

RATING REPORT

Bunny's Limited

REPORT DATE:

April 03, 2017

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Ratings	
	Long-term	Short – term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	March 21, 2017	

COMPANY INFORMATION

Incorporated in 1980

External auditors: Javed & Co. Chartered Accountants and Fazal Mahmood & Co. Chartered Accountants

Public Limited Company (un-listed)

Chairman of the Board: Mr. Yunus Shafiq Chaudhry

Key Shareholders (with stake 5% or more):

Chief Executive Officer: Mr. Haroon Shafiq Chaudhry

Mr. Haroon Shafiq Chaudhry : 23.3%

Mr. Yunus Shafiq Chaudhry : 18.3%

Mr. Omer Shafiq Chaudhry : 20.0%

Miss Mahnoor Chaudhry : 10.0%

Mr. Zeeshan Chaudhry : 6.0%

Mr. Taimur Choudhry : 6.0%

Mr. Ahsan Chaudhry : 6.0%

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Industrial Corporates (May 2016)

<http://www.jcrvis.com.pk/ke-meth.aspx>

Bunny's Limited

OVERVIEW OF THE INSTITUTION

Bunny's Limited (BL) was incorporated as a private limited company in 1980 as small unit manufacturing bread, buns and rusks catering to the local market of Lahore. BL was converted into a Public Limited Company (un-listed) in March 2005.

Profile of the Chairman

Mr. Younus Shafiq Chaudhry carries over 40 years of professional experience. Mr. Shafiq is a Mechanical Engineer by profession and has previously managed his own construction company in Dubai.

Profile of the CEO

Mr. Haroon Shafiq Chaudary is a seasoned professional with over 30 years of experience in food industry. Mr. Haroon holds a Master's degree in Economics.

Financial Snapshot

Core Equity: 1HFY17- Rs. 801.5m, FY16 - Rs. 760.8m

Net Profit: 1HY17- Rs. 65.5m, FY16- Rs. 131.7m

RATING RATIONALE

The ratings assigned to Bunny's Limited (BL) takes into account moderate business risk profile of the institution reflected by established brand name, largely stable product demand and pricing leading to sustained margins. BL is a family owned business and operates in two main segments; bread and snack segments and offers various products within each segment catering to varying customer needs. The primary market of the company's main product, Bread, is Lahore and its surrounding areas where BL holds major share of the market. Given that production facilities of the company are located in Lahore, the geographical diversity of sales is limited. The company has an established raw material sourcing channel; supplier audits are conducted as per Supplier Quality Assurance schedule. Under a manufacturing and supply agreement with PepsiCo International, the company manufactures, process, package and store 'Kurkure' brand.

Profitability

Over the last five years, net sales of the company have grown by a Cumulative Annual Growth Rate (CAGR) of around 8% and amounted to Rs. 2.1n (FY15: Rs. 2b) during FY16. The proceeds from bread department, including cakes, comprise more than 90% of the net sales. Majority of the sales (~89%) comprises non-institutional sales while among institutional sales the company sells its products to renowned brands. In the recent years, the prices of the main raw material has largely remained range bound while finished product pricing have also remained largely unchanged leading to sustained margins. Going forward, management expects the positive momentum in earnings to continue as a result of production facilities expansion planned to meet the increasing demand.

Capital Structure

Total borrowings increased on a timeline basis to Rs. 490.4m (FY16: Rs. 260.5m; FY15: Rs. 331.6m) by end-1HFY17 with long term borrowing representing 84.7% (FY16: 53.9%) of the total borrowing. During the ongoing year, the company availed a long term finance facility amounting to Rs. 300m for balance sheet re-profiling. Long term facilities comprises privately placed term finance certificates which has been restructured in the past. Gearing was reported higher at 0.61x at end-1HFY17 (FY16: 0.34x; FY15: 0.47x) on account of higher long term borrowing while the impact was offset by lower trade payables leading to largely unchanged leverage indicators (1HFY17; 1.2x; FY16: 1.3x). The company's plan to enlist itself by way of merger with a dormant company.

Liquidity and Cashflows

Liquidity profile draws support from adequate cash flows in relation to outstanding obligations. In the past the cash conversion cycle of the company has remained negative on account of delayed payment to creditors leading to expensive credit terms; the same is expected to improve, going forward. Overall liquidity profile is projected to improve with cashflows gaining impetus from higher sales. Cash flow coverages are expected to remain adequate on account of extended repayment profile of long term debt.

Corporate Governance and Control Infrastructure

Top management team of the company comprises experienced resources and includes representatives of the sponsoring family. Overall corporate governance framework has room for improvement. Inclusion of top tier audit firms would strengthen the internal control infrastructure.

Bunny's Limited**Annexure-1**

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>				
<u>BALANCE SHEET</u>	Dec 31, 2016	June 30, 2016	June 30, 2015	June 30, 2014
Non-Current Assets	1,643.5	1,616	1,616.7	1,175.0
Stock-in-Trade	223.6	210.7	243.2	238.2
Trade Debts	216.7	202.2	192.7	201.7
Cash & Bank Balances	14.1	2.3	4.1	3.5
Total Assets	2,194.6	2,127.1	2,142.5	1,724.4
Trade and Other Payables	269.1	471.1	475.8	434.9
Short Term Borrowings	75	120.2	124.7	129.7
Total Liabilities	981	954.2	1,019.3	1,063.7
Core Equity	801.5	760.8	711.0	660.7
Total Equity	1,213.6	1,172.9	1,123.2	660.7
<u>INCOME STATEMENT</u>	Dec 31, 2016	June 30, 2016	June 30, 2015	June 30, 2014
Net Sales	1,100.7	2,111.1	1,971.2	1,885.6
Gross Profit	290.4	523.3	486.9	474.0
Operating Profit	104.8	181.2	167.6	156.6
Profit After Tax	65.5	131.7	100.1	62.1
<u>RATIO ANALYSIS</u>	Dec 31, 2016	June 30, 2016	June 30, 2015	June 30, 2014
Gross Margin (%)	26.4%	24.8%	24.7%	25.1%
Net Working Capital	79.9	-178.9	-207.1	-193.3
FFO to Total Debt (%)	0.42	0.79	0.46	0.34
ROAA (%)	6.1%	6.2%	5.2%	3.6%
ROAE (%)	11.0%	11.5%	11.2%	9.9%
Gearing (x)	0.61	0.34	0.47	0.60
Debt Leverage (x)	1.22	1.25	1.43	1.61

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Annexure-2

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES		Annexure-3			
Name of Rated Entity	Bunny's Limited				
Sector	Consumer Goods				
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				
	21/03/2017	A-	A-2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	JCR-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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