

*Number One Food Brand in Pakistan*

1<sup>st</sup> Quarterly Report 2010-11

# *National Foods Limited*

National Foods Limited (NFL), founded in 1970, is Pakistan's Leading multi-category Food Company today with over 250 different products in 12 categories. NFL holds ISO 9001, ISO 22000 and HACCP certifications along with SAP business technology to drive the Company's strong commitment to quality and management excellence.

NFL is an international brand sold in over 35 countries and it aims to be a Rs. 50 billion company under its Vision 20/20 plan.

NFL is dedicated to improving the well-being of society through continuous development of innovative products and through a wide-ranging corporate social responsibility program.

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# Company Information

## BOARD OF DIRECTORS

Mr. Abdul Majeed	Chairman
Mr. Abrar Hasan	Managing Director / Chief Executive
Mr. Waqar Hasan	Director
Mr. Khawaja Munir Mashooqullah	Director
Mr. Zahid Majeed	Director
Mr. Ebrahim Qassim	Director
Mr. Iqbal Alimohamed	Director

## AUDIT COMMITTEE

Mr. Ebrahim Qassim	Chairman
Mr. Waqar Hasan	Member
Mr. Zahid Majeed	Member

## COMPANY SECRETARY AND SECRETARY AUDIT COMMITTEE

Mr. Fayyaz Abdul Ghaffar

## CHIEF FINANCIAL OFFICER

Mr. Muhammad Kashif Iqbal

## INTERNAL AUDITORS

Messrs. Ernst & Young Ford Rhodes Sidat Hyder & Co. Chartered Accountants

## COMPANY MANAGEMENT

Mr. Abrar Hasan	Managing Director / Chief Executive
Mr. Shakaib Arif	Chief Operating Officer
Mr. Waqas Abrar Khan	General Manager Human Resource

## AUDITORS

A. F. Ferguson & Co.	Chartered Accountants State Life Building, 1-C, I.I. Chundrigar Road, Karachi
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## SHARE REGISTRATION OFFICE

Noble Computer Services (Pvt.) Limited	Mezzanine Floor, House of Habib Building (Siddiqsons Tower), 3-Jinnah C.H. Society, Main Shahrah-e-Faisal, Karachi-75350 PABX: (92-21) 34325482-87 Fax: (92-21) 34325442
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## PRINCIPAL BANKERS

Bank Al-Habib Limited	I.I. Chundrigar Road Branch, Karachi S.I.T.E Branch, Karachi New Garden Town Branch, Lahore
Royal Bank of Scotland (RBS) (Formerly ABN AMRO Bank)	16, Abdullah Haroon Road, Karachi
MCB Bank Limited	Shaheen Complex Branch, Karachi
United Bank Limited	I.I. Chundrigar Road, Karachi
Bank Al Falah Limited (Islamic Banking Group)	Port Qasim Authority Branch, Karachi
Barclays Bank Plc, Pakistan	Dawood Centre, M.T. Khan Road, Karachi
Meezan Bank Limited	M.T. Khan Road, Karachi
Bank Islami Pakistan Limited	S.I.T.E. Branch, Karachi
Habib Bank Limited	S.I.T.E. Branch, Karachi
Habib Metropolitan Bank Limited	Main Branch, Karachi

## REGISTERED OFFICE

12/CL-6, Claremont Road, Civil Lines,  
Karachi 75530 P.O.Box No. 15509  
Phone: 021-35662687, 021-35670540, 021-35670585,  
021-35670793 & 021-35672268  
Fax: 021-35684870

# First Quarterly

## DIRECTORS REPORT TO THE SHAREHOLDERS

On behalf of the Board of Directors of National Foods Limited, I am pleased to present to you the un-audited financial statements of the first quarter ended September 30, 2010 along with certain performance indicators thereof. These financial statements are submitted in accordance with the Section 245 of the Companies Ordinance, 1984.

