

# Nurturing Growth



THIRD QUARTERLY REPORT 2008-09



## ABOUT THE COVER



A comprehensive Sustainability Strategy is Nurturing Growth at National Foods Limited today, driving all operations towards Vision 20/20. Featured on the cover is the red chilli plant (*Capsicum annum*). As part of its sustainability strategy, National Foods Limited is undertaking a planned effort, starting at the grassroots level, to support quality improvement and enhanced production of red chilli in Pakistan.

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**Chilli**  
*Capsicum annuum*

# COMPANY INFORMATION

## BOARD OF DIRECTORS

Mr. Abdul Majeed  
Mr. Abrar Hasan  
Mr. Waqar Hasan  
Mr. Khawaja Munir Mashooqullah  
Mr. Zahid Majeed  
Mr. Ebrahim Qasim  
Mr. Iqbal Alimohamed

Chairman  
Managing Director / Chief Executive  
Director  
Director  
Director  
Director  
Director

## AUDIT COMMITTEE

Mr. Waqar Hasan  
Mr. Ebrahim Qasim  
Mr. Zahid Majeed

Chairman  
Member  
Member

## COMPANY SECRETARY AND SECRETARY AUDIT COMMITTEE

Mr. Fayyaz Abdul Ghaffar

## CHIEF FINANCIAL OFFICER

Mr. Muhammad Kashif Iqbal

## INTERNAL AUDITORS

Messrs Ford Rhodes Sidat Hyder & Co.

Chartered Accountants

## COMPANY MANAGEMENT

Mr. Abrar Hasan  
Mr. Shakaib Arif  
Mr. Kamran Khan  
Mr. Waqas Abrar Khan  
Mr. M. Azher Ali  
Mr. Saleem Khilji  
Mr. Muhammad Iqbal  
Mr. Arif Shaikh  
Mr. Zahid Marghoob Sheikh  
Mr. Muhammad Kashif Iqbal

Managing Director / Chief Executive  
Chief Operating Officer  
Chief Commercial Officer  
General Manager Human Resource  
Sr. Business Unit Manager – PQ Plant  
Business Unit Manager – SITE Plant  
Head of Supply Chain Management  
Head of Quality, Research & Development  
Head of Information Technology  
Head of Finance

## AUDITORS

A. F. Ferguson & Co.

Chartered Accountants  
State Life Building, 1-C, I.I. Chundrigar Road, Karachi

## SHARE REGISTRATION OFFICE

Noble Computer Services (Pvt.) Limited

2nd Floor, Sohni Centre, BS 5 & 6 Karimabad,  
Block-4, Federal B. Area, Karachi-75950  
Phone: 6801880 -82 (3 Lines) Fax: 6801129

## PRINCIPAL BANKERS

Bank Al-Habib Limited

Royal Bank of Scotland (RBS)  
(Formerly ABN AMRO Bank N.V.)

Muslim Commercial Bank

Habib Bank Limited  
Citibank N.V.

I.I. Chundrigar Road Branch, Karachi  
S.I.T.E Branch, Karachi  
New Garden Town Branch, Lahore.  
Abdullah Haroon Road, Karachi

Clifton Corporate Branch, Karachi  
Shaheen Complex Branch, Karachi

Hub River Road Branch, Karachi  
SITE Branch, Karachi

## REGISTERED OFFICE

12/CL-6, Claremont Road, Civil Lines,  
Karachi 75530 P.O.Box No. 15509  
Phone: 5662687, 5670540, 5670585,  
5670793 & 5672268 Fax: 5684870



# THIRD QUARTER REPORT

## TO THE SHAREHOLDERS

On behalf of the Board of Directors of National Foods Limited, I am pleased to present you the unaudited financial statements of the third quarter and nine months ended March 31, 2009 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:

