RATING REPORT

Ana & Batla Industries (Private) Limited (ABI)

REPORT DATE:
May 18, 2023

RATING ANALYST:

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RATING DETAILS				
	Current Rating		Previous Rating	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	BBB	A-2	BBB+	A-2
Rating Date	*May 18, 2023*		*February 07, 2022*	
Rating Outlook	Stable		Stable	
Rating Action	*Downgrade*		*Initial*	

COMPANY INFORMATION	
Incorporated in 2016	**External auditors:** A.A. Baig and 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

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 FY22 were audited by AA Baig & 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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RATING RATIONALE

Ana & Batla Industries (Private) Limited (ABI), a family-run company that was incorporated in 2016, produces and sells items for personal hygiene. Baby diapers account for a sizeable portion of sales. Wipes for sanitary purposes, adult diapers, and toothbrush trading are also available. 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.

Olefins (Private) Limited, a recently founded associated company will be operational by end of 2023 for production of raw materials needed for ABI's diaper manufacturing, including PE films and non-woven fabric. Till date approximately Rs. 1.8bn has been invested in this entity.

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. Currently, The Company has around 11 machines for baby diapers, 1 machine for adult diapers, 1 machine for diaper pants, 1 machine for sanitary napkins, and 3 machines for sanitary wipes. The Company total capacity utilization during FY22 was 39% (FY21: 39%).

About 60% of raw materials are imported from countries such as Malaysia, China, and Germany. Within the product portfolio, baby diapers and baby pants account for about 98% of sales in FY22 (FY21: 97%). Within the category, different brands have been established targeting different income groups or segments.

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

Key Rating Drivers

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

The Company's business risk profile provided some comfort to the ratings as global baby diaper market is valued at around USD 53b with Pakistan's market size being around USD 0.41b in 2022. Pakistan is a densely populated country with a population of around 200 million people with an annual birth rate of 26 births/1000 people (2023) which is higher as compared to India (17 births/1000 people), Bangladesh (17 births/1000 people) and Sri Lanka (15 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.

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.

Topline of the company continued to grow, albeit remaining short of projections

Revenue base of the company grew to a 3-year CAGR of 23% with the same reported at Rs. 12.5b during FY22 (FY21: Rs. 9.3b, FY20: Rs. 6.7b). 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 as a result of 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 department stores.

The Company had projected strong growth in FY22, however due to surge in prices and inflationary pressures, projected growth was hampered. While demand growth is expected to slow down, Company believes that the current economic situation provides it with an opportunity to further expand its footprint in the tier III market. They intend to fill the gap created by inability of small manufacturers to meet their orders due to difficulty in importing raw materials.

Margins significantly impacted. Going-forward, weakening purchasing power of consumers to put more pressure on margins as consumer preference shifts from Tier-II to lower margin Tier-III products.

During FY22, ABI encountered a significant increase in input costs of imported raw materials due to the emergence of a commodity super cycle resulting from the global supply chain disruption as economies reopened following the COVID-19 pandemic. The Company managed to pass on some of the impact to its customers, but still experienced a significant reduction in its margins to 8.9% in FY22, compared to 15% and 11.9% in FY21 and FY20, respectively. Going forward, ABI is expected to face further pressure on its margins with increasing cost of imports due to a continuously weakening PKR, which is also reducing the purchasing power of consumers. Additionally, the Company anticipates a shift in consumer preference from higher-margin Tier-II products to lower-margin Tier-III products due to reduced purchasing power. Although demand is expected to remain fairly stable, these factors are likely to impact ABI's margins.

Net margins also declined not only as a trickle-down effect of lower gross margin but also due to higher borrowing cost arising out of higher inventories maintained for projected higher growth. As per management, stock levels will be streamlined going forward. Management expects that margins in the longer run will be recouped with ABI reporting margins recovery in 9MFY23 with gross margins of 11.1%, however, still below the peak reported in FY21.

Cash flow coverage and liquidity indicators exhibit deterioration.

