RATING REPORT

Asian Food Industries Limited

REPORT DATE:
April 07, 2025

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A2	A-	A2
Rating Outlook/Watch	Stable		Stable	
Rating Action	*Reaffirmed*		*Initial*	
Rating Date	April 07, 2025		February 21, 2024	

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

Asian Food Industries Limited

OVERVIEW OF THE INSTITUTION

Asian Food Industries Limited (AFI) operates under the brand name 'Mayfair.' The Company commenced its operations as a confectionery manufacturer in 1969 and has since expanded its product portfolio to include biscuits. AFI's manufacturing facility is located at Dars Road, off Raiwind Manga Road, Tehsil and District Kasur, in the Province of Punjab, while its registered corporate office is situated at 103-Anum Empire, Shahrah-e-Faisal, Karachi.

Profile of Chairman & CEO

Mr. Shahid Iqbal joined the Company in 1992 to lead its operations as a family-owned business. He holds a business degree from Boston University, USA, and has further enhanced his expertise by attending various executive courses at Harvard Business School.

RATING RATIONALE

Corporate Profile:

Asian Food Industries Limited (AFI) was incorporated in Pakistan on 26 October 1966 as a Private Limited Company under the Companies Act, 1913 (now the Companies Act, 2017) and was subsequently converted into a Public Limited Company on 29 September 1987. Operating under the Mayfair brand, AFI specializes in the production of confectionery, biscuits, and allied products, maintaining a strong presence in Pakistan's food manufacturing industry for several decades. Founded by the late Mehboob Elahi, AFI has played a pioneering role in the local confectionery sector. It was the first company in Pakistan to develop and launch bubble gum chews and deposited candies, marking a significant milestone in product innovation.

The Company distributes its products through a network of approximately 450 distributors and sub-distributors across Pakistan, supporting its supply chain and ensuring widespread product availability in both urban and rural markets. This well-structured distribution network has enabled AFI to maintain a consistent presence across the country.

AFI has further expanded its operations and corporate structure by establishing and associating with several business entities:

- Mayfair Holding (Pvt.) Limited – A wholly owned subsidiary of AFI, playing a key role in the Company's business expansion and financial growth.
- Mayfair Limited – An associated company previously engaged in yarn spinning and exports. The business has ceased operations, and its facilities are now leased to generate rental income.
- Mayfair Foods FZ LLC – An associated company based in the UAE, responsible for managing global sales with a strong emphasis on international market expansion.

Key Rating Drivers:

Strong market fundamentals drive growth in the global biscuit and confectionery sectors, with similar trends observed in the local market.

Global Biscuit Market:

In 2024, the global biscuits market was valued at approximately $108.75 billion. Projections indicate that the market will grow from $113.76 billion in 2025 to $167.69 billion by 2032, exhibiting a Compound Annual Growth Rate (CAGR) of 5.70% during this period. A significant trend in this sector is the increasing consumer preference for healthier snacking options, leading to a rise in low-calorie, sugar-free, oat-based, nut-based, and high-fiber biscuit variants. This shift reflects the industry's response to evolving health-conscious consumer preferences.

Global Confectionery Market:

The global confectionery market was valued at $206.97 billion in 2023 and is projected to grow to $213.74 billion in 2024, eventually reaching $278.36 billion by 2032, with a CAGR of 3.36% over the 2024-2032 period. Recent trends indicate a growing demand for healthier and premium artisanal confectionery products. The increasing accessibility of online platforms has facilitated this shift, offering consumers a broader range of choices to suit diverse preferences. While traditional favorites rich in sugar and carbohydrates remain popular, the industry is adapting to meet evolving consumer tastes.

Local Pakistani Market:
In Pakistan, the confectionery market was valued at approximately $869.9 million in 2023 and is projected to reach $2,152.5 million by 2029, achieving a remarkable CAGR of 16.3% over the 2024-2029 period. This growth is driven by Pakistan's large young population and rising disposable incomes, leading to increased demand for both traditional sweets and Western-style confectionery.

