

## RATING REPORT

### CBM Plastics Private Limited (CBM)

**REPORT DATE:**

November 22, 2024

**RATING ANALYSTS:**

Saeb Muhammad Jafri

[saeb.jafri@vis.com.pk](mailto:saeb.jafri@vis.com.pk)

Zunain Arif

[zunain.arif@vis.com.pk](mailto:zunain.arif@vis.com.pk)

**RATING DETAILS**

| Rating Category              | Latest Rating     | Previous Rating   |
|------------------------------|-------------------|-------------------|
| Entity                       | BBB+/A2           | BBB+/A2           |
| Rating Date                  | November 22, 2024 | December 21, 2023 |
| Rating Outlook/ Rating Watch | Positive          | Stable            |
| Rating Action                | Maintained        | Reaffirmed        |

**COMPANY INFORMATION**

|  |   |
|--|---|
| Incorporated in 1992                             | External auditors: Daudally Lalani & Co       |
| Private Limited Company                          | Chief Executive Officer: Mr. Iftikhar Hussain |
| <b>Key Stakeholders (with stake 5% or more):</b> |   |
| <i>Muhammad Asif Zindani ~41.5%</i>              |   |
| <i>Iftikhar Hussain ~21.4%</i>                   |   |
| <i>Mushtaq Kassam Chhapra ~10.3%</i>             |   |
| <i>Samir Shaukat Chhapra ~6.2%</i>               |   |
| <i>Kamran Chhapra ~5.1%</i>                      |   |

**APPLICABLE METHODOLOGY(IES)**

VIS Entity Rating Criteria Methodology – Industrial Corporates

<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**

**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.

**Corporate Profile**

CBM Plastics (Pvt.) Limited (“CBM” or “the Company”) was founded in 1992 and specializes in production and 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 facilities are located at S.I.T.E industrial area, Karachi. It is a family-owned business, with two members collectively owning more than 60% shareholding and the rest held by the other family members.

**Operational Profile**

| Production and Utilization            | FY19       | FY20       | FY21       | FY22         | FY23       | FY24       |
|---------------------------------------|------------|------------|------------|--------------|------------|------------|
| <b>Blowing</b>                        |            |            |            |              |            |            |
| Capacity - no. of bottles (in '000)   | 105,000    | 120,000    | 140,976    | 155,000      | 158,500    | 163,000    |
| Production - no. of bottles (in '000) | 87,000     | 98,800     | 112,781    | 125,000      | 135,000    | 145,000    |
| <b>Utilization (%)</b>                | <b>83%</b> | <b>82%</b> | <b>80%</b> | <b>80.6%</b> | <b>85%</b> | <b>89%</b> |
| <b>Injection</b>                      |            |            |            |              |            |            |
| Capacity - no. of preforms (in '000)  | 115,000    | 115,000    | 117,120    | 120,000      | 125,000    | 130,000    |
| Production - no. of preforms ('000)   | 89,000     | 92,000     | 93,696     | 105,000      | 110,000    | 115,000    |
| <b>Utilization (%)</b>                | <b>77%</b> | <b>80%</b> | <b>80%</b> | <b>87.5%</b> | <b>88%</b> | <b>88%</b> |

During FY24, capacity utilization in the blow molding segment increased to 89% (FY23: 85%), despite an expansion in production capacity to 163 mln bottles (FY23: 158 mln bottles). Rise in capacity utilization reflects increase in actual production, which reached 145 mln bottles (FY23: 135 mln bottles), supported by a volumetric increase in sales. In the injection molding segment, actual production rose to 115 mln preforms (FY23: 110 mln preforms), consistent with an increase in capacity to 130 mln preforms (FY23: 125 mln preforms). Capacity utilization in the injection segment remained stable at 88%. The Company uses imported raw materials to directly produce bottles, while preforms produced by CBM are supplied to their associate TransPak Private Limited for their consumption.

**Key Rating Drivers**

**Business Risk Profile**

**Industry Risk; High to Medium.**

The business risk profile for manufacturers of plastic containers and packages—specifically blow-molded plastic drums, containers, jerry cans, caps, and closures supplied to Pakistan's lubricant oil industry—is assessed as high to medium. This evaluation considers factors such as market demand stability, competition levels, raw material price volatility, and regulatory influences.

The lubricant oil sector in Pakistan demonstrates consistent demand for plastic packaging solutions, providing a stable market for suppliers. However, the industry faces moderate competition, with a few established players dominating the market.

