RATING REPORT

Asian Food Industries Limited

REPORT DATE:
February 21, 2024

RATING ANALYSTS:

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RATING DETAILS		
	Initial Ratings	
Rating Category	Long-term	Short-term
Entity	A-	A-2
Rating Date	February 21, 2024	
Rating Action	Initial	
Rating Outlook	Stable	

COMPANY INFORMATION

Incorporated in 1966	**External auditors:** Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants
Public Limited Company (unlisted)	**Chairman & CEO:** Mr. Shahid Iqbal
Key Shareholders (with stake 5% or more):	
Mr. Shahid Iqbal – 92% Ms. Zulaikha Iqbal – 8%	

APPLICABLE METHODOLOGY

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

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

OVERVIEW OF THE INSTITUTION

Asian Food Industries Limited operates under the brand name 'Mayfair'. AFI began its operations as a confectionary manufacturer in 1969 and since then has diversified its product portfolio and added biscuits to its range. AFI runs its operations from its manufacturing plant located in Raiwind, Lahore and its corporate head office in Gulberg, Lahore.

Profile of Chairman & CEO

Mr. Shahid Iqbal joined the company in 1992 to run it as a family concern. Mr. Shahid is a business graduate of Boston University, USA. He has also attended various courses at the Harvard Business School.

RATING RATIONALE

Asian Food Industries Limited ('AFI' or 'the Company') is a family-owned business operating under the brand name 'Mayfair'. It primarily engages in the production of confectionaries and biscuits. Founded by the late Mr. Mehboob Elahi, AFI was the first in Pakistan to introduce bubble gum chews and deposited candies. The company sells its products with a vast network of about 450 distributors and sub-distributors spread across the country. AFI's manufacturing plant is located at Raiwind, Lahore while its corporate head office is in the area of Gulberg, Lahore. AFI has a wholly owned subsidiary namely, Mayfair Holding (Pvt.) Limited. Mayfair Limited and Mayfair Trading (Pvt.) Limited are associated companies of AFI.

Key Rating Drivers:

Sound fundamentals for the global biscuit and confectionery markets with similar trend reflecting in the local market.

In CY23, the global biscuit and crackers market was valued at $284.6b (CY22: $ 265.9b; CY21: $246.2b), and it is projected to grow at a CAGR of 6.7%, reaching $398.5b by CY28. The market segments into crackers, savory, and sweet biscuits, with the latter dominating the market share. A key trend is the shift towards healthier snacking options, influencing the rise of biscuits with low-calorie, sugar-free, oat-based, nut-based, and high-fiber variants. This evolution reflects changing consumer preferences and the industry's response to health-conscious trends.

The global market for confectionery stood at $1.11t (CY22: $1.05t; CY21: $0.99t) in CY23. It is projected to grow at a CAGR of 5.8% reaching $1.48t by CY28. Recent trends in the confectionery market reflect a growing demand for healthier options and premium, artisanal products. Online accessibility has facilitated this shift, providing consumers with a wider range of choices to suit diverse preferences. Traditional favorites including rich in sugar and carbohydrates options but the industry is adapting to meet evolving consumer tastes.

The local confectionary industry stood at $11.6b (CY22: $10.8b; CY21: $9.8b) while biscuits/crackers industry at $2.2b (CY22: $2.0b; CY21: $ 1.8b) in CY23. The growth in rupee terms has been much higher due to devaluation of local currency and inflationary pressures that have led to rise in food product prices across the board. The seasonal spikes in sales, particularly during religious festivals and wedding seasons, underscore the cultural significance and consumer demand that drive the industry. Such occasions see a notable uptick in consumption among kids and young adults. The pricing dynamics of local food products, including those in the biscuit industry, are significantly influenced by the costs of major raw materials like sugar, wheat, edible oil, and potatoes. Meanwhile, the industry also relies on imports for flavors and certain other components, suggesting a complex interplay between local and global market forces in shaping the sector's growth and operational strategies.

Financial Profile

Continued increase in PPE was witnessed, projected to increase further with the addition of a new soft dough cookie line; while in line with higher sales, stock in trade increased considerably in FY23. Cash and bank balances also increased notably.

AFI's property, plant and equipment have been on an increasing trend and projected to increase further by end-FY24 with the addition of a soft dough cookie line. The company's investment in land which was mentioned under 'Investment Properties' till FY21, was categorized under property plant and equipment in FY22. Stock in trade increased mainly due to increase in raw material and packaging material inventory. Cash and bank balances increased considerably by end-FY23.

Increasing trend in profitability despite decreasing gross margins primarily on the back of

significant growth in sales

In recent years, AFI reported significant growth in sales. The increase in sales is on the back of both higher volumetric growth and selling price. Local sales composite majority of total sales. Sales concentration amongst top 10 customers remains high. These customers are national distributors and procure products from the company according to the market demand.

The gross margin has been decreasing on a timeline basis. This is owing to the strategic emphasis on boosting volumetric sales at the expense of profit margins, according to the management. The impact on gross margins was more pronounced on the confectionery segment during FY23. The operating expenses increased mainly owing to higher distribution and sales promotions, international business development, freight and forwarding and salaries and benefits. Other income mainly emanated from return on bank deposits during FY23. Despite industry-wide challenges of escalating interest rates, the company has effectively managed its financial costs mainly by reducing average borrowings, contributing to an improvement in net margins in FY23.

During 1QFY24, the company continued its momentum and the sales increased while pre-tax profit was also higher. The management intends to shift focus towards exports, aiming to double the volumetric sales in the coming years.

Improving trend in coverages with sound cash cycle mainly on the back of local sales on advance payments

Funds from Operations (FFO) have shown a consistent upward trajectory over the years. The similar growth pattern was noted in the FFO to total debt and FFO to long-term debt ratios in FY23. The company's cash flow coverage relative to its financial commitments are considered adequate, as evidenced by adequate debt servicing coverage ratio in FY23.

The funds are not tied up in local trade debts as domestic sales involve advance payments. Additionally, the use of cash against documents for export sales mitigates the risk of non-payment. The cash conversion cycle (CCC) has remained sound. Moreover, the company's inventory and trade receivables provide sufficient coverage against short-term debt. However, current ratio remained around the minimum threshold at end-FY23. Given the increasing trend in FFO, coverages are expected to remain manageable despite procurement of additional borrowings for the upcoming capex.

Improving trend has been witnessed in the gearing ratio. Going forward, gearing is projected to increase, though projected to remain manageable on account of mobilization of long-term debt for the planned expansion

The company’s tier-1 equity has enhanced on a timeline basis mainly on the back of profit retention. Tier-1 equity also includes director’s loan. The company has been regularly retiring its long-term borrowings over the years. Gearing improved on a timeline basis while debt leverage increased due to higher trade payables at end-FY23. The company has maintained a significant cash reserve at end-FY23 resulting in an adequate net debt to equity ratio. Going forward, the company intends to pursue expansion by introducing a new product line of soft dough cookies. This initiative is anticipated to necessitate acquisition of additional long-term borrowing. Hence, gearing is projected to increase by end-FY24, though the net debt to equity ratio is projected to remain low.

REGULATORY DISCLOSURES

Name of Rated Entity	Asian Food Industries Limited
Sector	Food
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	(see table below)

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
Feb-21-2024	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. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. 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 Meeting Conducted

Name	Designation	Date
Mr. Qazi Muhammad Younas	GM Finance	January 30, 2024
Mr. Fahad Ejaz	Head of Finance	