RATING REPORT

Sunrise Plastic Industries (Private) Limited

REPORT DATE:
March 24, 2022

RATING AN-ALYSTS:

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RATING DETAILS		
Rating	**Initial Rating**	
Category	**Long-term**	**Short-term**
Entity	BBB	A-2
Rating Outlook	Stable	
Rating Date	March 17, 2022	
Rating Action	Initial	

COMPANY INFORMATION	
Incorporated in 1989	**External auditors:** M/s Rao & Company Chartered Accountants
Private Limited Company	**Chief Executive Officer:** Mr. Khalid Mansoor
Key Shareholders :	
Mr. Shakil Ahmed - 37%	
Mr. Mudassir Rehman - 29%	
Mrs. Sadia Mehmood - 29%	
Mr. Khalid Mansoor – 5%	

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

Sunrise Plastic Industries (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONAL
Sunrise Plastic Industries (Private) Limited (SPIL) was incorporated as a private limited company on March 17, 1989. The Company is principally engaged in manufacturing of plastic goods.	

Sunrise Plastic Industries (Private) Limited (Sunrise) is engaged in manufacturing of Plastic Bottles, PET Jars, Plastic Closures (caps), Plastic Jars and Ice-Cream tub for variety of customers operating in the Home-Care, Personal-Care and Food industry. Other related party-concerns concern include Mehran Plastics Private Limited and Blow Plast Private Limited also engaged in the manufacture and sale of plastic goods. The Company is a family owned organization, with shareholding vested with families of three brothers Mr. Khalid Mansoor, Mr. Shahid Mehmood and Mr. Shakil Ahmed , with the largest stake vested with Mr. Shakeel Ahmed (As per management, the families are in the process of streamlining stakes into separate companies.)

The production facility of the Company is located at SITE Karachi and Rahim Yar Khan, Punjab. Plastic Bottles (~69%) forms the largest proportion of total revenue of the company, followed by Plastic Closures (~16%) and Plastic Jars (~5%).

Production Capacity and Capacity Utilization

Capacity utilization has varied and remained below 50% for Plastic Closures, Plastic Jars and Ice Cream Tub. Capacity utilization of the plant has remained largely underutilized; and is expected to increase given increase in demand post increase in business activity.

Moderate Business Risk profile

Business risk profile is considered moderate given stable demand by end clients belonging to the FMCG sector (mostly Personal Care and Food & Beverages Companies). Moreover, growth outlook for these industries continues to remain sound going forward given the population growth and demographics of the country. Hence demand risk is considered low. On the supply front; the Company mostly relies on imports for major raw material requirements, which exposes them to volatility in international prices and currency risk. The major raw material used is High Density Polyethylene (HDPE); prices of which depict volatility on the back of changing oil prices and are projected to stay high in the medium term. The Company has the ability to pass on the impact of rising input cost to a certain extent with the annual re-pricing of its products, which mitigates this risk to some extent. In addition, given significant investment of time and resources in the mold development with the customer, the risk of substitutability remains low and therefore business risk is considered moderate.

New production facility will facilitate enhanced operational efficiency.

In a bid to reduce logistics cost and enhance operating efficiencies; the Company has established new production facility in Rahim Yar Khan. The expansion of the Rahim Yar Khan plant is complete, and the management foresees addition in revenue, by serving the North market more efficiently. Capex during FY21 amounted to Rs. 743.0m; funded through equity injection (Rs. 344m) and debt (Rs. 410.5m). Capex involved purchase of plant and machinery and construction and engineering costs.

Ratings incorporate healthy growth in Topline on a timeline basis, however, margins depict volatility.

Net Sales of Sunrise have grown at a healthy CAGR of 19.7% in the period from end FY18 to end-FY21; increase of which was a function of both volumetric growth and higher average selling prices. Net sales were reported at Rs. 1.3b (FY19: Rs. 1b; FY20: Rs. 1.1b) in FY21. Growing population and increasing urbanization have contributed to increase in demand of consumer products, which in turn has contributed to volumetric increase in sales on a timeline basis. Topline depicts client wise concentration; with one client constituting more than two-third of the sales; however, comfort is drawn from long term relationships with those clients. The Company has long term relationships with reputable clients such as Unilever, Loreal Pakistan (Private) Limited and Colgate-Palmolive (Pakistan) Limited. Product wise sales mix indicates the plastic bottles constitute the largest proportion of the total sales revenue followed by Plastic closures, Plastic Jars and Ice-Cream Tubs.

