

## National Foods Limited

April 24, 2014

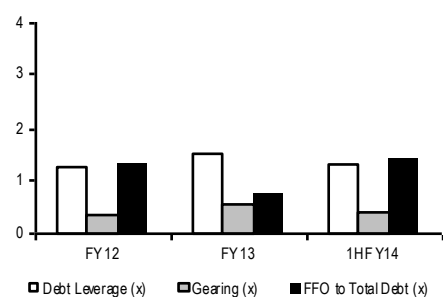
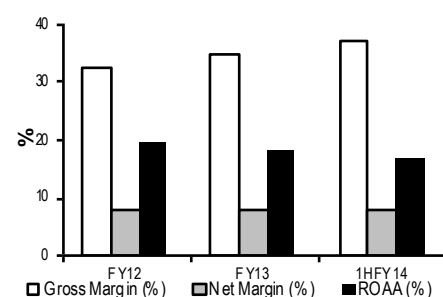
Chairman: Mr. Abdul Majeed; Managing Director/ Chief Executive: Mr. Abrar Hasan

**Analysts:** Maimoon Rasheed  
Waqas Munir, FRM

## Rating Rationale

Category	Latest	Previous
Entity	AA - / A-1	A+ / A-1
	March 28, '14	June 25, '12
Outlook	Stable	Stable
	March 28, '14	June 25, '12

## Key Financial Trends



(Rs. million)	FY12	FY13	1HFY14
Net Sales	7,169	8,546	4,588
Gross Profit	2,331	2,957	1,695
Tier-1 Equity	1,402	1,682	1,869
Total Debt	508	951	812
Gearing (x)	0.4x	0.6x	0.4x
Debt Leverage (x)	1.3x	1.5x	1.4x
FFO	671	727	580
FFO/Total Debt (x)	1.3	0.8	1.4*
ROAE	50.2%	43.7%	41.4%*
ROAA	19.4%	18.2%	16.8%*

\*annualized

National Foods Limited (NFL) enjoys prominent position in the packaged food industry. The company offers a range of products including receipe masala, pickles, ketchup and sauces and continues to invest in its brands and distribution networks to sustain its market position.

The company continues to pursue its vision to achieve sales of Rs. 50b by 2020. Given the current pace of increase in sales, this may not be readily achievable by organic growth alone. NFL plans to expand its operations by introducing new products including ready-to-eat foods while acquisitions may also be considered. Meanwhile, to increase volumetric sales, the company aims to target rural population of the country where the penetration of packaged consumer foods is low. Region specific campaigns were launched in order to enhance brand awareness in these areas. On the international front, entrance in new markets is planned whereas increased penetration is envisaged in existing markets. In view of this, NFL made an investment in wholly owned subsidiary, National Foods DMCC, Dubai while the company plans to setup additional subsidiaries in the international market. So far, the contribution of exports to total sales is modest as the company faces stiff competition from more established brands.

Net sales of the company increased by 19.2% during FY13 and amounted to Rs. 8.5b (FY12: Rs. 7.2b) with around 15% of the growth attributable to higher volumetric sales. Sales growth was spread across products. Barring pickles, where margins were lower on account of higher material costs, gross margins improved across all categories. While remaining strong, margins had followed a downward trajectory over the period 2008-11; there has been an uptick in the same over the last two years. Improvement in margins during FY13 and in the ongoing year is attributable to product mix optimization, cost rationalization and process improvements in supply chain management. During 1HFY14, NFL posted net sales of Rs. 4.6b as against a full year target of Rs. 10.8b.

Capital structure of the company has remained conservative. Retention of profits has resulted in a growing equity base. Meanwhile, utilization of borrowings remains limited. In recent years, there has been greater focus on improving working capital management. Total borrowings amounted to Rs. 811.9m at end Dec-13, as against which the company held inventory of Rs. 2.0b. Cash conversion cycle of the company extended slightly during FY13. With FFO of Rs. 580m generated during 1HFY14 alone, the company also has room to finance expansion through internal sources without placing any stress on its debt servicing capacity. NFL is also gradually building a liquid investment portfolio, which amounted to Rs. 441.7m at end-Dec'13.

## Overview of the Institution

NFL was incorporated in 1970 as a private limited company and subsequently converted into a public limited company in 1988 and is listed on Karachi, Lahore and Islamabad stock exchanges. Production facilities are located in S.I.T.E Industrial Area, Port Qasim and Muridake. External auditors of the company for the financial year 2013 were M/s A. F. Ferguson & Co. [JCR-VIS](#)

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<b><u>RATING TYPE: Entity</u></b>				
<b>28-Mar-14</b>	AA-	Stable	A-1	Upgrade
<b>25-Jun-12</b>	A+	Stable	A-1	Maintained
<b>01-Jun-11</b>	A+	Stable	A-2	Reaffirmed
<b>04-Jan-10</b>	A+	Stable	A-2	Reaffirmed