During FY22, all cash flow coverage indicators displayed a significant decline as a result of significant decline in profitability. FFO to total debt ratio was reported negative at -1% (FY21: 29%, FY20: 21%) while the DSCR decreased below 1 to 0.72x (FY21: 4.01x, FY20: 1.90x). Liquidity profile also depicts weakening with current ratio of 1.00x (FY21: 1.36x, FY20: 1.08x) and increasing working capital cycle. Increasing levels of outstanding payables remains a concern. In addition, buildup of receivables post year end to support revenues will continue to exert pressure on liquidity and working capital. While in 9MFY23, DSCR and current ratio have improved slightly to 1.29x and 1.16x, respectively, we expect that given higher gearing and increasing financing costs, coverage metrics will continue to remain constraint.

Leverage indicators weakened amid surge in borrowings and lower profitability.

Due to declining profitability, the growth rate of the equity base for the company slowed down to Rs. 1.2 billion (FY21: Rs. 1.1 billion, FY20: Rs. 474 million), while an increase in working capital requirements largely to fund inventory for projected growth during the year resulted in higher short-term borrowings amounting to Rs. 1.35 billion (FY21: Rs. 1.02 billion, FY20: Rs. 984 million). Although ABI cleared its long-term facility from BAHL during the period under review, higher overall debt caused the gearing and leverage indicators to deteriorate to 1.14x (FY21: 0.93x, FY20: 2.28x) and 2.88x (FY21: 1.68x, FY20: 3.78x). In the ongoing year, the Company has secured fresh long-term loans from banks and directors for working capital support which has further increased gearing and leverage indicators.

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. The company does not have a separate internal audit department, as a quality management department is deemed to be enough by the management. The company has made strides in trying to improve its governance by implementing SAP S/4HANA and appointing a new QCR rated external auditor. Areas that still have room for improvement in the corporate governance infrastructure include having a separate internal audit department, induction of independent directors on board, and forming specific board committees.

Financial Summary - Ana & Batla Industries (Private) Limited (PKR million)						
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**
Fixed Assets	163	263	347	450	1,151	1,021
Stock-in-Trade	376	1,040	819	1,248	1,916	1,703
Trade Debts	16	61	607	719	692	1,102
Cash & Bank Balances	12	26	48	34	44	98
Total Assets	794	1,797	2,131	2,950	4,580	4,928
Trade and Other Payables	195	224	386	477	1,527	1,513
Long Term Debt	73	135	35	12	0	342
Short Term Debt	71	184	984	1,016	1,351	1,251
Total Debt	144	318	1,018	1,028	1,351	1,593
Total Liabilities	541	1,007	1,685	1,850	3,399	3,559
Paid Up Capital	146	146	146	517	517	517
Total Equity	167	328	446	1,101	1,181	1,369
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**
Net Sales	1,835	3,933	6,680	9,332	12,473	11,261
Gross Profit	165	309	792	1,399	1,115	1,250
Profit Before Tax	102	165	277	423	238	329
Profit After Tax	77	94	145	283	80	188
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**
Gross Margin (%)	9.0%	7.9%	11.9%	15.0%	8.9%	11.1%
Net Margin	4.2%	2.4%	2.2%	3.0%	0.6%	1.7%
Net Working Capital	142.6	599.9	133.6	654.5	15.0	517.1
FFO	17.1	89.3	215.9	295.3	(19.4)	194.1
FFO to Total Debt (%)*	12%	28%	21%	29%	-1%	16%
FFO to Long Term Debt (%)*	24%	66%	625%	2467%	-8066%	76%
Current Ratio (x)	1.29	1.64	1.08	1.36	1.00	1.16
Debt Servicing Coverage Ratio (x)*	4.20	2.19	1.90	4.01	0.72	1.29
Gearing (x)	0.86	0.97	2.28	0.93	1.14	1.16
Leverage (x)	3.24	3.07	3.78	1.68	2.88	2.60
Dividend payout	NA	NA	NA	NA	NA	NA
(Stock in Trade+Trade Debts)/STD	550%	599%	145%	194%	193%	224%
ROAA (%)*	10%	7.2%	7.4%	11.1%	2.1%	5.3%
ROAE (%)*	46%	37.9%	37.6%	36.6%	7.0%	19.7%

Annualized

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

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
May 18, 2023	BBB	A-2	Stable	Downgrade
Feb 07, 2022	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.
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Due Diligence Meetings Conducted

Name	Designation	Date
Zawahir Ahmed	Finance Manager	March 20, 2023
Muhammad Irfan	Senior Manager -Finance	