RATING REPORT

Mehran Plastic Industries (Pvt.) Limited (MPIL)

REPORT DATE:
April 30, 2021

RATING AN-ALYSTS:

Narendar Shankar Lal
narendar.shankar@vis.com.pk

Nisha Ahuja
nisha.ahuja@vis.com.pk

RATING DETAILS		
Rating Category	Initial Rating	
	Long-term	Short-term
Entity	BBB+	A-2
Rating Outlook	Stable	
Rating Date	*April 30, 2021*	

COMPANY INFORMATION	
Incorporated in 1989	**External auditors:** M/s Rao & Company Chartered Accountants
Private Limited Company	**Chief Executive Officer:** Mr. Shahid Mehmood
Key Shareholders :	
Mr. Shahid Mehmood ~30%	
Mrs. Alia Khalid ~ 29%	
Mrs. Tasneem Shakil ~ 41%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (May 2019)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

Mehran Plastic Industries (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Mehran Plastic Industries (Pvt.) Limited (MPIL) was incorporated as a private limited company on March 27, 1989. The Company is principally engaged in manufacturing of plastic goods. The registered office of the Company is situated in D/13-A-6 Manghopir Road S.I.T.E, Karachi. Financial statements for FY20 of the company were audited by Rao & Company Chartered Accountants.

RATING RATIONALE

Mehran Plastic Industries (Pvt.) Limited (MPIL) is engaged in manufacturing of PET Preforms, PET bottles, PET Closures (caps) and Polycarbonate Bottles (Bulk Water bottles) for variety of customers operating in the bottling, beverages and food industry. MPIL is a family owned organization.

The production facility of the Company is located at SITE Karachi. PET Preforms forms the largest proportion of total revenue of the company, followed by PET Closures (caps) and Bulk Water Bottles.

Production Capacity and Capacity Utilization

Capacity in almost every segment was reported higher in FY20 vis-à-vis FY19 owing to increase in consumption of end products including bottled water, beverages and food products.

Single Shift Capacity without overtime	FY19	FY20
Installed Capacity (Units in millions)		
PET Plastic Bottles	100	100
Preforms	700	700
Polycarbone Bottles	2	2
PET Closures	1,200	1,200
Actual Production (Units in millions)		
PET Plastic Bottles	28.8	46.0
Preforms	433.3	563.2
Polycarbone Bottles	0.3	1.3
PET closures	810.6	814.6
Capacity Utilization		
PET Plastic Bottles	29%	46%
Preforms	62%	80%
Polycarbone Bottle	16%	67%
PET closures	68%	68%

Moderate Business Risk profile

- MPIL primarily caters to bottling and consumer packaged goods industries, mainly water, beverages and food; these industries have experienced relatively stable demand during various economic cycles historically. Moreover, growth outlook for these industries continues to remain sound going forward given the population growth and demographics of the country. Hence demand risk is considered low.
- The competitive advantage of the company stems from offering high quality standardized products. MPIL is FSSC 22000 Version 4.1 Certified and SMETA Version 6.0 qualified/certified. The company has established its own microbiology lab. Maintaining such quality standards has enabled the company to maintain long term relationships with reputable clients such as Nestle Pakistan, PEPSI Pakistan, Aquafina
- PET Resin is a key input for the company. At present, around 60% of the PET Resin is supplied to MPIL by a single local player which has monopoly in the local

market while the remaining 40% requirement is met through imports. Given these factors, the company has considerable exposure to volatility in raw material prices and exchange rates.

- MPIL's topline depicts client wise concentration as revenues from the top 10 clients accounted for 89.7% (FY20: 74.2%) of total revenues in 1HFY21. However, client wise concentration risk is partly mitigated due to long term relationships with major clients.

Topline of the company has grown at a healthy rate on a timeline basis. Increase in raw material costs and rupee depreciation have resulted in decreasing gross margins. In the absence of any gains on disposal of assets, net profitability has also declined. Going forward, management envisages sales revenue to increase on account of expected improvement in macroeconomic environment and growing population paving way for increased demand of consumer goods. Overall profitability is dependent upon trend in raw material prices

Net Sales of MPIL have grown at a healthy CAGR of 26.8% in the period from end FY17 to end-FY20. Net sales were reported at Rs. 2.2b (FY20: Rs. 5.4b; FY19: Rs. 4.6b; FY18: Rs. 3.4b; FY17: Rs. 2.6b) in 1HFY20. Growing population and increasing urbanization have contributed to increase in demand of consumer products, which in turn has contributed to volumetric increase in sales on a timeline basis. Topline depicts client wise concentration; however, comfort is drawn from long term relationships with major clients. Product wise sales mix indicates the preforms constitute the largest proportion of the total sales revenue (FY20: 70.6%; FY19: 72.5%), followed by PET closures (FY20: 14.5%; FY19: 16.6%), Bottles (FY20: 11.5%; FY19: 10.9%) and others (FY20: 3.5%; FY19: 0%). Gross margins have witnessed reduction on a timeline basis due to increase in prices of raw materials and rupee devaluation. The company realized sizeable other income from disposal of property, plant and equipment in FY18 and disposal of land in FY19, which supported the overall profitability profile. However, in the absence of these gains in FY20 and 1HFY21 coupled with the reduction in gross margins and higher selling and distribution costs, overall profitability and net margins depicted sizeable decrease in FY20 and 1HFY21. Going forward, management envisages sales revenue to increase on account of expected improvement in macroeconomic environment and growing population paving way for increased demand of consumer goods. Overall profitability is dependent upon trend in raw material prices.

