RATING REPORT

CBM Plastics (Pvt) Limited (CBM)

REPORT DATE:
October 05, 2021

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	*05 Oct 2021*		*06 Oct 2020*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	

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 (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

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

Company Profile:

Incorporated in 1992; CBM Plastics (Private) Limited is engaged in the manufacturing and domestic sale of plastic containers and packages primarily to the lubricant oil segment. The registered office and plants are located in Shahrah-e-Faisal and S.I.T.E., Karachi, respectively. The capacity utilization levels stood at 80% (FY20: 81%) during FY21.

CBM Plastics is a dominant player in the downstream segment of the plastics industry; capturing substantial market share in the OMC segment whereby supplying 'lube oil' containers. The segment continues to be the top revenue contributor in the overall sales mix.

The shareholding pattern comprises of nine members with two members having more than 60% of the shareholding. During FY21; there were no changes in the shareholding pattern or in the top management.

Rating Drivers

Strong competitive position in the industry provides comfort

The downstream segment of the plastics industry is highly competitive with large number of small to medium enterprises competing for small market shares. Also, it has high capital intensity, sizeable space requirements, and operates within narrow operating margins thus having high barriers to entry. However, comfort in ratings is drawn from the strong market position as the company holds more than 80% of the market share in lubricant oil segment.

The industry derives demand from critical revenue generating industries including agriculture, construction, automobile, FMCG, electronics, OMC's, and telecommunications. The aforementioned industries are expected to grow going forward in tandem with Pakistan's forecasted GDP growth rate of 4.1% during FY22, given by S&P Global. Therefore, outlook of the plastic industry is positive. On the supply front; the industry is dependent on imports for major raw material requirements, which exposes them to volatility in international prices and currency risk. However, contracts with customers of the OMC segment allow the company to fully pass on this impact thus ensuring sustainability of profits.

Capital expenditure to contribute towards capacity additions and operational efficiencies

As part of capacity additions and BMR initiatives; the company is undergoing gradual upgradation of plant and machinery. The expansion of the S.I.T.E plant is almost complete, and the management is planning to import new machines over the rating horizon. Expected capex for FY22 amounts to Rs. 250m which will be financed primarily through leases.

Profitability indicators depict positive momentum

Revenues increased to Rs. 5.1b (FY20: 4.6b) during FY21 recording 9% growth on a YOY basis; driven primarily by volumes. Contribution of OMC segment (lubricant sales) in the overall sales mix increased to 76% during FY21 (FY20: 59%), while the remaining segments accounted for less than 10% share. The export-based ethanol business which stood as the second-largest revenue contributor in FY20 fell sharply during the outgoing year in line with lower industry-wide ethanol exports and availability of low-cost products by India. However, the company managed to grow through the OMC segment while gross margins were maintained at 11.4% (FY20: 12.0%) given company's ability to pass on volatility in raw material prices and exchange rates. Client concentration continued to remain on the higher side during FY21 with top ten clients constituting 85% of the total sales (FY20: 79%). However, comfort is drawn from long-term business relationships with clients wherein CBM Plastics is the sole or major supplier.

Operating margins decreased slightly to 7.9% during FY21 (FY20: 8.5%) owing to increase in selling and administrative expenses. However; net margins (FY21: 2.4%; FY20: 1.3%) recovered in FY21 on the back of lower borrowing along with lower interest rates. Going forward, in line with improved macroeconomic environment, management expects sales volumes to grow in tandem with margins maintained at existing levels.

Cash flow coverage indicators depict improvement due to increased profitability

Adjusting for off-balance sheet financing; Funds from Operations (FFO) increased to Rs. 271m (FY20: Rs. 191m) during FY21 due to increase in profitability and decrease in finance costs. As a result, cash flow coverage indicators including FFO to Total Debt (FY21: 0.19x; FY20: 0.14x) and FFO to Long-term Debt (FY21: 3.94x; FY20: 1.90x) depicted improvement. Debt servicing also remained within satisfactory levels at 1.43x (FY20: 1.10x) during FY21. Improvement in cash flow coverage indicators is expected by the management over the rating horizon on the back of projected profitability.

