RATING REPORT

KSF Trizone Industries (Pvt.) Limited

REPORT DATE:
June 12, 2023

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 Outlook	Stable		Stable	
Rating Action	Reaffirmed		Initial	
Rating Date	*June 12, 2023*		*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)
Applicable Rating Criteria: Corporates (May 2023): ***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***

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 plastic 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 a family-owned business and is the largest of three group companies under KSF Group. It is primarily involved in the manufacturing of the following products:

1. Polypropylene Woven Bags,
2. Polyethylene Bags (liner bags),
3. Tarpaulin,
4. Green and Yellow Net Cloth, and
5. EVA Plastic Compound.

The other group companies include KSF Plastic Industries (Pvt.) Limited which was involved in the production of polypropylene woven bags but was later renamed to BNU Industries (Pvt.) Limited and is now in process of winding up. The third company, Trust Pack Industries (Pvt.) Limited, was incorporated in 2017 and is engaged in the production of aseptic packaging for liquid food. Trust Pack started commercial operations in early 2019 with juices, milk, tea whiteners, flavored milks and bags & boxes being the target market.

Shareholding of the company is vested with Mr. Muhammad Shahzad and his younger brother Mr. Muhammad Farid who have shareholding of 54.94% and 44.94%, respectively. Rest of the shareholding is held 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 of four sponsor directors with no independent directors.

Although demand for key products remain stable, overall business risk profile is elevated due to external macroeconomic environment.

The overall local packaging industry is partially fragmented with several medium sized entities offering similar products and end solutions. According to management, the polypropylene woven bag and EVA plastic compound market segments consist of numerous small to medium sized competitors while the tarpaulin and green and yellow net cloth segments are dominated by few medium-sized firms. Overall demand outlook is expected to be relatively steady despite macroeconomic challenges due to inelastic demand of the **company's primary revenue driver, polypropylene woven bags,** emanating primarily from agricultural, sugar and poultry feed industries. Additionally, **tarpaulin** is primarily utilized by the agricultural and construction sectors to provide protection from wind, rain and sunlight while **EVA plastic** compounds are used to manufacture slippers and shoe soles.

The company primarily relies on imported raw material from the Middle East, namely, polypropylene, high-density polyethylene, low-density polyethylene, linear low-density polyethylene, plastic molding compound, and catalysts. About 92.1% of total raw material purchases pertained to imports in the ongoing year that exposes the company to notable **exchange rate risk** as well as **price volatility risk** given direct link to global crude oil prices. However, this risk is mitigated through the company's ability to pass on higher costs to consumers. Moreover, due to difficulties in opening LCs, total quantum of imported raw materials reduced by about 40-50% resulting in hampered production. The ongoing import restrictions combined with deteriorating macroeconomic conditions in the form of high interest rates, rising power costs and unprecedented inflation has elevated the overall business risk of the company.

Capacity utilization levels increased in FY22 with stable demand growth however the same reduced in the ongoing year due to limited raw material availability

In FY22, the company witnessed higher capacity utilization in line with increase in demand. However, during the ongoing year, capacity utilization witnessed an overall decline across all product lines due to lower quantum of imported raw material amidst ongoing import restrictions. Additionally, management expects production of EVA products to decline notably during 2HFY23 due to complete restriction on import of related raw materials. Breakdown of capacity utilization by product can be seen below:

Installed Capacity (mln)				
	Unit	**FY21**	**FY22**	**1HFY23**
P.P. Woven Bags	Kgs	8.58	8.58	8.58
Eva/Plastic Compound	Kgs	5.20	5.20	5.20
Eva/Plastic Slipper	Dozen	0.12	0.12	0.12
Yellow Net Bags	Kgs	0.62	0.62	0.62
Green Net Cloth	Kgs	1.95	1.95	1.95
Plastic Liner	Kgs	0.65	0.65	0.65
Tarpaulin	Kgs	6.76	6.76	6.76
Actual Production (mln)				
	Unit	**FY21**	**FY22**	**1HFY23**
P.P. Woven Bags	Kgs	5.30	6.12	2.62
Eva/Plastic Compound	Kgs	3.42	3.92	1.68
Eva/Plastic Slipper	Dozen	0.08	0.09	0.04
Yellow Net Bags	Kgs	0.45	0.48	0.21
Green Net Cloth	Kgs	1.31	1.50	0.64
Plastic Liner	Kgs	0.04	0.05	0.02
Tarpaulin	Kgs	3.42	4.06	1.74
Capacity Utilization (annualized %)				
	Unit	**FY21**	**FY22**	**1HFY23**
P.P. Woven Bags	Kgs	61.8%	71.3%	61.1%
Eva/Plastic Compound	Kgs	65.8%	75.4%	64.6%
Eva/Plastic Slipper	Dozen	62.8%	71.9%	61.7%
Yellow Net Bags	Kgs	72.4%	77.2%	66.2%
Green Net Cloth	Kgs	67.1%	76.9%	65.9%
Plastic Liner	Kgs	6.3%	7.2%	6.2%
Tarpaulin	Kgs	50.6%	60.0%	51.4%

The company's expansion plans across all segments have been kept on hold as per management due to import restrictions on machinery and high policy environment.

