RATING REPORT

CBM Plastics (Pvt) Limited (CBM)

REPORT DATE:
October 06, 2020

RATING AN-ALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-2	BBB+	A-2
Rating Date	*06 Oct 2020*		*13 Nov 2019*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Initial	

COMPANY INFORMATION	
Incorporated in 1992	**External auditors:** M/s DAUDALLY, LALANI & CO
Private Limited Company	**Chief Executive Officer:** Mr. Iftikhar Hussain
Key Shareholders :	
Muhammad Asif Zindani ~41.8%	
Iftikhar Hussain ~ 22.2%	
Mushtaq Kassam Chhapra ~ 10.3%	
Ahmed Chhapra ~ 9.2%	
Samir Shaukat Chhapra ~ 6.2%	
Kamran Chhapra ~ 5.1%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (May 2019)
https://www.vis.com.pk/kc-meth.aspx

CBM Plastics (Pvt) Limited

OVERVIEW OF THE INSTITUTION

CBM Plastics was incorporated as a private limited company on Dec'31. 1992. The Company is principally engaged in manufacturing of plastic containers and packages. The registered office of the Company is situated in 301/302, Mehdi Tower 115-A S.M.C.H.S. Karachi.

Profile of CEO

Mr. Iftikhar Hussain has been the CEO of CBM Plastics since 1993 and prior to that he held the position of Financial Controller at Jaffer Brother (Pvt) Limited, where he was associated since 1985. Mr. Hussain is a graduate from University of Pennsylvania in Computer Science. He also did his post-graduation in Finance from New Your University.

RATING RATIONALE

CBM Plastics ('CBM' or 'the Company') manufactures plastic containers (jerry cans & plastic drums) for packaging of lube oil, pesticides, food products and ethanol. The Company manufactures products ranging from 50 ml to 250 liter containers catering to a variety of customers in the lube oil, pesticides, ethanol and food sector. Shareholding of the company is vested with nine individuals.

Satisfactory Operating Performance

The Company operates with 2 manufacturing plants, located at SITE Karachi, with a total manufacturing capacity of 120m plastic containers. Capacity utilization of the plant is recorded at the higher side at 82% during FY19. Given faster shipping lines and extensive maintenance requirements, the utilization levels are capped at around 80%. Actual capacity utilization levels have remained around 80% over the last 5 years while installed capacity has increased from 96m containers to 120m containers. No further capacity enhancement is planned over the rating horizon. This is partly attributable to major clients' strategy to diversify supplier base.

Moderate business risk profile

- CBM Plastics has a dominant market share and is the leading player in all sectors that the company caters to.
- Capital intensive nature of the industry given sizeable space requirements and semi-automated process, along with low margins acts as a barrier to entry for new players.
- CBM's topline depicts concentration, as revenues from the top 10 clients constitute 78.8% of the aggregate revenues during FY20. However, comfort is derived from long term business relationships with major clients and CBM's importance to the client's business operations, wherein in some cases CBM is the sole supplier and in other cases it's the majority supplier.

Topline of the company has grown at a steady pace on a timeline basis. However, client and product concentration is considered to be on the higher side; which is partly mitigated from long term relationships with the clientele. OMC segment continued to dominate the sales mix of the company; however contribution by the ethanol segment witnessed an increase in the outgoing year. Going forward, management envisages sales revenue to increase in tandem with expected improvement in macroeconomic environment post COVID-19.

Topline of the Company has increased at a CAGR of 9.52% over the past 4 year period (FY17-FY20). In absolute terms, CBM's topline was reported at Rs 4.64b (FY19: Rs. 4.66b) during FY20. CBM's topline depicts concentration; however, comfort is derived from long term business relationships with major clients. OMC segment continued to dominate the sales mix of the company contributing around three-fifth of the revenue base. Contribution of the ethanol segment witnessed an increase in the outgoing year with proportion of the same expected to continue to grow going forward with higher demand due to Covid-19. Strategy of major clients to diversify higher volumes from CBM Plastics to other players to reduce concentration may limit volumetric growth. Overall topline is expected to continue to grow around historical CAGR levels.

Sector Wise Revenue	FY19		FY20	
OMC	2,937,699,481	64%	2,725,709,806	59%
Sugar/Ethanol	639,092,100	14%	888,378,000	19%
Others	1,039,077,767	23%	975,190,188	21%
Total	**4,615,869,348**		**4,589,277,994**	

Stable gross margins given ability of the company to pass on volatility in raw material prices and exchange rates against lubricant oil sales. Gross margins improved in the outgoing year due to shift in sales mix towards high margin segment and lower raw material prices. Overall profitability of the company was negatively affected due to higher finance costs in the rising interest rate scenario. Going forward, declining interest rates, reduction in borrowings and higher revenues are expected to be key profitability drivers.

