expansion plans financed through debt, total borrowings of HFPL increased to Rs. 2.7b (FY17: Rs. 1.7b) at end-FY18. Debt profile also includes a long term off-balance sheet Ijarah financing amounting to Rs. 698m and short term borrowing of Rs. 774m. As a result, leverage and gearing indicators stand at a higher level of 1.97x (FY17: 1.21x) and 1.13x (FY17: 0.65x), respectively.

Profitability: Gross margins of the company have depicted an improvement on a time line basis given recent management efforts to improve production efficiencies coupled with favorable input prices. Despite higher turnover, net profit after tax was reported lower at Rs. 430.5m (FY17: Rs. 441.7m) in FY18. Decline in profitability levels has largely been on account of introduction of CEO remuneration and bonus. This policy is expected to continue, going forward. Profitability levels of the company are expected to improve on the back of benefits reaped from the new products as well as its internal marketing strategies.

Liquidity profile: With higher expense base incurred in FY18, Fund from Operations (FFO) lowered to Rs. 699.8m (FY17: Rs. 892.1m). As a result, FFO to total debt was reported at 0.25x (FY17: 0.54x) on account of higher debt levels. Liquidity profile is considered on the lower side. Moreover, debt servicing coverage ratio was also lower at 2.0x in FY18 vis-à-vis 3.04x in the preceding year. Management anticipates future profitability levels to support its cash flow position and improve liquidity indicators.

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix I

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.

EGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Hilal Foods (Pct) Ltd
Sector	Food
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
05/14/2019	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.
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