			% of Net Sales			
	Jul 2008 to Mar 2009	Jul 2007 to Mar 2008	Growth	Jul-Mar 2008-09	2007-08	Variance (+/-)
<b>Top Line Growth</b>						
<b>Corporate sales</b>						
Gross sales	3,804,324	3,005,567	26.58%			
Net sales	2,830,339	2,222,570	27.35%			
<b>Local sales</b>						
Gross sales	3,513,788	2,775,565	26.60%			
Net sales	2,539,803	1,998,453	27.09%			
<b>Export sales</b>						
Gross sales	290,536	230,002	26.32%			
Net sales	290,536	224,117	29.64%			
<b>Gross Profit</b>	<b>836,076</b>	<b>731,512</b>	<b>14.29%</b>	<b>29.54%</b>	<b>32.91%</b>	<b>(3.37%)</b>
<b>Bottom Line Growth</b>						
Operating profit	223,786	172,551	29.69%	7.91%	7.76%	0.15%
Other income	12,434	6,122	103.10%	0.44%	0.28%	0.16%
Pre-tax profit	153,217	137,744	11.23%	5.41%	6.20%	(0.79%)
Net profit	100,086	95,230	5.10%	3.54%	4.28%	(0.74%)
<b>Expense Control</b>						
Selling expenses	172,888	129,491	33.51%	6.11%	5.83%	0.28%
Cartage and freight & forwarding	101,155	85,303	18.58%	3.57%	3.84%	(0.27%)
Advertising and sales promo	232,576	257,076	(9.53%)	8.22%	11.57%	(3.35%)
Administrative expenses	104,699	84,742	23.55%	3.70%	3.81%	(0.11%)
Other operating expenses	13,406	8,471	58.26%	0.47%	0.38%	0.09%
Financial expenses	70,569	34,807	102.74%	2.49%	1.57%	0.92%





## OPERATING RESULTS AND COMPANY ANALYSIS

The company has maintained the trend of earlier sales growth in the last nine months in terms of generation of top line sales revenues. Inflation has contributed mainly in healthy rupee based growth domestically. Similarly in exports, devaluation of the Pakistani rupee has contributed along the similar lines. The nine months under review have sustained the trend established in two previous reports from the start of the year. Economic pressure continues and depressive effects on the financial rates and Gross Margins can be seen as is evident from the financial report. This however is in line with the budgeted figures. The expected strategy at the start of the year was of consolidation as opposed to chasing growth and the company has done well in containing costs which come under its operations.

In relation to last year nine months figures, the GP as a percentage to net sales has declined by 3.37%. Additional burden of increased financial expenditure due to high bank borrowing rates has stressed the operations by a further 0.92%.

On the other hand operational expenses have been curtailed for the period which has offset the inflationary trend partially with a resultant decline in pre tax profit to net sales by 0.79%.

## FUTURE OUTLOOK

Pressure on the financial institutions due to a global financial meltdown has made it quite difficult to obtain credit. Internal cash generation has now become extremely important to keep interest costs sustained. It is prudent that inventory optimization and consolidation of operations and investment now take extreme priority. The Company, during the period under review, has generated additional cash flow of Rs. 211 Million from operations.

Global recession and domestic unrest are serious threat to Pakistan's economy. High inflation has resulted in decline of purchase power of consumer, and if unabated will result in lower disposable income of consumer. The Management is committed to respond to such challenges and continues to seek opportunities to drive growth in existing categories and through innovative new products. Although the sales volume growth is expected to contribute positively to the bottom line, growth in profitability will be largely dependent on, continued cost controls, and control of inflationary trend in the country.

In these difficult times, the company has invested heavily in its brand image and completely revamped the branding and packaging of its entire portfolio. The rollout is underway and is expected to be complete by the end of the financial year.

The company hopes to gain significantly in the future years through this investment in terms of new access to distribution channels and high and value added growth markets.



**Abrar Hasan**  
Chief Executive



# CONDENSED INTERIM BALANCE SHEET

AS AT MARCH 31, 2009

		(Un-audited) March 31, 2009	(Audited) June 30, 2008
	Note	(Rupees in thousand)	
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	2	653,663	635,325
Intangibles		30,656	2,194
Long term deposits		5,381	4,444
		<b>689,700</b>	<b>641,963</b>
<b>Current Assets</b>			
Stores, spare parts and loose tools		5,601	7,499
Stock in trade		766,384	755,259
Trade debts		214,710	259,091
Advances		34,526	18,965
Trade deposits and prepayments		21,117	2,333
Other receivables		2,413	1,446
Tax refunds due from / adjustable with the government		37,523	46,603
Cash and bank balances	5	15,565	13,496
		<b>1,097,839</b>	<b>1,104,692</b>
		<b>1,787,539</b>	<b>1,746,655</b>
<b>SHARE CAPITAL AND RESERVES</b>			
Issued, subscribed and paid-up capital		331,542	55,257
Capital Reserves - Share premium		-	6,102
Unappropriated profit		284,469	454,566
		<b>616,011</b>	<b>515,925</b>
<b>NON-CURRENT LIABILITIES</b>			
Long term financing		70,000	100,000
Liabilities against assets subject to finance leases		33,413	26,262
Deferred liability - Retirement benefits	6.1	8,971	-
Deferred tax		65,824	70,758
		<b>178,208</b>	<b>197,020</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		376,808	369,565
Accrued interest/ mark up		22,332	17,186
Short term borrowings	5	449,399	536,341
Current maturity of:			
Long term financing		40,000	43,000
Liabilities against assets subject to finance leases		22,300	12,341
Provision for income tax		60,198	42,000
Due to the government - Sales tax / Special excise duty		22,283	13,277
		<b>993,320</b>	<b>1,033,710</b>
<b>COMMITMENTS</b>			
	3	<b>1,787,539</b>	<b>1,746,655</b>