A significant risk factor is the volatility in raw material prices, particularly for polymers like polyethylene and polypropylene, which are subject to fluctuations in global oil prices and exchange rates. This volatility can impact production costs and profitability.

Regulatory considerations, including environmental policies aimed at reducing plastic usage, may affect the industry. While current regulations are manageable, future policy shifts could necessitate operational adjustments.

#### **Strong Market Position.**

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, which provides support for its business risk profile.

#### **Established Relationship and Strong Client Base**

The company has a long-standing relationship with a strong client base. The Company maintains relationship with large customers such as Chevron Pakistan, Total Parco, Shell Pakistan and Pakistan State Oil. During FY24 the Company generated ~67% (FY23: 70 %) of the total revenue from its top 5 customers, however, the Company's long-standing relationship with these customers substantially mitigates the concentration risk.

#### **Financial Risk Profile**

##### **Profitability profile.**

In FY24, the Company's revenue grew by approximately 25%, largely driven by an increase in the average selling price, accompanied by a modest improvement in volumes. The gross margin remained stable at 10.25% (FY23: 11.09%) despite a rise in power costs. This stability can be attributed to the Company's policy of regular monthly price adjustments and its practice of maintaining a one-month raw material inventory, which enables the alignment of prices with fluctuations in input costs. Furthermore, the Company's leading position in the industry allows it to pass through a significant portion of costs increases, leveraging its pricing capability within the market.

##### **Capitalization profile**

CBM's capitalization metrics demonstrated a slight improvement, with the gearing ratio recorded at 1.65x (FY23: 1.70x) and the leverage ratio at 2.87x (FY23: 2.92x). This slight improvement reflects a continued increase in the equity base, from profit retention, alongside a reduction in short-term borrowings as of June 2024. Both ratios remained consistent with the company's 5-year average of 1.72x for gearing and 2.79x for leverage. Ratings will remain

sensitive to the continued improvement of capitalization indicators and the equity base going forward.

**Liquidity and Coverage profile.**

The Company has maintained an adequate liquidity profile reflected in a five-year average current ratio of 1.03x. As of the end of FY24, the current ratio increased to 1.11x (FY23: 1.03x). Short-term debt coverage also remains sufficient, averaging 1.23x over the same period, with an improvement to 1.47x in FY24 (FY23: 1.35x), driven primarily by a reduction in short-term borrowing levels. The cash conversion cycle has reduced to 81 days (FY23: 110 days), attributed to a lengthened payable cycle and a shortened receivable collection period following revised favorable terms with suppliers and customers.

The Company has also maintained a stable five-year average debt service coverage ratio (DSCR) of 1.72x. In FY24, the DSCR slightly decreased to 1.71x (FY23: 1.76x) due to increased finance costs amid a high-interest-rate environment but continues to be commensurate with the assigned ratings.

