RATING REPORT

Ana & Batla Industries (Private) Limited (ABI)

REPORT DATE:
February 07, 2022

RATING ANALYST:

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RATING DETAILS		
Rating	**Initial Rating**	
Category	**Long-term**	**Short-term**
Entity	BBB+	A-2
Rating Outlook	Stable	
Rating Date	Feb 07, 2022	
Rating Action	Initial	

COMPANY INFORMATION	
Incorporated in 2016	**External auditors:** Maqsood & Co. Chartered Accountants
Private Limited Company	**CEO:** Mr. Dawood Shafi Batla
Key Shareholders:	**Chairman:** Mr. Mahmood Shafi Batla
Mahmood Shafi Batla- 83.7%	
Dawood Shafi Batla- 11.45%	
Asiya Maryam Batla- 1.77%	
Saima Sultan- 3.045%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Industrial Corporates (August 2021) **https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf**

Ana & Batla Industries (Private) Limited (ABI)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Ana & Batla Industries (Private) Limited was incorporated in 2016 as a private limited company. The shares of the Company are owned by family members. Principal activity of the company includes manufacture, import, export, and trade all kinds of health care goods including diapers, wipes, sanitary napkins, bandage, band-aids, gauze, and all kinds and varieties of medicinal preparations.

Financial Statements of the company for FY21 were audited by Maqsood & Co. Chartered Accountants.

Profile of the CEO

Dawood Shafi Batla obtained his diploma in plastic technology from George Brown College of Applied Arts and Technology, Toronto, Canada in 1978-9. He completed his graduation in Commerce in 1981 from the University of Karachi. Since then, he has been a part of the family business.

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Incorporated in 2016, Ana & Batla Industries (Private) Limited (ABI) is a familyowned business involved in the manufacturing and sale of personal hygiene products. A significant proportion of sales is attributable to baby diapers. Other products on offer include wipes sanitary napkins, adult diapers, and trading of toothbrush.

A sister company by the name of Olefins (Private) Limited has recently been established for the purpose of manufacturing raw material required for the diaper manufacturing encompassing PE films and non-woven fabric. Installation of PE films has been completed in the ongoing year with the same expected to meet around 30-40% of PE films requirement of ABI. Non-woven fabric plant is expected to come online by end-FY22.

Currently, about 60% of raw materials are imported from countries such as Malaysia, China, and Germany. Two other sister concerns of the group, Ana International and Developed Technologies sell glitter and cosmetics in local and in foreign markets, respectively. Ana International also manufactures toothbrushes and supplies to both direct market and ABI.

At present, the company has two production units, both of which are in Landhi and in close proximity. One of these is operational on the rented premises owned by Olympia Mills and purchases electricity from Olympia Power Generation. The other unit is situated on premises owned by owner-cum directors and has access to both KE sanctioned load and gas to meet its power requirements.

Product Category	Brand
Baby Diapers and Sanitary Wipes	Bona Papa
	Momse
	Baby-ji
	Onli
	Nana Smarty
Adult Diapers and Sanitary Wipes	Dadu
	Safa-Care
	Mimi Papa
	Sofped
	Dr. John
Sanitary Napkins	Nofea
Toothbrush	Dr. John, Dr. Sorex

In terms of capacity, the company has around 11 machines for baby diapers, 1 machine for adult diaper, 1 machine for diaper pants, 1 machine for sanitary napkins and 3 machines for sanitary wipes. In the ongoing year, the company added two machines in baby diapers and commenced production of sanitary napkins. Previously, the company used to import sanitary napkins from China and sell in the local market. The company operates at an average capacity utilization of around 75%.

In terms of product mix, the company has categorized its offerings in different Tiers catering to varying demographics. With around 98% of sales comprising baby diapers, Momse lies the Tier 1 brand, Nana Smarty in Tier 2 and Bona Papa in Tier 3. Each tier competes with different products in the market with the first tier offering to the high income group. Going forward, management plans to add more machines in the Tier 1 baby diapers segment and the sanitary napkins segments. The expansion is projected to be financed by a mix of equity and supplier's credit. Quantum of financing required for the sanitary napkins is around Rs. 200m while the cost of expansion for diaper machinery has not been estimated yet and is under discussions.