CBM's profitability is largely shielded from variation in raw material prices – which mainly includes HDPE (imported from Saudi Arabia and Qatar)– and exchange rate parity, which, as per contract, is passed on to the client. Accordingly, CBM's gross margins have historically remained stable. During FY20, gross margins of the company improved to 11.2% (FY19: 9.8%) owing to declining raw material prices and a change in the product mix with higher sales emanating from the Ethanol segment where changes in raw material are not passed as per the pricing formula. Given elevated borrowing levels, higher interest rate environment in the outgoing year, finance costs impacted overall profitability of the company. Going forward, declining interest rates and sales skewed towards high margin segment are expected to be key profitability drivers.

Liquidity profile is a function of Company's extended working capital cycle and increasing advance tax receivables. Gearing and leverage indicators have increased on a timeline basis and are considered to be on the higher side. Improvement in liquidity and capitalization indicators shall be a key rating driver.

About 21% of the Company's asset base is tied up with the tax authorities at end-FY20, wherein advance income tax has been paid, and a refund is pending from the tax authorities. These tax issues translate in a strain on liquidity. During 1QFY21, the company received Rs. 100m against the same from the GoP. Working capital cycle of the company is extended necessitating utilization of short term borrowings. As of Jun'20, CBM's gearing (inclusive of operating lease) stood at 1.91x (FY19: 1.7x). Moreover, inventory and trade debts do not provide sufficient coverage to elevated short term borrowings.

FINANCIAL SUMMARY *(amounts in PKR millions)*					Appendix I
BALANCE SHEET	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**
Property Plant & Equipment	810.13	1,079.94	1,148.57	1,163.21	1,249.47
CWIP	142.68	145.88	113.78	149.90	168.13
Stock in Trade	562.21	451.19	574.73	721.91	757.10
Trade Debts	540.23	679.81	704.51	877.26	839.53
Advance Income Tax	314.86	394.07	609.18	793.35	859.37
Cash and Bank Balances	44.01	58.61	51.77	70.15	54.26
Total Assets	2,525.55	2,939.81	3,389.82	3,947.12	4,106.93
Trade and other payable	540.64	525.49	684.25	876.95	631.10
Total Debt	987.17	1,252.42	1,569.26	1,868.75	2,203.94
Paid Up Capital	150.00	150.00	150.00	150.00	150.00
Equity	815.40	912.70	1,014.95	1,106.12	1,152.73
INCOME STATEMENT					
Sales Revenue	3,226.88	3,556.34	4,164.33	4,664.06	4,642.66
Gross Profit	297.60	345.89	407.66	455.14	517.70
Administrative Expenses	(77.26)	(99.57)	(105.84)	(118.52)	(128.77)
Selling & Distribution	(15.51)	(18.69)	(24.51)	(22.70)	(25.49)
Financing Cost	(83.96)	(85.94)	(96.51)	(160.54)	(237.77)
Profit Before Tax	138.17	158.50	192.66	157.17	124.74
Profit After Tax	104.30	106.67	112.39	107.08	66.71
RATIO ANALYSIS					
Gross Margin (%)	9.2%	9.7%	9.8%	9.8%	11.2%
Net Margin (%)	3.2%	3.0%	2.7%	2.3%	1.4%
FFO	262.65	211.53	131.92	191.27	78.36
FFO/Total Debt (x)	0.27	0.17	0.08	0.10	0.04
Gearing (x)	1.21	1.37	1.55	1.69	1.91
Debt Leverage (x)	2.07	2.18	2.49	2.78	2.54
Debt Servicing Coverage (x)	1.86	1.70	1.17	1.22	0.60
Current Ratio	1.04	1.01	1.01	1.00	1.01
ROAA (%)	4%	4%	4%	3%	2%
ROAE (%)	14%	12%	12%	10%	6%

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	CBM Plastics (Pvt) Limited
Sector	Plastic Packaging
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	
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.
Due Diligence Meetings Conducted	

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
06-Oct-2020	BBB+	A-2	Stable	Reaffirmed
13-Nov-2019	BBB+	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Iftikhar Hussain	CEO	16-Sept-2020
Abdul Basit	Manager Accounts	16-Sept-2020
Nadeem Rasool	CFO	16-Sept-2020