

RATING REPORT

CBM Plastics Private Limited (CBM)

REPORT DATE:

December 21, 2023

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
Entity	BBB+/A-2	BBB+/A-2
Rating Date	December 21, 2023	November 22, 2022
Rating Outlook	Stable	Stable
Rating Action	Reaffirmed	Reaffirmed

COMPANY INFORMATION

Incorporated in 1954	External auditors: Daudally Lalani & Co
Public Listed Company	Chief Executive Officer: Mr. Iftikhar Hussain
Key Stakeholders (with stake 5% or more):	
<i>Muhammad Asif Zindani ~41.4%</i>	
<i>Iftikhar Hussain ~21.5%</i>	
<i>Mushtaq Kassam Chhapra ~10.2%</i>	
<i>Samir Shaukat Chhapra ~6.1%</i>	
<i>Kamran Chhapra ~5.1%</i>	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates (May 2023)

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

CBM Plastics (Pvt.) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>CBM Plastics (Pvt.) Limited (CBM) 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.</p> <p>CEO Profile: 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 York University.</p>	<p>Corporate Profile</p> <p>CBM Plastics (Pvt.) Limited (“CBM” or “the Company”) was founded in 1992 and specializes in production and domestic sale of plastic containers and packages. The product portfolio mainly includes blow-molded plastic drums, containers, jerry cans, caps and closures that are primarily supplied to the lubricant oil industry. Manufacturing facility is located at S.I.T.E industrial area, Karachi with its manufacturing plants located at plots # F-21 and # X-7/B, S.I.T.E., Karachi, Pakistan. It is a family-owned business, with two members collectively owning more than 60% shareholding and the rest distributed among remaining twelve members.</p> <p>Pakistan's plastic industry comprises two primary segments: Upstream, responsible for manufacturing raw materials for domestic and export markets, and Downstream, focused on converting raw materials into plastic products. CBM has established itself as a leading manufacturer in the Downstream segment, particularly as a lube oil container provider for the Oil Marketing Companies (OMCs). It holds a share of 80-90% in this market.</p> <p>Major customers of the Company include Chevron Pakistan, Shell Pakistan, Total Parco, Syngenta Pakistan, Pakistan State Oil etc.</p> <p>Key Rating Drivers</p> <p>Business risk profile is considered moderate on account of exposure to exchange rate volatility, thin margins albeit limited competition and low risk of new entrants into the industry.</p> <p>The business risk profile is considered medium, characterized by moderate barriers to entry, with substantial space requirements, and thus, capital intensiveness in warehousing. Operating margins are thin, reducing attractiveness for potential new entrants and limiting competition risks. The industry's reliance on the import of High-Density Polyethylene (HDPE) expose it to price volatility and exchange rate fluctuation risks. Nevertheless, CBM's minimal local competition allows it to pass through the impacts of these factors to customers, mitigating associated risks.</p> <p>Growth in the Company’s profitability, attributed to pricing power and thus effective pass-through of increases in input costs.</p> <p>In FY23, the Company reported a 17% growth in its topline. This growth is primarily attributed to the Company’s ability to transfer its increasing costs of imports and raw materials to its customer base. Furthermore, the Company's practice of monthly price revisions, combined with a policy of maintaining a one-month inventory, provides enhanced flexibility to align prices with input costs. This approach helps mitigate the impact of potential exchange and inventory losses.</p>

As a result, the Company witnessed a significant improvement in its gross margin. However, this increase in gross margins did not equally translate into a commensurate rise in net margins. The latter remained constrained due to an escalation in finance costs, attributed to an 825-basis-point increase in local policy rates during FY23.

Slight improvement in the capitalization metrics observed in FY23.

CBM's capitalization metrics exhibited a modest improvement with a gearing ratio of 1.7x (FY22: 1.9X) and a leverage ratio of 2.9x (FY22: 3.1x). This improvement can be attributed to a slight increase in the equity base, primarily on account of profit retention of approximately 88%. Additionally, there was a reduction in total debt utilization due to regular long-term debt repayment and relatively unchanged levels of short-term debt drawdown.

