

National Foods Limited

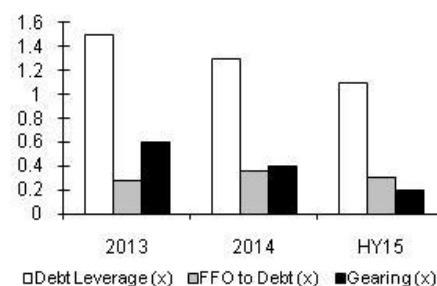
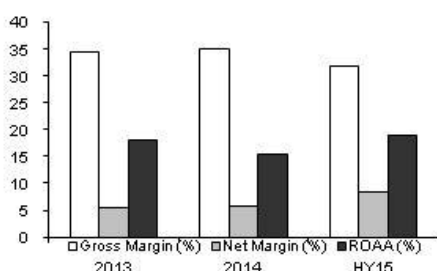
Chairman: Mr. Abdul Majeed; Managing Director/Chief Executive: Mr. Abrar Hasan

March 20, 2015

Analysts: Amir Shafique
Faiq Sattar

Category	Latest	Previous
Entity	AA-/A-1 Mar 20, '15	AA-/A-1 Mar 28, '14
Outlook	Stable Mar 20, '15	Stable Mar 28, '14

Key Financial Trends



(Rs. million)	FY13	FY14	HY15
Net Sales	8,546	9,725	5,545
Net Profit	674	709	462
Tier-1 Equity	1669	2208	2256
Total Debt	951	954	390.3
Gearing (x)	0.6x	0.4x	0.2x
Debt Leverage (x)	1.5x	1.3x	1.1x
FFO	727	991	798
FFO/Total Debt (x)	0.8	1.0	4.1
ROAE	43.7%	36.6%	41.4%
ROAA	18.2%	15.3%	18.9%

Rating Rationale

National Foods Limited (NFL) is one of the leading multi category food companies locally with over 250 products in 12 categories. The assigned ratings incorporate the company's robust franchise value as manifested in sizable market share. Moreover, the ratings draw comfort from conservative capital structure and strong internal cash generation of the company. NFL also has international presence with sales in 45 countries. International operations are mainly conducted through an independent subsidiary in Dubai. The company has established two new subsidiaries each in Canada and United Kingdom to cater to the North American and European markets, respectively in FY14.

Given the company's vision to achieve sale of Rs. 50b by 2020, NFL has enhanced focus towards international markets. Internationally, the company intends to expand in the convenience food category. As part of the strategy, NFL launched a range of halal frozen meal in the Canadian market during 2014. The company also introduced 'National Masala Snax' range in North America and Middle East markets during the year. Locally, the management plans to expand in all categories with focus on dessert and instant drink category, where currently the market share is limited. Moreover, NFL intends to target rural segment of the country where penetration of packaged consumer foods is low. The company has already launched specific rural campaigns to enhance brand awareness in these areas. These initiatives bode well for geographical diversification; however, the same will have limited impact in achieving vision 2020.

Net sales increased by about 13.8% to Rs. 9.7b (FY13: Rs. 8.5b) in FY14. Growth in revenue is a function of both higher sales volume and increase in average prices during the year. Overall sales largely emanated from the domestic market. More than 60% of revenues were generated from recipe masala, pickle and ketchup & sauces. Export revenue has depicted growth; contribution from the same remained less than 10% in total sales. Overall gross margins increased to 35.1% (FY13: 34.6%) on the back of higher production and better efficiency in FY14. Margins depicted improvement across all major categories.

Total debt entirely comprises short term borrowings acquired to finance working capital needs. While inventory levels were higher in comparison to the preceding year, total debt of the company stood at Rs. 953.8m (FY13: Rs. 951m) as of end-June, 2014. Gearing has remained low over the years. In line with trend in profitability, Funds Flow from Operations (FFO) has improved on a timeline basis. Debt servicing coverage ratio, though reduced, stood strong at 11x (FY13: 12.5x). Given the sustainable internal cash generation, the company has strong capacity to meet its financial obligations on time.

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 2014 were M/s A. F. Ferguson & Co. JCR-VIS