### SUMMARY

Summary of the results are presented below:

	Jul 2010 to Sep 2010	Jul 2009 to Sep 2009	Growth	% fo Net sales		Variance (+/-)
				Jul-Sep 2010	2009	
<b>Top Line Growth</b>						
<b>Corporate sales</b>						
Gross sales	2,011,968	1,558,015	29.14%			
Net sales	1,483,181	1,148,358	29.16%			
<b>Local sales</b>						
Gross sales	1,872,953	1,469,455	27.46%			
Net sales	1,344,166	1,059,798	26.83%			
<b>Export sales</b>						
Gross sales	139,015	88,560	56.97%			
Net sales	139,015	88,560	56.97%			
<b>Gross Profit</b>	424,464	353,611	20.04%	28.62%	30.79%	(2.17%)
<b>Bottom Line Growth</b>						
Operating profit	83,652	63,879	30.95%	5.64%	5.56%	0.08%
Other Income	288	2,751	(89.53%)	0.02%	0.24%	(0.22%)
Pre-tax profit	45,389	43,419	4.54%	3.06%	3.78%	(0.72%)
Net profit	27,848	29,419	(5.34%)	1.88%	2.56%	(0.68%)
<b>Expense Control</b>						
Selling Expenses	84,361	72,006	17.16%	5.69%	6.27%	(0.58%)
Cartage and Freight & Forwarding	64,311	42,707	50.59%	4.34%	3.72%	0.62%
Advertising and Sales Promo	148,947	134,539	10.71%	10.04%	11.72%	(1.68%)
Administrative Expenses	40,064	38,631	3.71%	2.70%	3.36%	(0.66%)
Other operating Expenses	3,417	4,600	(25.72%)	0.23%	0.40%	(0.17%)
Financial Expenses	38,263	20,460	87.01%	2.58%	1.78%	0.80%

## TURNOVER ANALYSIS

National Foods achieved record revenue of Rs.2 Billion in the first quarter, whereby sales in all food categories surpassed last year's results by growing at an average rate of 27.5%. These sales have been achieved at a time when the country has gone through a very tumultuous period of economy and natural disaster in the shape of floods. As the floodwaters recede, it is still not clear in terms of the extent of damage that has occurred specially to the agriculture sector. However, due to the unbalanced supply of items, the markets are already witnessing key commodity items prices spiralling upwards and out of control. Alternatively, export performance for the quarter has been exceptional registering a growth of 57%. This growth has been driven by major investment in time and effort by the Directors and needs to be sustained and scaled up by a proper export organization capable of meeting the requirements of the international market for the Company to gain its due share. The combined performance has generated a corporate growth rate of 29% for the first quarter.

## PROFITABILITY ANALYSIS

Gross margins as a percentage of net sales for the quarter are under pressure due to increase in material prices both locally and internationally. Timely price adjustments and curtailment of operational expenses have substantially offset extraordinary inflationary trend in all cost segments, however, despite all such efforts gross profit has reduced as a percentage of net sales to 28.62%.

All fixed expenses apart from financial cost have reduced due to consolidation of operations and cost rationalization. Due to long term buying of strategic ingredients and stocking, the company has had to rely on short-term borrowings to hedge itself against the price inflation. This has resulted in a higher financial cost. Freight on the other hand has also registered an increase due to logistical operations being affected by floods. Distribution in affected areas has proved to be a challenge due to destruction of roads and non-availability of freight transport. Scarcity of logistical resources has increased freight by 0.62%.

## FUTURE OUTLOOK

The impact of floods is not fully known but the expected damage to the economy and the agricultural sector is eminent. The rest of the year will pose to be a huge challenge for the company, as unfavourable economy along with high inflation will have an impact on consumer spending which will impact real growth. The company will have to rely on timely price increase to offset the material price inflation along with creation of innovative business models to tackle uncertainty and increasing costs.