Liquidity profile remains satisfactory

FFO of the company amounted to Rs. 391.6m (FY19: Rs. 390.1m; FY18: 489.8m) in FY20. Despite decrease in profitability, FFO depicted slight increase in FY20 due to sizeable reduction in the quantum of tax paid. Due to an increase in short-term borrowings, FFO in relation to total debt was reported slightly lower at 32.0% (FY19: 32.3%; FY18: 79.1%). Current ratio depicts room for improvement as it was only higher than 1x at end-1HFY21, while remaining lower than one in the prior years. Inventory and receivables as a percentage of short term borrowings stood at 151.3% (FY19: 140.7%; FY18: 180.0%) at end-FY20.

Sizeable increase in the equity base has translated to improvement in capitalization indicators; debt comprises interest free loan from sponsors

Equity base of the company has grown at a CAGR of 35.5% in the last three financial years (FY18-FY20). In 1HFY21, after an agreement between the company and its directors, Rs. 621.5m loan from directors was converted to equity. Resultantly, equity of the company was reported higher at Rs. 1.8b (FY20: Rs. 1.1b; FY19: 1.0b; FY18: 736.0m). Total borrowings of the company amounted to Rs. 521.3m (FY20: Rs. 1.2b; FY19: Rs. 1.2b; FY18: Rs. 619.5m). These are interest free loans repayable on demand acquired from directors and family members of the directors for working capital requirements. Given the reclassification of loan to equity, gearing and leverage ratios of the company decreased to 0.3x (FY20: 1.1x; FY19: 1.1x; FY18: 0.8x) and 1.6x (FY20: 3.0x; FY19: 3.3x; FY18: 3.1x), respectively. The company will incur further capex to the tune of approximately Rs. 600m for capacity enhancements in FY21. This capex will also be funded through financing through directors. Nevertheless, capitalization indicators are expected to remain manageable.

Governance and control framework depicts room for improvement

Given the private limited status of the company, the Board of Directors comprises 5 members, including the CEO, who are part of the shareholders family. Management may consider inclusion of independent directors on the Board in line with best practices. Similarly, creation of an internal audit function, which is not present currently, may also help in improving the control framework. Lastly, the auditors have expressed qualified opinion on the unfunded gratuity scheme of the company in the financial statements for FY20. Management intends to create a provision in 2HFY21 to remove this observation in FY21 annual accounts.

Mehran Plastic Industries (Pvt.) Limited **Appendix I**

FINANCIAL SUMMARY			*(amounts in PKR millions)*	
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**HYFY21**
Property, plant and equipment	1,234.4	2,100.3	1,831.5	2,143.4
Long Term investments	-	-	-	-
Stock-in-Trade	469.5	1,073.6	1,017.2	1,016.1
Trade Debts	583.9	624.0	833.7	516.0
Cash & Bank Balances	175.8	264.9	187.4	82.7
Total Current Assets	1,809.4	2,506.1	2,698.7	2,194.5
Total Assets	3,047.5	4,613.2	4,533.9	4,337.9
Trade and Other Payables	1,457.5	2,234.7	1,993.5	2,003.1
Long Term Debt	-	-	-	521.3
Short Term Debt	619.5	1,207.0	1,223.7	-
Total Equity	736.3	1,064.1	1,127.6	1,756.3
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**HYFY21**
Net Sales	3,471.9	4,618.9	5,481.2	2,241.5
Gross Profit	481.6	362.2	381.4	93.5
Admin expense	66.1	81.5	85.1	28.1
Distribution cost	111.1	120.7	138.0	56.7
Other income	31.8	114.8	1.6	-
Operating Profit/Loss	379.9	252.0	144.4	8.6
Finance cost	1.9	2.8	2.3	1.4
Profit Before Tax	378.1	249.3	142.1	7.2
Profit After Tax	283.5	327.8	63.5	7.2
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**HYFY21**
Gross Margin (%)	13.9%	7.8%	7.0%	4.2%
Net Margin (%)	8.2%	7.1%	1.2%	0.3%
Net Working Capital	(315.5)	(935.8)	(600.7)	38.9
FFO	489.8	390.2	391.6	N/A
FFO to Total Debt (%)	79.1%	32.3%	32.0%	N/A
FFO to Long Term Debt (%)	-	-	-	N/A
Debt Servicing Coverage Ratio (x)	259.9	140.0	166.4	N/A
ROAA (%)	11.0%	8.6%	1.4%	0.3%
ROAE (%)	47.7%	36.4%	5.8%	1.0%
Gearing (x)	0.84	1.13	1.09	0.30
Leverage (x)	3.14	3.34	3.02	1.57
Current Ratio (x)	0.9	0.7	0.8	1.0
(Trade Debts + Stock in Trade)/STB	170.0%	140.7%	151.3%	N/A

ISSUE/ISSUER RATING SCALE &DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

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

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

REGULATORY DISCLOSURES

Appendix III

Name of Rated Entity	Mehran Plastic Industries (Pvt) Limited
Sector	Plastic Packaging
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see below
Instrument Structure	N/A
Statement by the Rating Team	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.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. . For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2021 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
30-Apr-2021	BBB+	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Imran Akram Shaikh	GM. Finance	09-Apr-2021