RATING REPORT

KSF Trizone Industries (Pvt.) Limited

REPORT DATE:
March 30, 2022

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	BBB+	A-2
Rating Outlook	Stable	
Rating Action	Initial	
Rating Date	*March 30, 2022*	

COMPANY INFORMATION	
Incorporated in 2005	**External auditors:** Sarwars Chartered Accountants
Private Limited Company	**Chairman:** Mr. Muhammad Shahzad **CEO:** Mr. Wahab Javed
Key Shareholders (with stake 5% or more):	
Mr. Muhammad Shahzad – 54.94% Mr. Muhammad Farid – 44.94%	

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

KSF Trizone Industries (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

KSF Trizone (Pvt.) Limited (KSF) is a private limited company incorporated in 2005. The business activities of the company include manufacturing and sale of polypropylene woven bags, tarpaulin sheets, Eva compound, and plastic nets, amongst others. The factory is located at 24-km Sheikhupura Road, Lahore.

Profile of Chairman

Mr. Muhammad Shahzad is the Chairman of the board and largest shareholder. He has over 28 years of industry experience and holds bachelor's degree in Commerce.

RATING RATIONALE

Company Profile

KSF Trizone (Pvt.) Limited (KSF) is involved in the manufacturing of plastic and its allied products. Business activities of KSF include manufacturing and sale of Polypropylene Woven Bags, Polyethylene Bags (liner bags), Tarpaulin, Green and Yellow Net Cloth, and EVA Plastic Compound. KSF is the largest of three group companies of KSF Group. The foundation of the group was laid by Mr. Muhammad Irshad (late) in 1994 with the establishment of polypropylene woven bags manufacturing facility under the name of KSF Plastic Industries (Pvt.) Limited which was later renamed to BNU Industries (Pvt.) Limited and is now in process of winding up. The third group company was incorporated as the Trust Pack Industries (Pvt.) Limited in 2017 with the basic business of aseptic packaging for liquid food. Trust Pack started its commercial operations in early 2019 with juices, milk, tea whiteners, flavored milks and bags & boxes being the target market.

Shareholding of the company is held by second-generation of the family, with Mr. Muhammad Shahzad and his younger brother Mr. Muhammad Farid being the largest shareholders having 54.94% and 44.94% stake in the company, respectively. Rest of the shareholding is held by two other family members, namely Mr. Wahab Javed who serves as the CEO and Hafiz Zafeer Ahmed who is also a member of the board and assists the CEO in smooth running of operations. The board of directors comprises four sponsor directors.

Production capabilities

KSF has capabilities to manufacture polypropylene woven bags which are used for packing of sugar, poultry & animal feed and agriculture produce, tarpaulin is a water-resistant cloth which is used for protection from wind, rain and sunlight (used mainly by agriculture, construction and logistics sectors), green net cloth which is used to cover buildings under construction, garden areas, hotels & restaurants and many other fields and EVA plastic compound is an elastic material which is used to manufacture slippers and shoe sole.

Utilization of each product line is dependent on customer orders and market dynamics. Capacity utilization of polypropylene woven bags and tarpaulin was recorded at 62% (FY20: 51%) and 53% (FY20: 62%), respectively, during FY21, while utilization of Eva plastic compound and green net cloth has gradually increased to 66% (FY20: 57%) and 67% (FY20: 36%), respectively, during the year. Overall electricity requirement is met through a dedicated line from the national grid. KSF has sectioned / installed load of 4.1 MW whereas the utilization is 2.4 MW. The company has also rented diesel generators of the same capacity as backup power source.

Going forward, the company plans to enhance capacities of polypropylene woven bags, tarpaulin, green net cloth, and EVA plastic compound. Project cost will mainly be funded through term finance facility for a period of 5 years with one-year grace period. Import of machinery has started and project is expected to be completed by end-2022. Increase in working capital requirements will be met through short-term borrowings of Rs. 500m.

Sales and profitability

Revenue of the company has gradually increased on a timeline basis on account of combination of higher volumes and improved selling prices. Customer base of the company comprises both private and public sector clients as well as unregistered parties. Net revenue of the company increased to Rs. 3.7b (FY20: Rs. 3.0b; FY19: Rs. 2.5b) during FY21. Customer concentration risk is considered manageable as top-10 customer accounted for around one-fourth of total revenue during FY21.

Revenue from polypropylene woven bags increased steadily as the impact of decline in volumes was more than offset by higher average selling price. Polypropylene woven bags are majorly sold to sugar mills, poultry feed manufacturers, and the government. Revenue from Tarpaulin decreased slightly on account of reduced volumes, partially offset by higher average selling price. The company registered healthy growth in Eva plastic compound due to a combination of higher volumes and average selling prices during the year. Eva plastic compound is mainly sold to shoe manufacturers. Revenue from green net cloth also increased at a healthy growth rate on account of higher volumes from unregistered parties and higher average selling price during FY21. Remaining revenue emanated from sale yellow net cloth, Eva plastic slipper, liner bags, and waste materials. For FY22, the company is expecting sustained growth in revenue with product mix remaining largely in line with the historical trends.