**A. MAJEED**  
CHAIRMAN

# Balance Sheet

AS AT SEPTEMBER 30, 2010

		(Un-audited)	(Audited)
		Sep 30	Jun 30,
		2010	2010
(Rupees in thousands)			
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	2	787,181	794,771
Intangibles		21,434	25,688
Long term deposits		4,165	4,509
		812,780	824,968
<b>CURRENT ASSETS</b>			
Stores, spare parts and loose tools		6,477	5,360
Stock in trade		1,320,094	1,502,232
Trade debts		191,181	253,050
Advances		57,400	43,867
Trade deposits and prepayments		19,467	10,118
Other receivables		-	20,664
Cash and bank balances		8,254	14,101
		1,602,873	1,849,392
		2,415,653	2,674,360
<b>SHARE CAPITAL AND RESERVES</b>			
Issued, subscribed and paid-up capital		414,427	414,427
Unappropriated profit		305,635	327,518
		720,062	741,945
<b>NON-CURRENT LIABILITIES</b>			
Long term financing		204,000	20,000
Liabilities against assets subject to finance lease		1,763	2,260
Retirement benefits obligation		10,707	10,707
Deferred tax		75,120	72,621
		291,590	105,588
<b>CURRENT LIABILITIES</b>			
Trade and other payables		720,915	530,063
Accrued interest / mark up		30,545	28,319
Short term borrowings		561,346	1,189,769
Current maturity of:			
Long term financing		40,000	40,000
Liabilities against assets subject to finance lease		11,424	10,238
Taxation-Provision less payment		3,551	12,407
Due to the government		36,220	16,031
		1,404,001	1,826,827
<b>COMMITMENTS</b>			
	3	2,415,653	2,674,360

The annexed notes 1 to 8 form an integral part of these financial statements.

  
Chief Executive

  
Director

# Profit And Loss Account\_\_\_\_\_

**FOR THE THREE MONTHS ENDED  
SEPTEMBER 30, 2010 (UNAUDITED)**

Note

Sep 30, 2010	Sep 30, 2009
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----- Rupees in thousands -----

Net sales

Local

Export

1,344,166	1,059,798
139,015	88,560
1,483,181	1,148,358

Cost of sales

Gross profit

1,058,717	794,747
424,464	353,611

Operating expenses

Distribution cost

Administrative expenses

Other operating expenses

297,619	249,252
40,064	38,631
3,417	4,600
341,100	292,483

83,364	61,128
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Other income

Profit from operations

288	2,751
83,652	63,879

Finance cost

Profit before taxation

38,263	20,460
45,389	43,419

Taxation

Profit after taxation

17,541	14,000
27,848	29,419

Earnings per share - basic and diluted - Rupees

7

0.67	0.71
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The annexed notes 1 to 8 form an integral part of these financial statements.

  
Chief Executive

  
Director



# Cash Flow Statement

FOR THE THREE MONTHS ENDED  
SEPTEMBER 30, 2010 (UNAUDITED)

	Note	Sep 30, 2010	Sep 30, 2009
		----- Rupees in thousands -----	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	4	510,251	139,313
Finance cost paid		(34,091)	(21,064)
Income tax paid		(23,898)	(11,840)
<b>Net cash generated from operating activities</b>		<b>452,262</b>	<b>106,409</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(14,711)	(23,700)
Net decrease in long term deposits		344	13
<b>Net cash used in investing activities</b>		<b>(14,367)</b>	<b>(23,687)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Long term financing - Net		184,000	(10,000)
Liabilities against assets subject to finance leases (net)		689	(7,071)
Dividend paid		(8)	.
<b>Net cash generated from / (used in) financing activities</b>		<b>184,681</b>	<b>(17,071)</b>
Net increase in cash and cash equivalents		622,576	65,651
Cash and cash equivalents at the beginning of the period		(1,175,668)	(470,331)
Cash and cash equivalents at the end of the period	5	(553,092)	(404,680)

The annexed notes 1 to 8 form an integral part of these financial statements.

  
Chief Executive

  
Director

# Statement of Changes in Equity—

FOR THE THREE MONTHS ENDED  
SEPTEMBER 30, 2010

	Issued subscribed and paid up capital	Unappropriated Profit	Total
	----- Rupees in thousands -----		
Balance as at June 30, 2009	331,542	323,844	655,386
Profit for the three months ended September 30, 2009	-	29,419	29,419
<b>Balance as at September 30, 2009</b>	<b>331,542</b>	<b>353,263</b>	<b>684,805</b>
Issue of 1 bonus share for every 4 shares held	82,885	(82,885)	-
Profit for the nine months ended June 30, 2010	-	57,140	57,140
<b>Balance as at June 30, 2010</b>	<b>414,427</b>	<b>327,518</b>	<b>741,945</b>
Final dividend for the year ended June 30, 2010	-	(49,731)	(49,731)
Profit for the three months ended Sep 30, 2010	-	27,848	27,848
<b>Balance as at Sep 30, 2010</b>	<b>414,427</b>	<b>305,635</b>	<b>720,062</b>

The annexed notes form an integral part of these financial statements.