**CBM Plastics Limited**
**Appendix I**

| <b>Financial Summary</b>                  |                 |                 |                 |
|---|-----------------|-----------------|-----------------|
| <b>Balance Sheet (PKR Millions)</b>       | <b>FY22A</b>    | <b>FY23A</b>    | <b>FY24A</b>    |
| Property, plant and equipment             | 1,697.85        | 1,597.08        | 1,730.82        |
| Intangible Assets                         | 0.15            | 0.12            | 0.09            |
| Stock-in-trade                            | 1,281.25        | 1,594.45        | 1,552.60        |
| Trade debts                               | 1,444.94        | 1,208.85        | 1,381.14        |
| Short-term Investments                    | 0.00            | 128.89          | 36.39           |
| Cash & Bank Balances                      | 100.44          | 276.99          | 373.06          |
| Other Assets                              | 787.41          | 607.28          | 704.83          |
| <b>Total Assets</b>                       | <b>5,312.04</b> | <b>5,413.66</b> | <b>5,778.93</b> |
| Creditors                                 | 143.21          | 739.85          | 708.75          |
| Long-term Debt (incl. current portion)    | 322.16          | 229.60          | 377.34          |
| Short-Term Borrowings                     | 2,164.55        | 2,109.87        | 2,035.96        |
| <b>Total Debt</b>                         | <b>2,486.71</b> | <b>2,339.47</b> | <b>2,413.30</b> |
| Other Liabilities                         | 1,376.95        | 943.27          | 1,074.94        |
| <b>Total Liabilities</b>                  | <b>4,006.87</b> | <b>4,022.59</b> | <b>4,196.99</b> |
| Paid up Capital                           | 150.00          | 150.00          | 150.00          |
| Revenue Reserve                           | 1,140.58        | 1,228.68        | 1,311.22        |
| Equity (excl. Revaluation Surplus)        | 1,290.58        | 1,378.68        | 1,461.22        |
| <b>Income Statement (PKR Millions)</b>    | <b>FY22A</b>    | <b>FY23A</b>    | <b>FY24A</b>    |
| Net Sales                                 | 6,950.53        | 8,137.13        | 10,152.54       |
| Gross Profit                              | 618.41          | 902.27          | 1,040.91        |
| Operating Profit                          | 369.88          | 636.21          | 769.99          |
| Finance Costs                             | 215.40          | 473.92          | 550.39          |
| Profit Before Tax                         | 154.48          | 162.29          | 219.60          |
| Profit After Tax                          | 31.67           | 106.91          | 101.68          |
| <b>Ratio Analysis</b>                     | <b>FY22A</b>    | <b>FY23A</b>    | <b>FY24A</b>    |
| Gross Margin (%)                          | 8.90%           | 11.09%          | 10.25%          |
| Operating Margin (%)                      | 5.32%           | 7.82%           | 7.58%           |
| Net Margin (%)                            | 0.46%           | 1.31%           | 1.00%           |
| Funds from Operation (FFO) (PKR Millions) | 243.73          | 469.78          | 505.15          |
| FFO to Total Debt* (%)                    | 9.80%           | 20.08%          | 20.93%          |
| FFO to Long Term Debt* (%)                | 75.65%          | 204.61%         | 133.87%         |
| Gearing (x)                               | 1.93            | 1.70            | 1.65            |
| Leverage (x)                              | 3.10            | 2.92            | 2.87            |
| Debt Servicing Coverage Ratio* (x)        | 1.49            | 1.76            | 1.71            |
| Current Ratio (x)                         | 1.00            | 1.03            | 1.11            |
| (Stock in trade + trade debts) / STD (x)  | 1.28            | 1.35            | 1.47            |
| Return on Average Assets* (%)             | 0.65%           | 1.99%           | 1.82%           |
| Return on Average Equity* (%)             | 2.49%           | 8.01%           | 7.16%           |
| Cash Conversion Cycle (days)              | 97.63           | 109.78          | 80.58           |

\*Annualized, if required

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

| <b>REGULATORY DISCLOSURES</b>           |   | <b>Appendix II</b>         |                               |                       |                      |  |
|---|---|----------------------------|-------------------------------|-----------------------|----------------------|--|
| <b>Name of Rated Entity</b>             | CBM Plastics Limited  |                            |                               |                       |                      |  |
| <b>Sector</b>                           | Plastic Packaging   |                            |                               |                       |                      |  |
| <b>Type of Relationship</b>             | Solicited   |                            |                               |                       |                      |  |
| <b>Purpose of Rating</b>                | Entity Rating   |                            |                               |                       |                      |  |
| <b>Rating History</b>                   | <b>Rating Date</b>  | <b>Medium to Long Term</b> | <b>Short Term</b>             | <b>Rating Outlook</b> | <b>Rating Action</b> |  |
|   | <b><u>RATING TYPE: ENTITY</u></b>   |                            |                               |                       |                      |  |
|   | <b>22/11/2024</b>   | BBB+                       | A2                            | Positive              | Maintained           |  |
|   | <b>21/12/2023</b>   | BBB+                       | A2                            | Stable                | Reaffirmed           |  |
|   | <b>14/11/2022</b>   | BBB+                       | A2                            | Stable                | Reaffirmed           |  |
|   | <b>05/10/2021</b>   | BBB+                       | A2                            | Stable                | Reaffirmed           |  |
|   | <b>06/10/2020</b>   | BBB+                       | A2                            | Stable                | Reaffirmed           |  |
| <b>13/11/2019</b>                       | BBB+  | A2                         | Stable                        | Initial               |                      |  |
| <b>Statement by the Rating Team</b>     | 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.  |                            |                               |                       |                      |  |
| <b>Probability of Default</b>           | 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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| <b>Due Diligence Meetings Conducted</b> | <b>S.No.</b>  | <b>Name</b>                | <b>Designation</b>            | <b>Date</b>           |                      |  |
|   | 1.  | Mr. Iftikhar Hussain       | Chief Executive Officer - CEO | November 12, 2024     |                      |  |
|   | 2.  | Mr. Sheikh Nadeem Rasool   | General Manager - Finance     |                       |                      |  |
|   | 3.  | Mr. Abdul Basit Hassan     | Manager - Accounts            |                       |                      |  |