Cost of goods sold was recorded higher during FY21, with raw materials being the largest cost driver accounting for 83% (FY20: 83%; FY19: 89%) of total cost base. Given the fragmented industry with a large number of small and medium-sized companies with no significant market share, the company operates on low gross margins which have steadily improved to 8.5% (FY20: 7.7%; FY19: 6.1%) during FY21 mainly on account of increase in selling prices for the key products and marginal benefit of economies of scale. However, since the plastic granules prices are closely linked to international oil prices, the company's gross margins are vulnerable to increase in plastic granules prices in the absence of any corresponding increase in end-products. Increase in operating expenses was mainly led by reversal of sales tax refund claim and higher depreciation and workers' profit participation fund expenses during the year. Decline in financial charges was led by lower interest rates and some reduction in debt utilization during FY21. Due to higher revenue and improved margins, the company reported higher net profit as net margin improved to 2.8% (FY20: 1.4%; FY19: 1.6%). The company's profit margins may be impacted by recent increase in interest rates and planned mobilization of long-term and short-term loans during 2022.

Liquidity

Liquidity profile of the company is considered adequate and is supported by internal cash flows generation. Slight improvement in current ratio to 2.3x (FY20: 2.0x; FY19: 1.9x) was mainly led by reduction in trade payables and short-term borrowings. Working capacity cycle of the company is satisfactory, amounting to 75 days (FY20: 79 days; FY19: 64 days) as the management tends to match receivable days with the payable days, while inventory days were recorded at 76 days (FY20: 67 days; FY19: 92 days) during FY21. Inventory-plus-receivables to short-term borrowings ratio stood higher at 4.6x (FY20: 3.7x; FY19: 3.6x) as the company meets majority of working capital requirements through internal resources. In line with the profits, the company generated higher funds of operations (FFO) amounting to Rs. 262m (FY20: Rs. 154m; FY19: Rs. 106m) during FY21. The company's capacity to meet its financial obligations is considered adequate as reflected in the debt service coverage ratio of 1.27x (FY20: 1.62x; FY19: 3.27x) and FFO-to-total debt ratio of 0.43x (FY20: 0.22x; FY19: 0.15x) during FY21.

Capitalization

Tier-1 equity was recorded at Rs. 1.83b (FY20: Rs. 1.80b; FY19: Rs. 1.67b) as the impact of profits retention was partially offset by some repayment of sponsor loan during the year. Total liabilities declined to Rs. 959m (FY20: Rs. 1.12b; FY19: Rs. 1.22b) mainly on account of scheduled repayment of loans and reduction in trade & other payables. Outstanding balance of long-term loans declined to Rs. 374m (FY20: Rs. 426m; FY19: Rs. 421m) on account of scheduled repayments. Internal capital generation also allowed the company to reduce short-term borrowings to Rs. 232m (FY20: Rs. 271m; FY19: Rs. 264m) by end-FY21. Resultantly, gearing and debt leverage ratios improved to 0.33x (FY20: 0.39x; FY19: Rs. 0.41x) and 0.52x (FY20: 0.62x; FY19: 0.73x) respectively, by end-FY21. Given the company planning to mobilize term finance facility for capacity enhancement and short-term loan to fund post-capex working capital requirements, the gearing ratio is projected to increase to 0.82x by end-FY22, though remaining within manageable levels.

KSF Tri-Zone Industries (Pvt.) Limited **Annexure I**

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**FY19**	**FY20**	**FY21**
Non-Current Assets	1,310	1,346	1,238
Stores, Spares. And Loose Tools	16	27	30
Stock-in-Trade	599	504	705
Trade Debts	347	510	354
Loans and Advances	530	485	387
Cash & Bank Balances	92	47	77
Total Assets	**2,895**	**2,921**	**2,790**
Trade and Other Payables	508	383	333
Short Term Borrowings	264	271	232
Long-Term Borrowings ***(Inc. current matur)***	421	426	374
Other Liabilities	30	42	20
Tier-1 Equity	**1,672**	**1,799**	**1,832**
Paid-Up Capital	228	228	228
INCOME STATEMENT	**FY19**	**FY20**	**FY21**
Net Sales	2,520	2,966	3,704
Gross Profit	154	227	316
Profit Before Tax	42	42	154
Profit After Tax	41	42	103
FFO	106	154	262
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**
Gross Margin (%)	6.1	7.7	8.5
Net Margin (%)	1.6	1.4	2.8
Current Ratio (x)	1.9	2.0	2.3
Net Working Capital	749	794	870
FFO to Long-Term Debt (x)	0.25	0.36	0.70
FFO to Total Debt (x)	0.15	0.22	0.43
Debt Servicing Coverage Ratio (x)	3.27	1.62	1.27
Gearing (x)	0.41	0.39	0.33
Debt Leverage (x)	0.73	0.62	0.52
Inventory + Receivables/Short-term Borrowing	3.6	3.7	4.6

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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	**Annexure III**				
Name of Rated Entity	KSF Trizone (Pvt.) Limited				
Sector	Paper & Packing				
Type of Relationship	Solicited				
Purpose of Rating	Entity & Instrument Ratings				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: ENTITY				
	30-03-2022	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**		
	Mr. Muhammad Amjad		February 01, 2022		