Key Rating Drivers

Business risk profile is considered moderate given growing demand dynamics of baby diapers (major segment in which the company operates) in view of large population base and high annual birth rate as compared to regional countries.

Global baby diaper market is valued at around USD 65b with Pakistan's market size being around Rs. 45b in 2021. Pakistan is a densely populated country with a population of around 200 million people with an annual birth rate of 28 births/1000 people (2019) which is higher as compared to India (18 births/1000 people), Bangladesh (18 births/1000 people) and Sri Lanka (16 births/1000 people). Pakistan's large population, increasing birth rates, and growing consumer understanding of the benefits of hygienic products for babies offers a large potential consumer base for diapers. Over the years, the diaper industry in Pakistan has shifted from an import oriented sector to self-reliant sector with around 90% of the demand currently being met by local manufacturers. Major diaper brands in the country include Pampers, Canbebe, and Molfix.

Duty structure also provides competitive edge to the local manufacturers with around 65% duty on imports of finished goods (diapers) and duty in the range of 0-11% on raw materials required for manufacturing diapers.

In view of increasing demand, ABI has rapidly expanded its output over the years and has introduced various brands of the same product catering to various different target markets. This has enabled the company to not only compete with some of the more established multinational brands, but also operate in market segments not served by them. In this regard, the management has also ensured to establish and sustain the businesses' presence across all regions of Pakistan. In addition to that, supply of raw materials from an associated corporation as mentioned above will further help to reduce the exchange rate risks associated with imports to a certain extent.

Topline of the company has escalated over the years in line with improving demand dynamics and shift in consumption towards locally manufactured personal care products due to price competitiveness

Revenue base of the company has grown at a 3 year CAGR of 72% with the same reported at Rs. 9.3b during FY21 (FY20: Rs. 6.7b, FY19: Rs. 3.9b). This is in line with consistent capacity expansion and growing demand for baby diapers due to shift in consumption towards locally manufactured personal care products due to price competitiveness. With higher duties on imported diapers, consumers prefer purchasing locally manufactured products at a lower price. The entity makes all of its sales to a vast number of distributors or large departmental stores. Product mix depicts around 98% of the sales revenue contributed by baby diapers with the remaining provided by other segments including adult diapers, wipes, and sanitary napkins. Going forward, the management expects further improvement in revenues on the back of increased production capacity through addition of machines in the sanitary napkin and baby diaper divisions over the next two years.

Timeline improvement in margins due to economies of scale

The company has experienced rapid expansion over the years, which is evident from the growth in its revenues and profit. This has not only allowed the entity to expand its capacity, but also offered opportunities for backward integration. As a result, around 30-40% of raw material procurement will be sourced through the sister concern -Olefins (Private) Limited by end of the ongoing year. This shall help to reduce dependence on foreign suppliers and limit the impact of exchange rate fluctuations, ultimately leading to cost rationalization. Higher input costs are gradually passed on in the form of higher prices, so that margins remain intact. Gross margin and profit margin for FY21 was reported at 12.2% (FY20: 11.9%, FY19: 7.9%) and 3.1% (FY20: 2.2%, FY19: 2.4%), respectively due to economies of scale. Going forward, given local sourcing of raw materials and higher revenue base due to planned capacity enhancement, overall profitability profile of the company is expected to follow an upward trajectory.

Sufficient liquidity profile on the back of sustained improvement in profitability

All cash flow coverage indicators exhibited a significant improvement on a timeline basis. FFO to Total Debt, FFO to Long term Debt, and Debt Servicing Coverage Ratio were reported higher at 59% (FY20: 21%, FY19: 11%), 1522% (FY20: 338%, FY19: 15%), and 5.63x (FY20: 1.9x, FY19: 2.19x), respectively for FY21. Trade receivables and stock in trade also provide ample coverage for short-term debt, with current ratio being at 1.4x. Cash conversion cycle of the company has remained at an average of 50 days over the past four years. Going forward, with COVID-19 relief debt expected to be paid in the ongoing year, gradual repayment of long-term debt raised to finance the purchase of machinery, along with expected improvement in profitability profile shall bode well for the liquidity position of the company.