Topline growth in FY22 contributed largely by higher selling prices. However, bottom-line growth hindered by elevated financing costs and exchange losses; continuation of trend in ongoing year

During FY22, net sales registered a sizeable 51.7% growth amounting to about Rs. 5.6b (FY21: Rs. 3.7b). This was contributed largely by higher average prices which increased by about 53.9% YoY as well as growth in volumetric outputs by 11.1%. Sales mix was dominated by polypropylene bags which contributed about 36.7% (FY21: 38.9%) to the topline followed by tarpaulin at 27.7% (FY21: 25%), EVA plastic compound at 20.5% (FY21: 23.4%) and green net cloth at 10.4% (FY21: 8.4%). Moreover, total cash sales constituted about 36.1% of net sales (FY21: 46.9%). Breakdown of sales can be seen below:

	FY21			**FY22**			**1HFY23**		
	Quantity	**Avg. Price**	**Revenue**	**Quantity**	**Avg. Price**	**Revenue**	**Quantity**	**Avg. Price**	**Revenue**
P.P. Bags/Lino Bags	4.48	321.4	1,439.3	5.74	358.9	2,060.2	2.33	452.5	1,054.1
P.E. Bags	0.04	280.0	10.2	0.05	359.4	17.3	0.01	408.5	5.8
Eva/Plastic Compound	3.70	233.9	866.6	3.25	354.0	1,151.5	0.23	574.5	133.8
Green Net Cloth	1.26	246.2	309.4	1.68	346.8	583.3	0.51	437.1	222.6
Yellow Net Bags	0.38	243.3	93.5	0.46	345.1	160.0	0.22	436.6	97.0
Tarpaulin	2.85	324.6	924.6	2.78	558.2	1,554.1	1.09	492.2	534.1

Eva/Plastic Slipper	0.07	268.2	18.0	0.07	302.0	21.1	0.03	583.2	19.8
Gunji Kit	-	-	-	-	-	-	0.08	1,928.1	154.8
Waste	1.05	40.0	42.0	1.32	53.2	70.3	0.45	53.3	24.0
Total	**13.8**		**3,703.6**	**15.4**		**5,617.9**	**5.0**		**2,246.0**

Gross margins, increased to 10.1% (FY21: 8.5%) on account of inventory gains and transfer of higher costs to consumers. Consequently, net margins also witnessed an uptick to 3.4% (FY21: 2.8%) despite increase in financing costs to Rs. 118.2m (FY21: Rs. 62.3m) owing to greater short-term debt utilization and policy rate hikes as well as other expenses of Rs. 66.7m (FY21: Rs. 1.2m) due to exchange loss.

In 1HFY23, net sales amounted to Rs. 2.7b which represented a 3.7% decline on an annualized basis as volumetric output reduced owing to limited raw material availability. However, gross margins continued its upward trend to 13.1% attributable to inventory gains. Despite this improved profitability, net margins remained relatively stable at 3.5% as higher financing costs on the back of continual rise in policy rates and exchange losses offset any gains on the bottom-line. Going forward, the company's ability to uplift overall profitability performance will remain vital.

Satisfactory liquidity position despite lower cash flow coverages due to increased outflows

The company's Funds from Operations (FFO) declined to Rs. 166.7m in 1HFY23 (FY22: Rs. 403.5m, FY21: Rs. 262.4m) owing largely to higher financing costs and taxes paid. Consequently, FFO-to-long-term debt and FFO-to-total debt both decreased to 0.96x and 0.35x, respectively (FY22: 1.13x, 0.38x; FY21: 0.79x, 0.46x). Additionally, debt-service coverage ratio, although still adequate, was squeezed to 1.66x (FY22: 2.4x, FY21: 1.89x) in 1HFY23.

