RATING REPORT

Ana & Batla Industries (Pvt.) Limited

REPORT DATE:
September 12, 2024

RATING ANALYSTS:
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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	*September 12, 2024*		*May 18, 2023*	
Outlook/ Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Downgrade	

COMPANY INFORMATION	
Incorporated in 2016	**External auditors:** A.A. Baig and Co. Chartered Accountants
Private Limited Company	**Chairman of the Board:** Mr. Mahmood Shafi Batla
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Dawood Shafi Batla
Mahmood Shafi Batla ~83.7%	
Dawood Shafi Batla ~11.5%	

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

RATING SCALE(S)
VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Ana & Batla Industries (Pvt.) Limited

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.

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.

RATING RATIONALE

Corporate Profile

Ana & Batla Industries (Private) Limited ('ABI' or 'the Company') has been incorporated as a private limited company on September 5th, 2016. The principal activity of the Company is to manufacture, import, export and trade in all kinds of health care products including sanitary napkins, diapers, body razors, tooth brushes, wipes, chemicals and reagents.

The registered office of the Company is situated in Karachi. The Company has its factory located at Landhi Industrial Area, Karachi.

Operating Performance

The Company's installed capacity remained unchanged during FY23. During this period, the capacity utilization for baby diapers remained intact. However, the capacity utilization for baby pants, adult diapers, and wipes experienced a decline, while production of sanitary napkins saw a notable increase. Overall, capacity utilization slightly declined during the year owing to reduced market demand impacted by high inflation.

Installed Capacity & Production

	FY22	FY23
Annual Installed Capacity		
- Baby Diaper (piece)	2,011,992,000	2,011,992,000
- Baby Pants (piece)	120,000,000	120,000,000
- Adult Diaper (piece)	60,000,000	60,000,000
- Wipes (packet)	28,800,000	28,800,000
- Napkins (piece)	150,000,000	150,000,000
Actual Production		
- Baby Diaper (piece)	865,647,645	863,579,983
- Baby Pants (piece)	33,284,573	12,226,876
- Adult Diaper (piece)	13,909,932	10,937,566
- Wipes (packet)	4,899,729	2,374,226
- Napkins (piece)	718,994	7,373,802
Capacity Utilization		
- Baby Diaper (piece)	43.0%	42.9%
- Baby Pants (piece)	27.7%	10.2%
- Adult Diaper (piece)	23.2%	18.2%
- Wipes (packet)	17.0%	8.2%
- Napkins (piece)	0.5%	4.9%
- **Overall**	**38.2%**	**37.8%**

Sector Update

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 nature of the industry in which the Company operates has provided a level of stability to its ratings. The rising global population has increased demand for baby diapers throughout the world. As per Statista, the global baby diaper market is valued at approximately $57b in 2024, representing a 7.3% growth rate compared to the previous year. During this period, Pakistan's contribution to the global market reached $0.42b. Pakistan, a densely populated country with around 245 million people and an annual growth rate of 1.96% as of 2024, has the highest growth rate in its region. The large population, increasing birth rates, and growing consumer awareness of the benefits of hygienic products for babies present a substantial potential consumer base for diapers in Pakistan.

With increasing import restrictions and heightened understanding of hygienic products for babies, the diaper industry in Pakistan has transitioned from an import-oriented sector to a self-reliant one, with approximately 90% of the demand currently being met by local manufacturers. This shift has led to the emergence of major diaper brands within the country, including Pampers, Canbebe, and Molfix. The duty structure also provides a competitive advantage to local manufacturers, with around 65% duty on imports of finished goods (diapers) and duties ranging from 0-11% on raw materials required for manufacturing diapers.

ABI has successfully mitigated its risk portfolio by targeting multiple market segments through their pricing by introducing various brands of the same product, catering to customers from different income groups. This strategy has enabled the company to compete with established multinational brands and secure its position in the industry. The management has also ensured the establishment and maintenance of the business's presence across all regions of Pakistan.

Key Rating Drivers

During FY23, the topline improved, driven by increase in prices. The rise in net sales during 9MFY24 is attributed to both higher volumes and price increases.

In FY23, the Company's revenue increased by ~23%, mainly driven by an increase in selling prices, while volumes declined for baby pants, adult diapers and wipes. Overall capacity utilization remained at approximately similar levels 37.8% (FY22: 38.2%) during FY23, with increase in production of sanitary napkins. ABI was able to transfer the burden from raw material cost escalation and dollar depreciation to its customers, mitigating the impact of the slight volumetric decline. The Company's gross and operating margins improved to 9.7% (FY22: 8.9%) and 3.7% (FY22: 2.6%) respectively. However, net margins declined to 0.3% (FY22: 0.6%) in FY23, primarily due to increased finance costs resulting from elevated interest rates.

With the rebound in volumetric sales, topline increased by 17.2% Y/Y during 9MFY24 as compared to same period last year (SPLY). Gross, operating and net margins declined to 9.5% (9MFY23: 11.1%), 3.8% (9MFY23: 4.7%) and 0.6% (9MFY23: 1.7%) respectively on the back of inflationary pressure and higher financial charges.

The Company has explored into the African and Turkish markets to enhance its export sales, which are expected to yield higher profit margins going forward. However, currently export to total sales is negligible. Additionally, ABI has also introduced a new premium range of baby diapers to capture the high-income segment within local markets, with further plans to expand into the Northern region. Moreover, the Company plans to capitalize on the already installed capacity for sanitary napkins and increase its market share in this segment.

The liquidity profile remained adequate, despite some erosion in debt coverage levels although there was some support from an improved cash conversion cycle.