A growing equity base through profit retention has improved leverage indicators

Total equity of the company went up to Rs. 1.1b at end-FY21 (FY20: Rs. 474m, FY19: Rs.790m), partly due to the profit retained during the year. In addition to that, owners were also issued additional ordinary shares against acquisition of a facility acquired from sister concern- Ana International. Around 96% of the total debt at end-FY21 comprises short-term debt encompassing loan from directors and FATR facilities amounting Rs. 651.5m (FY20: Rs. 745m) and Rs. 336.7m (FY20: Rs. 211m), respectively. Outstanding long-term debt comprises financing from BAHL to fund machinery and salary financing relief against COVID-19. The latter is expected to be cleared in the ongoing year. Given growing equity base, leverage and gearing indicators improved to 1.59x (FY20: 3.5x, FY19: 1.28x) and 0.33x (FY20: 0.58x, FY19: 0.40x), respectively at end-FY21. Going forward, the management expects to continue the repayment of loans with limited debt drawdown to finance expansions. Maintenance of leverage indicators at existing low levels will be important for assigned ratings.

Corporate Governance Framework shows room for improvement

Given status of a private limited company, there is no independent director on board, with family members/major shareholders holding all the seats. These directors actively participate in management of the business affairs; segregation between management and ownership is considered important. In addition to that, financial statement so the organization are audited by Maqsood & Co., a firm which is not QCR rated. The company does not have a separate internal audit department, as a quality management department is deemed to be enough by the management. At present, an in-house ERP software by the name of Supernova is being used for different functions. In this regard, the company plans to implement SAP S/4HANA by March 2022. Areas of improvement in the corporate governance infrastructure include having a separate internal audit department, induction of independent directors on board, hiring QCR rated external auditors or auditors on the SBP Panel, and forming specific board committees.

Financial Summary - Ana & Batla Industries (Private) Limited (PKR m)				
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**
Fixed Assets	163	263	347	422
Stock-in-Trade	376	1,040	819	1,222
Trade Debts	16	61	607	719
Cash & Bank Balances	12	26	48	34
Total Assets	794	1,797	2,131	2,933
Trade and Other Payables	195	224	386	477
Long Term Debt (Including loan from directors)	94	596	64	40
Short Term Debt (Including loan from directors)	71	184	956	988
Total Debt	165	780	1,020	1,028
Total Liabilities	562	1,468	1,657	1,799
Paid Up Capital	146	146	146	517
Total Equity	232	328	474	1,134
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**FY21**
Net Sales	1,835	3,933	6,680	9,332
Gross Profit	165	309	792	1,139
Profit Before Tax	102	165	277	437
Profit After Tax	77	94	145	289
RATIO ANALYSIS				
Gross Margin (%)	9.0%	7.9%	11.9%	12.2%
Net Margin	4.2%	2.4%	2.2%	3.1%
Net Working Capital	142.6	599.9	162.8	712.8
FFO	17.1	89.3	215.9	603.8
FFO to Total Debt (%)	10%	11%	21%	59%
FFO to Long Term Debt (%)	18%	15%	338%	1522%
Current Ratio (x)	1.29	1.64	1.10	1.40
Debt Servicing Coverage Ratio (x)	4.20	2.19	1.90	5.63
Gearing (x)	0.71	2.37	2.15	0.91
Leverage (x)	2.42	4.47	3.50	1.59
Dividend payout	NA	NA	NA	NA
(Stock in Trade+Trade Debts)/STD	550%	599%	149%	196%
ROAA (%)	10%	7.2%	7.4%	11.4%
ROAE (%)	33%	33.5%	36.2%	35.9%

ISSUE/ISSUER RATING SCALE &DEFINITIONS Appendix II

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	Ana & Batla Industries (Private) Limited
Sector	Personal Hygiene
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
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	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
Feb 07, 2022	BBB+	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Zawahir Ahmed	Finance Manager	6-Jan-22
Mughera Zubairi	Costing Manager	6-Jan-22
Suleyman Batla	Sales Director	24-Jan-22