RATING REPORT

CBM Plastics Private Limited

REPORT DATE:
November 22, 2022

RATING ANALYST:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-2	BBB+	A-2
Rating Date	*Nov 22, 2022*		*Oct 05, 2021*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION

Incorporated in 1992	**External Auditors:** 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 (Private) Limited

OVERVIEW OF THE INSTITUTION

CBM Plastics was incorporated as a private limited company in 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

Corporate Profile

CBM Plastics (Private) Limited was founded in 1992 and specializes in production and domestic sale of plastic containers and packages, primarily to the lubricant oil industry. Product portfolio mainly includes blow-moulded plastic drums, containers, jerry cans, caps and closures. Manufacturing facility is located at S.I.T.E industrial area, Karachi. It is a family-owned business, with two members owning more than 60% shareholding and the rest distributed among seven members.

Capacity in both the blowing and injection segments has increased over time as a result of ongoing capex initiatives. Blowing segment utilization has largely remained stable at 80%, while injection segment capacity utilization has improved significantly over the review period.

Table: Capacity & Production

	FY19	FY20	FY21	FY22
Blowing				
Capacity - no. of bottles (in '000)	105,000	120,000	140,976	155,000
Production - no. of bottles (in '000)	87,000	98,800	112,781	125,000
Utilization (%)	***83%***	***82%***	***80%***	***80.6%***
Injection				
Capacity - no. of performs (in '000)	115,000	115,000	117,120	120,000
Production - no. of performs ('000)	89,000	92,000	93,696	105,000
Utilization (%)	***77%***	***80%***	***80%***	***87.5%***

Key Rating Drivers:

Business risk profile is supported by sizeable market share in the OMC segment while price volatility and currency risk is mitigated to some extent through cost pass-through mechanism in place.

Pakistan's plastic industry can be segmented into two major divisions; Upstream (manufactures raw materials for domestic and export markets) and Downstream (converts raw materials into plastic products). Domestic per capita consumption of plastics is the lowest in the world, at around 7kg, compared to more than 100kg in Europe/USA and 28kg globally. China, Saudi Arabia and USA are the largest trading partners.

The downstream segment is highly fragmented with numerous small and medium-sized players competing for small market shares. Additionally, capital-intensive nature of the business, sizeable space requirements, and thin operating margins act as high entry barriers. Nevertheless, the company's competitive positioning with strong market share of more than 80% in the OMC segment, where it supplies 'lube oil' containers, provide comfort to business risk. Going forward, country's ongoing energy crisis, rising production costs as a result of inflation, and slowdown in industrial demand given looming global recession and monetary tightening are the present key business risk factors.

On the supply side, the industry relies heavily on imports for major raw material requirements, exposing it to price volatility and currency risk. However, the company has cost pass-through mechanism in place under long-term contracts with key OMC customers, which mitigates the risk to some extent.

Capacity enhancement and operational efficiency initiatives during the year
With regards to capacity additions and efficiency enhancement initiatives, the company underwent an upgradation of plant and machinery during the review period. Total capex during the year stood at Rs. 473.2m, of which nearly half was funded through mobilization of additional long-term debt (musharka financing). As per management, expected capex for the year FY23 stands at around Rs. 300m.

Sales revenue has depicted strong growth trend over the years.
Sales revenue has posted a strong growth trend over the past three years, amounting to Rs. 6.9b (FY21: Rs. 5.1b; FY20: Rs. 4.6b) in FY22. The year-on-year uptick of ~37% was mainly attributable to the impact of rupee devaluation and rising raw material prices in the global markets while volumetric growth stood at ~14%. Net sales during 1Q'FY23 were impacted by flood damages, totaling Rs. 1.8b, while management expects total sales revenues to reach Rs. 7.5 billion in FY23 on the back of capacity additions along with covering up for the lost sales in subsequent quarters.

The OMC segment (lubricant sales) remains the largest revenue contributor in the overall sales mix. Concentration risk in sales remains elevated, with top ten clients accounting for more than four-fifths of total sales. Long-term established business relationships with these clients, where CBM Plastics is the sole or major supplier, provide comfort.

Profitability margins remained under pressure due to exchange rate volatility. Management intends to change the payment terms for raw material purchases.
Gross margins have noted a declining trend over the years (FY22: 7.2%; FY21: 9.4%; FY20: 10.3%) due to limitations in cost pass-through mechanism with regards to currency exchange rate volatility. As a result, management intends to shift at least 40% of its raw material procurement related payments from 90 days deferred letter of credit to sight payment, which is expected to result in improvement of margins according to management.

On the cost front, operating expenditures and financial charges noted a slight increase during the year, while taxation expenses rose significantly, causing net margins to fall by more than half, reporting at 1.1% (FY21: 2.8%).