The Company's liquidity profile is deemed adequate, with a three-year average current ratio of 1.4x. The ratio remained steady at 1.14x during 9MFY24. In FY23, the days to sell inventory increased to 65 days (FY22: 62 days), while the collection period decreased to 13 days (FY22: 20 days), and the payable cycle extended to 59 days (FY22: 49 days). These changes led to a significant improvement in the cash conversion cycle (CCC), reducing it to 18 days (FY22: 33 days). This positive trend however did not continue during 9MFY24, with the CCC moving up to 24 days.

As of FY23, FFO of the Company has increased to Rs. 159.2m (FY22: Rs. 38.4m). As of 9MFY24, FFO clocked in at Rs. 116.4m. This led to improvement in FFO coverages in 9MFY24 in comparison to FY22. FFO to Total Debt stood at to 12.6% (FY23: 15.4%; FY22: 3.6%) in 9MFY24. An addition of a long-term loan during FY23 for purchase of plant and machinery resulted in FFO to Long-term Debt moving to 246.5% (FY23: 103.7%; FY22: 0%) at end 9MFY24.

Debt service coverage ratio (DSCR) recovered to a more adequate level of 1.3x (FY22:1.0x) in FY23. However, there was a decline in 9MFY24, with the DSCR decreasing to 0.9x with rise in finance cost during the period. Despite this, ABI's short-term debt coverage remained strong in 9MFY24, holding at a healthy level of 3.6x (FY23: 3.4x).

Adequate capitalization profile with no dividend disbursements

During FY23, the Company mobilized long-term financing for the first time on its balance sheet with the amount standing at Rs. 153m at end-FY23 and substantially reducing to Rs. 47m at end-Mar'24. Short-term debt registered a declining trend and stood at Rs. 877m (end-FY23: Rs. 883m; end-FY22: Rs. 1,055m) at end-Mar'24. Consequently, total debt also reduced to Rs. 924m (end-FY23: Rs. 1,036m; end-FY22 Rs. 1,055m) at end-Mar'24. During the review period, the Company retained 100% of its profits and did not distribute any dividends. The retention of profits has increased the equity base to Rs. 1.84b (end-FY23: Rs. 1.76b; end-FY22: Rs. 1.46b) at end-Mar'24. The combination of a strengthened equity base and reduced debt levels have resulted in an improvement in the gearing ratio to 0.5x (end-FY23: 0.6x; end-FY22: 0.7x), while the leverage ratio remained stable at 2.2x (end-FY23: 2.6x; end-FY22: 2.1x) as of end-Mar'24.

The Company is following debt averse policy with plan to funds any expansion going forward through internal cash generation and limiting the existing short-term borrowing at the current level of Rs. 1b.

Corporate Governance is reflective of a family run organization

The Company continues to operate as a family-run concern with the board comprising of family members and no independent director. In FY22, the Company appointed a new external auditor with a valid QCR rating. Though this change represent progress, there is room to further improve corporate governance by establishing a dedicated internal audit department, appointing independent directors and forming board committees.

Ana & Batla Industries (Pvt.) Limited — Annexure I

Financial Summary				(PKR million)
BALANCE SHEET	**FY21**	**FY22**	**FY23**	**9MFY24**
Fixed Assets	450	1,151	1,604	1,381
Stock-in-Trade	1,248	1,916	2,456	2,390
Trade Debts	719	692	537	776
Cash & Bank Balances	34	44	137	134
Total Assets	2,950	4,580	6,324	5,943
Trade and Other Payables	477	1,527	2,242	2,025
Long Term Debt	11	-	153	47
Short Term Debt	337	1,055	883	877
Total Debt	347	1,055	1,036	924
Total Liabilities	1,198	3,115	4,567	4,102
Paid Up Capital	517	517	517	517
Total Equity	1,752	1,464	1,757	1,840
INCOME STATEMENT	**FY21**	**FY22**	**FY23**	**9MFY24**
Net Sales	9,332	12,473	15,306	13,200
Gross Profit	1,399	1,115	1,483	1,251
Profit Before Tax	423	238	256	262
Profit After Tax	283	80	50	84
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**9MFY24**
Gross Margin (%)	15.0%	8.9%	9.7%	9.5%
Net Margin	3.0%	0.6%	0.3%	0.6%
Net Working Capital	1,306.0	298.5	375.8	554.7
FFO	295.3	38.4	159.2	116.4
FFO to Total Debt (%) *	85.0%	3.6%	15.4%	12.6%
FFO to Long Term Debt (%) *	2793.0%	-	103.7%	246.5%
Current Ratio (x)	2.1	1.1	1.1	1.1
Debt Servicing Coverage Ratio (x)*	3.1	1.0	1.3	0.9
Gearing (x)	0.2	0.7	0.6	0.5
Leverage (x)	0.7	2.1	2.6	2.2
(Stock in Trade + Trade Debts)/STD	5.8	2.5	3.4	3.6
ROAA (%) *	11.1%	2.1%	0.9%	1.8%
ROAE (%) *	19.2%	5.0%	3.1%	6.2%

Annualized

REGULATORY DISCLOSURES	Annexure II
Name of Rated Entity	Ana & Batla Industries (Pvt.) Limited
Sector	Personal Hygiene
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
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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Rating History

Rating Date	Medium to Long Term	Short Term	Outlook/Rating Watch	Rating Action
RATING TYPE: ENTITY				
09/12/2024	BBB	A-2	Stable	Reaffirmed
05/18/2023	BBB	A-2	Stable	Downgrade
02/07/2022	BBB+	A-2	Stable	Initial

Due Diligence Meeting Conducted

Name	Designation	Date
Faisal Shiraz Merchant	Director Finance	August 28, 2024