Gross margins, however, depict a volatile trend on a timeline basis due to fluctuating raw material prices coupled with currency exposure. . Increase in raw material prices throughout FY21 and rupee devaluation led to dampening of gross margins to 12.7% (FY20: 14.7%). However, net margins clocked in higher at 4.8% (FY20: 2.3%), due to a deferred tax credit which boosted bottom line. On a pre-tax basis, margins depict decline.

Weak liquidity profile

FFO of the company increased to Rs. 144.5m (FY19: Rs. 82.7m; FY20: 1.1b) in FY21, improving FFO to total debt to 17%. While debt service coverage is comfortable at 4.2x, however, with the onset of new long term loans in FY21, on current cash flows adjusted debt servicing falls to 1.05x.

Overall, liquidity profile remains under pressure with current ratio consistently below 1x on a timeline basis. In addition, coverage of short term borrowing is less than adequate in relation to inventory and receivables. Working capital cycle reflects improvement reducing to 27 days from 67 days in FY20, however, the improvement in inventory turnover is reflective of lower stock levels on account of supply related disruptions.

Sound Capitalization indicators

The Company has mobilized long term financing facility of Rs. 404 in FY21 to fund capex while historically the debt profile of the Company has remained largely short-term in nature. In FY21, about Rs. 343.5m was converted into equity loans, boosting equity base of the Company to Rs. 839m (FY20: Rs. 431m). The remaining short term loans of Rs 458m are primarily from directors and associated concerns and are interest free. These are interest free loans acquired from directors and family members of the directors for working capital requirements and classified as loan repayable on demand. Capitalization profile as a result improved. Gearing and leverage ratios of the company decreased to 1.0x (FY19: 1.7x; FY20: 1.8x) and 1.5x (FY19: 2.4x; FY20: 2.2x), respectively in FY21. Meanwhile, adjusted gearing (excluding related party loans) stands lower at 0.34x (FY20: 0.02x). As per management, these loans are planned to be converted to equity in the ongoing year which should support the capitalization profile of the Company.

Governance and control framework depicts room for improvement

Given the private limited status of the company, the Board of Directors comprises family members, including the CEO, who are part of the shareholders family. Enhancing the governance framework and internal controls may bring operational efficiencies and strengthen organizational structure. External control framework also has room for improvement. In addition, it is noted that auditors have expressed qualified opinion based on the unfunded gratuity scheme of the Company.

Sunrise Plastic Industries (Private) Limited Appendix I

Financial Summary (Rs. in m)				
Balance Sheet	**FY18**	**FY19**	**FY20**	**FY21**
PPE	668.7	707.1	806.8	1,396.5
Stock-in-Trade	215.9	244.2	63.7	130.5
Trade Debts	152.7	284.0	219.8	280.2
Cash and Bank Balances	29.8	7.1	26.3	49.4
Total Assets	1,172.1	1,387.9	1,394.0	2,103.5
Trade and other Payables	133.3	270.0	109.3	349.9
Short Term Debt	641.4	684.3	786.3	458.6
Long Term Debt	-	-	6.3	410.5
Total Debt	641.4	684.3	792.6	869.1
Total Liabilities	774.7	982.3	962.4	1,263.9
Paid Up Capital	1.0	1.0	1.0	1.0
Equity	397.4	405.7	431.6	839.5
Income Statement				
Revenue	780.1	1,027.8	1,141.5	1,339.0
Gross Profit	122.6	86.5	167.6	170.6
Profit Before Tax	110.5	22.2	60.7	58.9
Profit After Tax	155.0	8.3	25.9	64.5
Ratio Analysis				
Gross Margin	15.7%	8.4%	14.7%	12.7%
Net Margin	19.9%	0.8%	2.3%	4.8%
FFO	166.8	82.7	85.8	144.5
FFO To Total Debt (%)	26.0%	12.1%	10.8%	16.6%
Debt Servicing Coverage Ratio (x)	11.93	3.56	2.58	4.21
Gearing (x)	1.61	1.69	1.84	1.04
Adjusted Gearing (x)	0.00	0.00	0.02	0.34
Leverage (x)	1.95	2.42	2.23	1.51
Current Ratio (x)	0.65	0.71	0.64	0.74
STD Coverage (%)	57.5%	77.2%	36.1%	89.5%
ROA (%)	13.2%	0.6%	1.9%	3.1%
ROE (%)	39.0%	2.0%	6.0%	7.7%

ISSUE/ISSUER RATING SCALE &DEFINITIONS Appendix 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

Appendix III

Name of Rated Entity	Sunrise Plastic Industries(Private) Limited
Sector	Plastic Packaging
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
17-Mar-2022	BBB	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Imran Akram Shaikh	GM Finance & Taxation	07-Feb-2022