Cash flow generation has remained limited on the back of decline in profitability while working capital cycle is stretched.
Adjusted Funds from Operations (FFO), including off-balance sheet financing, decreased to Rs. 131.0m (FY21: 400.6m) during the year on account of lower profitability and sizeable increase in income tax paid. As a result, cash flow coverage metrics depicted weakening where FFO to long-term debt was reported lower at 0.27x (FY21: 1.52x). Similarly, debt service coverage ratio also noted a decline yet remained within satisfactory levels (FY22: 1.71x; FY21: 2.97x; FY20: 1.42x). Going forward, management expects increase in cash flow generation on the back of improvement in profitability.

Liquidity profile continues to remain constrained due to sizeable tax receivables and limited cash available on the balance sheet. Current ratio stands at 1.0x, and coverage of short-term debt via inventory and trade debts is deemed adequate. Working capital cycle is stretched due to higher inventory and debtor days. Management has communicated that downward revision in receivable days with key customers is underway.

Leverage metrics continue to remain elevated.
Equity base (excluding revaluation surplus) grew by ~16% over the last 24 months, amounting to Rs. 1.3b at end-FY22. The company has consistently paid dividends of Rs. 21m for the last three years, with the payout in FY22 standing at 27% (FY21: 15%; FY20: 36%). Adjusting for off-balance sheet financing whereby company entered into Ijarah agreements to acquire plant and machinery, leverage indicators are reported on the higher side.

Debt profile comprises a mix of short-term and long-term debt with total interest bearing liabilities increasing to Rs. 2.6b (FY21: Rs. 2.1b) at end-FY22; short-term debt constituted four-fifth of total debt. Leverage metrics are expected to remain elevated as a result of capex plans, and improvement in these will continue to be a key rating driver in the future.

FINANCIAL SUMMARY *(amounts in PKR millions)*					**Annexure I**
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**
Property Plant & Equipment	1,148.6	1,162.9	1,438.1	1,383.7	1,716.9
Stock in Trade	574.7	721.9	942.2	1,161.5	1,274.0
Trade Debts	704.5	877.3	815.2	968.8	1,444.9
Cash and Bank Balances	51.8	70.2	53.5	236.4	100.4
Total Assets	**3,389.8**	**3,840.3**	**4,101.2**	**4,468.4**	**5,341.9**
Trade and other payable	684.2	876.9	658.5	962.7	1,288.0
Long Term Debt *(incl. current maturity)*	348.3	340.8	382.6	262.8	476.6
Short Term Debt	1,221.0	1,496.2	1,873.8	1,876.3	2,164.5
Total Debt	1,569.3	1,837.0	2,256.4	2,139.1	2,641.2
Total Liabilities	**2,341.3**	**2,704.8**	**2,928.6**	**3,173.9**	**3,989.9**
Paid Up Capital	150.0	150.0	150.0	150.0	150.0
Equity	**1,015.0**	**1,106.1**	**1,152.5**	**1,277.3**	**1,344.9**
INCOME STATEMENT					
Sales Revenue	4,164.3	4,664.1	4,642.2	5,075.7	6,950.5
Gross Profit	**407.7**	**455.4**	**555.5**	**579.2**	**626.0**
Administrative Overheads	105.8	118.7	134.8	171.2	178.4
Financing Cost	96.5	160.5	252.0	206.3	215.4
Profit Before Tax	**192.7**	**157.2**	**121.8**	**145.8**	**163.4**
Profit After Tax	**112.4**	**107.1**	**58.1**	**142.9**	**78.5**
RATIO ANALYSIS					
Gross Margin (%)	9.8%	9.8%	12.0%	11.4%	9.0%
Operating Margin (%)	6.7%	6.7%	8.5%	7.9%	5.8%
Net Margin (%)	2.7%	2.3%	1.3%	2.4%	1.1%
FFO	114.3	69.2	190.9	400.6	131.0
FFO/Total Debt (x)	0.07	0.04	0.08	0.19	0.05
FFO/Long term Debt (x)	0.33	0.20	0.50	1.52	0.27
Gearing (x)	1.55	1.66	1.96	1.67	1.98
Leverage (x)	2.49	2.66	2.74	2.60	3.10
Debt Servicing Coverage (x)	1.07	0.81	1.10	1.75	0.99
Current Ratio	1.01	1.01	1.00	1.02	1.00
ROAA (%)	3.6%	3.0%	1.5%	3.3%	1.6%
ROAE (%)	11.7%	10.1%	5.1%	11.8%	6.0%
(Stock in trade + Trade Debts) / Short term borrowings	105%	107%	94%	114%	126%

**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
22-Nov-2022	BBB+	A-2	Stable	Reaffirmed
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 Meeting Conducted

Name	Designation	Date
Mr. Iftikhar Hussain	CEO	Nov 02, 2022
Mr. Abdul Basit	Manager Accounts	
Mr. Sheikh Nadeem	GM Finance & Operations	