Liquidity profile continues to remain constrained due to outstanding tax receivables accounting for 21% of the company's asset base at end-FY21. Management expects tax recoveries gradually over time. With current ratio standing at 1.03x (FY20: 1.00x) and coverage of short term borrowings through inventory and trade debts at 105% (FY20: 94%), liquidity coverage remains under pressure and improvement in the same will be important for ratings.

Capitalization Indicators continue to remain elevated

Adjusting for revaluation reserves; equity base of the company rose to Rs. 1.3b (FY20: Rs. 1.2b) at end-FY21 on the back of retention of profits post dividend payouts. This has provided some comfort to the capitalization indicators; however the same continues to remain on the higher side. Adjusting for off-balance sheet financing whereby the company has undertaken Ijarah agreements for acquiring plant and machinery; the leverage and gearing indicators stood at 2.65x (FY20: 2.74x) and 1.70x (FY20: 1.96x) at end-FY21 respectively. Total debt has decreased by 6% post incorporation of off-balance sheet financing on the back of lower long term financing during FY21. Going forward, capitalization indicators are expected to remain elevated due to capex plans, and improvement in the same shall continue to be a key rating driver going forward.

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**
Property Plant & Equipment	1,148.57	1,162.92	1,438.10	1,380.38
CWIP	113.78	149.90	11.72	60.36
Stock in Trade	574.73	721.91	942.15	989.15
Trade Debts	704.51	877.26	815.25	972.65
Advance Income Tax	609.18	-	-	-
Cash and Bank Balances	51.77	70.15	53.45	236.36
Total Assets	3,389.82	3,840.29	4,101.21	4,438.29
Trade and other payable	684.25	876.95	658.51	942.16
Long Term Debt *(incl. current maturity)*	348.30	340.80	382.61	251.10
Short Term Debt	1,220.96	1,496.25	1,873.77	1,876.28
Total Debt	1,569.26	1,837.05	2,256.38	2,127.38
Paid Up Capital	150.00	150.00	150.00	150.00
Equity	1,014.95	1,106.12	1,152.47	1,254.38
INCOME STATEMENT				
Sales Revenue	4,164.33	4,664.06	4,642.25	5,075.70
Gross Profit	407.66	455.36	555.55	580.66
Administrative Expenses	(105.84)	(118.73)	(134.84)	(152.26)
Selling & Distribution	(24.51)	(22.70)	(25.62)	(25.35)
Financing Cost	(96.51)	(160.54)	(252.05)	(211.28)
Profit Before Tax	192.66	157.17	121.85	185.91
Profit After Tax	112.39	107.08	58.14	122.91
RATIO ANALYSIS				
Gross Margin (%)	9.8%	9.8%	12.0%	11.4%
Operating Margin (%)	6.7%	6.7%	8.5%	7.9%
Net Margin (%)	2.7%	2.3%	1.3%	2.4%
FFO	114.31	69.17	190.91	270.84
FFO/Total Debt (x)	0.07	0.04	0.08	0.13
FFO/Long term Debt (x)	0.33	0.20	0.50	1.08
Gearing (x)*	1.55	1.66	1.96	1.70
Leverage (x)*	2.49	2.66	2.74	2.65
Debt Servicing Coverage (x)	1.07	0.81	1.10	1.43
Current Ratio	1.01	1.01	1.00	1.03
ROAA (%)	4%	3%	1%	2.9%
ROAE (%)	12%	10%	5%	10.2%
(Stock in trade + Trade Debts) / Short term borrowings	105%	107%	94%	104.6%

**Includes off balance sheet financing whereby the company has entered into Ijarah agreements for acquiring plant & machinery*

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

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
05-Oct-2021	BBB+	A-2	Stable	Reaffirmed
06-Oct-2020	BBB+	A-2	Stable	Reaffirmed
13-Nov-2019	BBB+	A-2	Stable	Initial

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.
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Due Diligence Meetings Conducted

Name	Designation	Date
Iftikhar Hussain	CEO	30th-Aug-2021
Abdul Basit	Manager Accounts	30th-Aug-2021
Nadeem Rasool	CFO	30th-Aug-2021