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

  
Abrar Hasan  
Chief Executive

  
Zahid Majeed  
Director



# CONDENSED INTERIM PROFIT AND LOSS ACCOUNT

FOR THE NINE MONTHS ENDED  
MARCH 31, 2009 (UNAUDITED)

	Quarter ended		Nine Months ended	
	March 31, 2009	March 31, 2008	March 31, 2009	March 31, 2008
	(Rupees in thousand)			
Net sales				
Local	688,420	570,765	2,539,803	1,998,453
Export	125,904	103,506	290,536	224,117
	814,324	674,271	2,830,339	2,222,570
Cost of sales	585,268	473,660	1,994,263	1,491,058
Gross profit	229,056	200,611	836,076	731,512
Distribution cost	162,761	141,027	506,619	471,870
Administrative expenses	31,501	30,221	104,699	84,742
Other operating expenses	1,783	(1,679)	13,406	8,471
	196,045	169,569	624,724	565,083
Other operating income	5,866	974	12,434	6,122
Profit from operations	38,877	32,016	223,786	172,551
Finance costs	28,352	12,720	70,569	34,807
Profit before taxation	10,525	19,296	153,217	137,744
Taxation	2,000	5,790	53,131	42,514
Profit after taxation	8,525	13,506	100,086	95,230
Earnings per share - Basic and Diluted - Rupees	7 0.26	0.41	3.02	2.87

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



*Abrar Hasan*  
Abrar Hasan  
Chief Executive

*Zahid Majeed*  
Zahid Majeed  
Director



# CONDENSED INTERIM CASH FLOW STATEMENT

FOR THE NINE MONTHS ENDED  
MARCH 31, 2009 (UNAUDITED)

	Note	(Un-audited) March 31, 2009	(Un-audited) March 31, 2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	4	302,819	69,562
Finance cost paid		(60,801)	(28,153)
Income tax paid		(30,787)	(27,383)
<b>Net cash from operating activities</b>		<b>211,231</b>	<b>14,026</b>

## CASH FLOWS FROM INVESTING ACTIVITIES

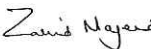
Purchase of property, plant and equipment	(106,094)	(167,055)
Sale proceeds on disposal of property, plant and equipment	386	936
Return received on term deposit	492	3,039
Long term deposits - Net	(937)	(1,552)
<b>Net cash used in investing activities</b>	<b>(106,153)</b>	<b>(164,632)</b>

## CASH FLOWS FROM FINANCING ACTIVITIES

Repayment of long term financing	(33,000)	(34,500)
Liability against assets subject to finance leases - (net)	17,110	19,824
Dividend paid	(177)	(8,243)
<b>Net cash used in financing activities</b>	<b>(16,067)</b>	<b>(22,919)</b>
Net increase / (Decrease) in cash and cash equivalents	89,011	(173,525)
Cash and cash equivalents at the beginning of the period	(522,845)	(193,126)
Cash and cash equivalents at the end of the period	5 (433,834)	(366,651)

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

  
Abrar Hasan  
Chief Executive

  
Zahid Majeed  
Director



# CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED  
MARCH 31, 2009 (UNAUDITED)

	Issued subscribed and paid up capital	Capital reserve - share premium	Unappropriated profit	Total
	(Rupees in thousand)			
Balance as at June 30, 2007	42,505	6,102	319,273	367,880
Final dividend for the year ended June 30, 2007 (Rs 2 per share)	-	-	(8,501)	(8,501)
Issue of 3 bonus share for every 10 shares held	12,752	-	(12,752)	
Profit for the nine months ended March 31, 2008	-	-	95,230	95,230
<b>Balance as at March 31, 2008</b>	<b>55,257</b>	<b>6,102</b>	<b>393,250</b>	<b>454,609</b>
Balance as at June 30, 2008	55,257	6,102	454,566	515,925
Issue of 5 bonus share for every 1 share held	276,285	(6,102)	(270,183)	-
Profit for the nine months ended March 31, 2009	-	-	100,086	100,086
<b>Balance as at March 31, 2009</b>	<b>331,542</b>	<b>-</b>	<b>284,469</b>	<b>616,011</b>

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



*A.H.*  
**Abrar Hasan**  
Chief Executive

*Zahid Majeed*  
**Zahid Majeed**  
Director

# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION

FOR THE NINE MONTHS ENDED  
MARCH 31, 2009 (UNAUDITED)

## 1. BASIS FOR PREPARATION

1.1 This condensed interim financial information has been prepared in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting and is 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 and methods of computation adopted for the preparation of these condensed interim 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, 2008.