Total stock-in-trade increased to Rs. 1.7b at end-Dec'22 (FY22: Rs. 1.1b; FY21: Rs. 704.7m) as the management opening raw material LCs in advance. These inventory levels are sufficient to cover sales requirement till end-June'23 at current capacity utilization of about 60%. Trade debts stood at Rs. 431.1m at end-FY22 (FY21: Rs. 354.1m) with an adequate aging schedule as about 20% of receivables being due up to 30 days, 30% due between 31-60 days and 50% due between 61-365 days. Short-term borrowing coverage and current ratio are sufficient for at 4.02x (FY22: 2.15x, 4.56x) and 1.62x (FY22: 1.8x; FY21: 2.27x) at end-Dec'22. Trade and other payables rose at end-Dec'22 to Rs. 1.1b (FY22: Rs. 514.3m; FY21: Rs. 332.5m) on the account of rise in advances from customers due to import restrictions as per management. Net operating cycle also increased in the ongoing year as inventory turnover declined in line with higher stock levels but remained satisfactory relative to the overall industry.

Manageable leverage levels

Tier-1 equity was recorded at Rs. 2.1b during 1HFY23 (FY22: Rs. 2b, FY21: Rs. 1.8b) out of which about Rs. 1.3b pertained to interest-free sponsor loans to meet working capital and long-term requirements and are payable at the company's discretion. Total borrowings at end-Dec'22 stood at Rs. 945.8m (FY22: Rs. 1.1b, FY21: Rs. 564.6m) out of which 62.5% constituted short-term debt. With lower production activity in HYFY23, short-term debt declined to Rs. 591.1m (FY22: Rs. 709.4m; FY21: Rs. 232m) at end-Dec'22. Long-term borrowings amounted Rs. 354.7m (FY22: Rs. 355.7m, FY21: Rs. 332.6m) out of which Rs. 66.5m were incurred during HFY23 for capital expenditure related to solar power installation. Moreover, while gearing improved to 0.45x (FY22: 0.52x, FY21: 0.31x) at end-Dec'22 on the account of profit retention, debt leverage increased to 1.07x (FY22: 0.85x, FY21: 0.52x) as trade payables exhibited a notable jump. Going forward, maintaining rangebound leverage indicators will be an important consideration from a ratings perspective.

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	**FY19**	**FY20**	**FY21**	**FY22**	**1HFY23**
Non-Current Assets	1,310	1,346	1,238	1,273	1,343
Stores, Spares. And Loose Tools	16	27	30	17	9
Stock-in-Trade	599	504	705	1,095	1,685
Trade Debts	347	510	354	431	691
Short-term Deposits and Prepayments	530	485	387	721	579
Cash & Bank Balances	92	47	77	223	54
Total Assets	**2,895**	**2,921**	**2,790**	**3,760**	**4,362**
Trade and Other Payables	508	383	333	514	1,145
Short Term Borrowings	264	271	232	709	591
Long-Term Borrowings ***(Inc. current matur)***	429	438	333	356	355
Other Liabilities	264	271	232	709	591
Sponsor Loan ***(Equity)***	1,256	1,341	1,271	1,278	1,259
Tier-1 Equity	**1,672**	**1,799**	**1,832**	**2,031**	**2,105**
Paid-Up Capital	228	228	228	228	228
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**FY22**	**1HFY23**
Net Sales	2,520	2,966	3,704	5,618	2,706
Gross Profit	154	227	316	566	353
Profit Before Tax	42	42	154	275	127
Profit After Tax	41	42	103	192	93
FFO	106	154	262	404	167
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**FY22**	**1HFY23**
Gross Margin (%)	6.1%	7.7%	8.5%	10.1%	13.1%
Net Margin (%)	1.6%	1.4%	2.8%	3.4%	3.5%
Net Working Capital	749	794	870	1,108	1,151
FFO to Long-Term Debt (x)	0.25	0.35	0.79	1.13	0.94
FFO to Total Debt (x)	0.15	0.22	0.46	0.38	0.35
Current Ratio (x)	1.90	2.02	2.27	1.80	1.62
Debt Servicing Coverage Ratio (x)	3.27	1.62	1.89	2.40	1.66
Gearing (x)	0.41	0.39	0.31	0.52	0.45
Debt Leverage (x)	0.73	0.62	0.52	0.85	1.07
Inventory + Receivables/Short-term Borrowing (x)	3.58	3.74	4.56	2.15	4.02
ROAA (%)	1.4%	1.4%	3.6%	5.9%	4.6%
ROAE (%)	2.4%	2.4%	5.7%	9.9%	9.0%
Cash Conversion Cycle (days)	64	67	69	60	81

REGULATORY DISCLOSURES	Annexure II
Name of Rated Entity	KSF Trizone (Pvt.) Limited
Sector	Paper & Packing
Type of Relationship	Solicited
Purpose of Rating	Entity & Instrument Ratings
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
RATING TYPE: ENTITY				
12-June-23	**BBB+**	**A-2**	**Stable**	**Reaffirmed**
30-March-22	BBB+	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Muhammad Amjad	Head of Accounting	April 27, 2023
Mr. Muhammad Ismail	CFO	