  
Chief Executive

  
Director

# Selected Notes To The Financial Statements

**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2010 (UNAUDITED)**

## 1. BASIS FOR PREPARATION

- 1.1 These financial statements have been prepared in accordance with the requirements of International Accounting Standard No. 34, Interim Financial Reporting and are being submitted to the shareholders as required by section 245 of the Companies Ordinance, 1984 and the listing regulations of the Karachi, Lahore and Islamabad Stock Exchanges.
- 1.2 The accounting policies adopted for the preparation of these financial statements are the same as those applied in the preparation of the annual financial statements of the company for the year ended June 30, 2010.

## 2. PROPERTY, PLANT AND EQUIPMENT

### 2.1 Operating Assets

Capital work in progress-at Cost

Civil work in progress

Plant & Machinery

Advance against acquisition of land

Vehicles pending delivery

Office Equipment

Computer Software

Sep 30,  
2010      June 30,  
2010  
Rupees in thousands

729,961      731,167

15,716      14,982

38,662      34,593

1,962      12,012

-      816

55      55

825      1,146

787,181      794,771

### 2.2 Additions during the period

#### Additions

Building

Plant and machinery

Furniture and fixtures

Motor Vehicles

Office and other equipments

Computers

Sep 30,  
2010      Sep 30,  
2009  
Rupees in thousands

106      -

8,842      565

3,091      10

342      427

1,609      1,587

759      723

14,749      3,312

## 3. COMMITMENTS

- 3.1 Aggregate commitments for capital expenditure amounted to Rs. 12.241 million (June 30, 2010: Rs. 18.27 million).

Sep 30,      Sep 30,  
2010      2009  
Rupees in thousands

#### 4 CASH FLOW FROM OPERATIONS

Profit before taxation	45,389	43,419
Adjustments of non-cash charges and other items		
Depreciation / Amortization on fixed assets	26,555	27,502
Finance cost	36,317	19,034
Deferred Liability - Retirement benefits	-	6,780
	<u>62,872</u>	<u>53,316</u>
Profit before working capital changes	108,261	96,735
EFFECT ON CASH FLOWS DUE TO WORKING CAPITAL CHANGES		
(Increase) / Decrease in current assets		
Stores, spare parts and loose tools	(1,117)	(424)
Stock in trade	182,138	(12,620)
Trade debts	61,869	(29,190)
Advances	(13,533)	8,146
Deposits and prepayments	(9,349)	(6,684)
Other receivables	20,664	(417)
	<u>240,672</u>	<u>(41,189)</u>
Increase in current liabilities		
Trade and other payables	141,129	70,615
Due to the government	20,189	13,152
	<u>161,318</u>	<u>83,767</u>
	<u><u>510,251</u></u>	<u><u>139,313</u></u>

#### 5 CASH AND CASH EQUIVALENTS

Cash and bank balances	8,254	27,477
Short term borrowings	(561,346)	(432,157)
	<u>(553,092)</u>	<u>(404,680)</u>

#### 6. TRANSACTIONS WITH RELATED PARTIES

Relationship with the company	Nature of transactions		
Associated companies /			
Undertakings:	Sale of goods	195,087	198,714
	Purchase of goods	5,986	3,353
	Reciprocal arrangements for sharing of services	304	955

Staff Retirement Funds:	Expense charged for retirement benefits	3,081	2,675
	Payment to retirement benefits plans	7,850	8,298
<b>Key management compensation:</b>			
	Salaries and other short-term employee benefits	28,029	16,856
	Post-employment benefits - Provident fund	1,470	932
	Post retirement benefits of Executive Directors - note 6.1		

- 6.1 The Chief Executive Officer and Executive Directors are being provided with retirement benefits through a Defined Benefit Plan of Pension Scheme, a Defined Contribution Plan of Provident Fund and Post Retirement Medical Benefits. The Charge is based on actuarial assumptions and valuation reports.

#### 7. EARNINGS PER SHARE

There were no convertible dilutive potential ordinary shares in issue as at September 30, 2009 and 2010.

For the purposes of calculating earnings per share, number of shares outstanding as at September 30, 2009 have been increased to reflect the bonus shares issued during the period.

#### 8. DATE OF AUTHORISATION

This condensed interim financial information was authorised for issue on Oct 25, 2010 by the Board of Directors of the company.

  
Chief Executive

  
Director



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