The local biscuit market has also experienced significant growth, influenced by similar factors. Seasonal spikes in sales, particularly during religious festivals and wedding seasons, underscore the cultural significance and consumer demand that drive the industry. These occasions see a notable uptick in consumption among children and young adults.
Pricing dynamics in Pakistan's food products, including those in the biscuit industry, are significantly influenced by the costs of major raw materials such as sugar, wheat, edible oil, and potatoes. Additionally, the industry relies on imports for flavors and certain other components, indicating a complex interplay between local and global market forces in shaping the sector's growth and operational strategies.

Overall, the biscuit and confectionery markets, both globally and within Pakistan, are experiencing substantial growth, driven by evolving consumer preferences and economic factors.

Financial Profile

Profitability continues to grow despite margin pressure, driven by higher sales volumes and strategic pricing.

AFI reported net sales of PKR 35.24 billion in FY24, also sustaining growth momentum into Q1FY25, with sales reaching to PKR 9.51 billion. This expansion was primarily driven by increased volumetric sales and strategic price adjustments. The Company's revenue base remains concentrated in local market, with a significant share attributed by its top 10 national distributors.

Despite topline growth, gross margins contracted as AFI prioritized volume expansion over profitability. The decline in the gross profit ratio in FY23-24 was largely due to elevated raw material costs, which were not passed on to consumers. Management intends to mitigate this impact through a combination of direct and indirect pricing strategies.

The confectionery segment experienced margin pressure from rising raw material costs and increased promotional expenditures. Operating expenses in FY24 escalated due to higher investments in sales promotions, international market expansion, logistics, and employee compensation. However, net profitability improved, supported by higher other income, primarily returns on bank deposits. This was partially offset by elevated finance costs, as the Company secured debt financing for new equipment to facilitate expansion.

In Q1FY25, AFI sustained its growth trajectory, posting higher sales and an increase in pre-tax profitability. Going forward, management remains focused on export market expansion to drive volumetric growth. The Company is set to diversify its product portfolio by entering into chocolate bar and new jelly segments. This expansion is expected to result in higher borrowing costs as AFI undertakes a major capital investment initiative.

Coverage ratios strengthen with higher FFO, supported by advance local sales and stable cash flows.

Funds from Operations (FFO) improved in FY24 on the back of stronger profitability, resulting in a higher FFO-to-debt ratio. Liquidity position remained adequate, with steady cash flows supported by a stable cash conversion cycle.

Current ratio showed a marginal improvement by end-FY24, driven by higher cash balances and advances to suppliers. Operating cash flows and inventory remained sufficient to meet near-term obligations. Debt Servicing Coverage Ratio (DSCR) improved during the year and is projected to strengthen further in FY25 in line with the upward trend in FFO.

Although total borrowings are expected to rise due to planned expansion, the growth in FFO is likely to keep coverage indicators within comfortable levels. Equity base has continued to strengthen, providing support to the capital structure and enhancing the company's capacity to absorb financial risks.

Gearing ratio expected to rise in FY25-FY26 amid expansion financing, though a strengthened equity base provides stability.

AFI’s Tier-1 equity position strengthened in FY24, supported by internal profit retention and director’s loan contributions. This has reinforced the capital base and improved the Company’s capacity to manage higher leverage. After a period of deleveraging from FY21 to FY23, gearing increased in FY24 due to new borrowings raised for expansion initiatives.

The gearing ratio is expected to rise further in FY25 and FY26 as the Company proceeds with long-term financing plans to support its growth strategy. AFI is also expanding its product portfolio which is anticipated to contribute to revenue growth and support future profitability.

Despite the expected increase in debt, the equity base continues to grow, providing a cushion against financial risks. The Company’s ability to maintain earnings and generate cash flows will be critical in preserving a balanced capital structure through the upcoming investment cycle.

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Asian Food Industries Limited
Sector	Food
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	RATING TYPE: ENTITY
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.
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Due Diligence Meetings Conducted	

RATING TYPE: ENTITY

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
Apr-07-2025	A-	A2	Stable	Reaffirmed
Feb-21-2024	A-	A2	Stable	Initial

Due Diligence Meetings Conducted

Name	**Designation**	**Date**
Mr. Qazi Muhammad Younas	GM Finance	March 06, 2025
Mr. Fahad Ejaz	Head of Finance	