## 2. PROPERTY, PLANT AND EQUIPMENT

### 2.1 Operating assets - at net book value - note 2.2

Capital work in progress - at cost  
Civil work in progress  
Plant and machinery  
Advance against acquisition of land  
Advance to suppliers  
Vehicles pending delivery  
Computer software

March 31, 2009      June 30, 2008  
(Rupees in thousand)

581,080	564,514
3,453	686
18,750	14,484
27,417	27,417
-	3,439
12,243	1,314
10,720	23,471
<b>653,663</b>	<b>635,325</b>

Nine Months ended

March 31, 2009      March 31, 2008  
(Rupees in thousand)

### 2.2 Additions and Disposals during the period

#### Additions

Building on leasehold land  
Plant and machinery including generators  
Motor vehicles  
Others

6,224	132,666
37,390	74,729
21,300	11,876
7,085	45,203
<b>71,999</b>	<b>264,474</b>

Disposals - Net Book Value  
Motor Vehicles

599	1,112
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### 3. COMMITMENTS

- 3.1 Aggregate commitments for capital expenditures amounted to Rs.3.0 million. (June 30, 2008: Rs 5.4 million).

Nine Months ended  
**March 31, 2009      March 31, 2008**  
 (Rupees in thousand)

### 4. CASH GENERATED FROM OPERATIONS

Profit before taxation	153,217	137,744
Adjustments of non-cash charges and other items		
Depreciation / Amortisation on property, plant and equipment	59,294	38,208
Deferred liability - Retirement benefits	8,971	-
Finance cost	65,947	31,845
Gain on disposal of motor vehicles	(386)	(936)
Return on term deposit	(492)	(3,039)
Provision for slow moving stock in trade (net)	30,013	1,499
	<b>163,347</b>	<b>67,577</b>
Profit before working capital changes	<b>316,564</b>	<b>205,321</b>

### EFFECT ON CASH FLOWS DUE TO WORKING CAPITAL CHANGES

Decrease / (Increase) in current assets		
Stores, spares parts and loose tools	1,898	(2,513)
Stock in trade	(41,138)	(167,566)
Trade debts	35,410	(85,124)
Advances	(15,561)	(14,626)
Deposits and prepayments	(18,784)	(1,233)
Other receivables	(967)	23,182
	<b>(39,142)</b>	<b>(247,880)</b>

Increase in current liabilities		
Trade and other payables	16,391	101,733
Due to the government	9,006	10,388
	<b>25,397</b>	<b>112,121</b>
	<b>302,819</b>	<b>69,562</b>

### 5. CASH AND CASH EQUIVALENTS

Cash and bank balances	15,565	25,491
Running finance under markup arrangements	(449,399)	(392,142)
	<b>(433,834)</b>	<b>(366,651)</b>



Nine Months ended  
**March 31,    March 31,**  
**2009            2008**  
 (Rupees in thousand)

## 6. TRANSACTIONS WITH RELATED PARTIES

Relationship with the company	Nature of transactions	
Associated companies / Undertakings:	Reciprocal arrangements for sharing of services	1,599            1,442
	Sale of goods	522,417        403,206
Employee benefit plan	Contribution to employees provident fund	6,505            4,742
Key management compensation:		
Salaries and other short term employee benefits		43,579            38,755
Contribution to Provident Fund		1,925            1,172
Post retirement benefits of Executive Directors - note 6.1		8,971

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

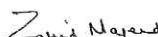
There were no convertible dilutive potential ordinary shares in issue as at March 31, 2008 and 2009.

For the purposes of calculating earnings per share, number of shares outstanding as at March 31, 2008 have been increased to reflect the bonus shares issued during the period.

## 8. DATE OF ISSUE

This condensed interim financial information was authorised for issue on April 28, 2009 by the Board of Directors of the Company.

  
**Abrar Hasan**  
 Chief Executive

  
**Zahid Majeed**  
 Director





## NATIONAL FOODS LIMITED

National Foods Limited (NFL), founded in 1970, is today Pakistan's leading multi-category Food Company with over 250 different products in 12 categories. It is the only food Company in Pakistan to have ISO 9001 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. NFL is dedicated to improving the well-being of society through continuous development of innovative food products and through a wide-ranging corporate social responsibility program.





A young Chilli plant  
*Capsicum annum*



NATIONAL FOODS LIMITED  
[www.nfoods.com](http://www.nfoods.com)