CBM maintains a stable liquidity profile and a healthy coverage profile.

Historically the Company has been able to maintain a balance between assets and liabilities resulting in a stable current ratio of 1.0x over the years. Similarly, CBM also maintains a healthy coverage profile with a 5-Year average debt service coverage ratio of 1.7x. In FY23, the debt service coverage ratio was reported at 1.8x, recovering from a dip to 1.5x in FY22. This recovery is attributed to higher profitability and thus improved funds from operations despite a surge in financial charges during the year.

CBM Plastics Limited
Appendix I

FINANCIAL SUMMARY				
<i>(PKR Millions)</i>				
<u>BALANCE SHEET</u>	FY20	FY21	FY22	FY23
Property, Plant and Equipment	1,438.1	1,383.7	1,697.9	1,597.1
Stock in trade	942.2	1,161.5	1,281.2	1,594.4
Trade debtors	815.2	968.8	1,444.9	1,208.9
Cash and Bank Balances	53.5	236.4	100.4	277.0
Total Assets	4,101.2	4,468.4	5,312.0	5,413.7
Trade Payables	658.5	962.7	1,277.0	1,223.0
Long-term Debt (incl. current portion and lease liability)	153.3	113.0	322.2	229.6
Short-term Borrowings	1,873.8	1,876.3	2,164.5	2,109.9
Total Debt	2,027.1	1,989.2	2,486.7	2,339.5
Total Liabilities	2,928.6	3,173.9	4,006.9	4,022.6
Paid up Capital	150.0	150.0	150.0	150.0
Equity (excl. Revaluation Surplus)	1,152.5	1,277.3	1,290.6	1,378.7
<u>INCOME STATEMENT</u>				
Net Sales	4,642.3	5,075.7	6,950.5	8,137.1
Gross Profit	555.5	579.2	618.4	902.3
Operating Profit	373.9	352.1	369.9	636.2
Finance Costs	252.0	206.3	215.4	473.9
Profit Before Tax	121.8	145.8	154.5	162.3
Profit After Tax	58.1	142.9	31.7	106.9
<u>RATIO ANALYSIS</u>				
Gross Margin (%)	12.0%	11.4%	8.9%	11.1%
Net Margin (%)	1.3%	2.8%	0.5%	1.3%
Funds from Operation (FFO)	290.6	505.8	243.7	469.8
FFO to Total Debt (%)	14.3%	25.4%	9.8%	20.1%
FFO to Long Term Debt (%)	189.6%	447.7%	75.7%	204.6%
Gearing (x)	1.8	1.6	1.9	1.7
Leverage (x)	2.5	2.5	3.1	2.9
Debt Servicing Coverage Ratio (x)	1.9	2.8	1.5	1.8
Current Ratio	1.0	1.0	1.0	1.0
(Stock in trade + trade debts) / STD (x)	0.9	1.1	1.3	1.3
Return on Average Assets (%)	1.5%	3.3%	0.6%	2.0%
Return on Average Equity (%)	5.0%	11.6%	2.4%	7.9%

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	CBM Plastics 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
	RATING TYPE: ENTITY				
	December 21, 2023	BBB+	A-2	Stable	Reaffirmed
	November 22, 2022	BBB+	A-2	Stable	Reaffirmed
	October 05, 2021	BBB+	A-2	Stable	Reaffirmed
	October 06, 2020	BBB+	A-2	Stable	Reaffirmed
	November 13, 2019	BBB+	A-2	Stable	Initial
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.				
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Due Diligence Meetings Conducted	S.No.	Name	Designation	Date	
	1.	Mr. Iftikhar Hussain	Chief Executive Officer - CEO	December 12, 2023	
	2.	Mr. Sheikh Nadeem Rasool	General Manager - Finance		
	3.	Mr. Abdul Basit Hassan	Manager - Accounts		