RATING REPORT

Blow Plast (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 19xx	**External auditors:** M/s Rao & Company Chartered Accountants
Private Limited Company	**Chief Executive Officer:** Mr. Shakil Ahmed
Key Shareholders :	
Mr. Khalid Mansoor – 34.8%	
Mr. Shahid Mehmood – 29.8%	
Mr. Shakil Ahmed - 25.3%	
Mr. Talha Khalid – 5%	
Mr. Rehan Mahmood – 5%	

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

Blow Plast (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
Blow Plast (Private) Limited (BPPL) was incorporated as a private limited company on March 28, 1991. The Company is principally engaged in manufacturing of plastic goods.	Blow Plast (Private) Limited (BPL) is engaged in manufacturing of Polycarbonate Bottles (Bulk Water bottles), PET Jars, Plastic Closures, Plastic Crate and Plastic Toys for variety of customers operating in the bottling, beverages and food and FMCG industry. Other related party concerns include Mehran Plastic Industries (Pvt) Limited and Sunrise Industries' (Pvt) Limited, both operating in similar industry 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. Khalid Mansoor. (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. Product portfolio includes PET Jars (~40%) which forms the largest proportion of total revenue of the company, followed by Plastic Shell (~24%), Toys (20%) and Bulk Water Bottles (~15%). Leading customers include Pakistan Beverages (13.5%), Shamim & Co. (8.3%), Shangrila Foods (5.5%) and Lotte Akhtar Beverages (4.4%). Top 10 customers account for 40% of sales.

Production Capacity and Capacity Utilization

Capacity utilization has varied over the years and exhibited downward trend in FY20 and FY21 owing to Covid-19 slowdown and decline in business activities during that period, leading to average capacity utilization of around ~60%.

Moderate Business Risk

BPL primarily caters to bottling and consumer goods industries, mainly water, beverages, food and pharmaceutical sectors; these industries have experienced relatively stable demand during various economic cycles historically. 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. However, strong correlation of price of primary raw material namely High Density Polyethylene (HDPE) and PET resin with crude oil, exposes the business to volatility in international oil prices. Fragmentation in the industry also increases competitive pressures. Business risk is therefore considered moderate.

Topline of the Company has grown at a steady space on a timeline basis while increase in raw material costs and rupee depreciation have impacted gross margins and subsequently bottom-line.

Net Sales of BPL have grown at a modest CAGR of 10.4% in the period from end FY18 to end-FY21. Net sales were reported at Rs. 970m (FY18: Rs. 722.1m; FY19: Rs. 840.7m; FY20: Rs. 787.7m) in FY21. Sales remained subdued in FY20 on account of COVID related disruption, however the same has picked in FY21. Product mix has been dominated by PET jars however recently Company has been shifting their focus on toy production on the back of strong demand Client concentration is considered moderate and with the toy segment picking up the same is expected to improve further.

On a timeline basis, gross margins of the business have remained relatively low, further declining in FY21 due to increase in prices of raw materials and rupee devaluation. The Company realized other income from disposal of property, plant and equipment in FY21 which supported the overall profitability of the Company in FY21. Net margins have remained very thin on a timeline basis, however, management remains committed to increasing sales in the toy segment going forward along with higher consumer demand on account of growing urbanization is expected to bode well for the Company. Nevertheless, volatility in raw material prices on the back of oil price movement will remain key to company's profitability.

Liquidity profile remains adequate albeit expected to remain under pressure

FFO of the company amounted to Rs. 98m (FY19: Rs. 96m; FY20: 98m) in FY21. Despite lower profitability, FFO depicted stability on account of sizable quantum of non-cash charges. Adjusting current assets for interest free sponsors loans (taken *as equity)*, current ratio has remained close to 1x on a timeline basis. Inventory and receivables as a percentage of short term borrowings stood lower, however a positive cash conversion cycle provides support to the liquidity profile. We expect, liquidity profile to remain under pressure going forward on account of inflationary environment and higher raw material prices.

Conservative capital structure provides comfort

Debt profile of the Company comprises of short term borrowings only of Rs. 429.3m (FY19: Rs. 780.3m; FY20: Rs. 853.5m) in FY21, all from related parties or sponsor directors. For rating purposes, directors loan of Rs. 148m (FY19: Rs. 535m; FY20: Rs. 562m) in FY21 has been classified as equity being interest free and repayable at the discretion of the Company. Gearing and leverage ratios of the company decreased to 0.32x (FY20: 0.37x; FY19: 0.33x) and 0.71x (FY20: 0.64x; FY19: 0.69x), respectively in FY21. Adjusting for related party loans, zero gearing structure provides comfort, although equity base of Rs. 876m in relation to the business risk remains small.

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. Absence of formal governance framework is a risk. Enhancing the governance framework and internal controls including creation of an internal audit function, may bring operational efficiencies and strengthen organizational structure.

Blow Plast (Private) Limited **Appendix I**

FINANCIAL SUMMARY	*(amounts in PKR millions)*			
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**
Property, plant and equipment	456.6	699.0	703.5	860.1
Stock-in-Trade	249.9	107.7	95.5	84.6
Trade Debts	78.3	47.7	38.3	90.0
Cash & Bank Balances	23.7	13.2	60.3	62.6
Total Assets	1,154.6	1,267.8	1,285.8	1,500.9
Trade and Other Payables	298.8	245.2	170.5	307.7
Long Term Debt	-	-	-	-
Short Term Debt*	415.2	245.4	291.4	281.1
Paid Up Capital	5.0	5.0	5.0	5.0
Directors Loan-under equity	226.8	534.9	562.1	637.7
Total Equity (including Directors loans)	440.4	750.0	783.6	876.7
INCOME STATEMENT				
Net Sales	722.1	840.7	787.7	970.3
Gross Profit	36.2	55.2	42.9	14.5
Profit Before Tax	43.7	19.7	17.5	21.9
Profit After Tax	63.2	1.5	6.3	17.6
RATIO ANALYSIS				
Gross Margin (%)	5.0%	6.6%	5.4%	1.5%
Net Margin (%)	8.8%	0.2%	0.8%	1.8%
FFO	66.6	98.5	96.0	98.1
FFO to Total Debt (%)	16.0%	40.1%	32.9%	34.9%
ROAA (%)	5.47%	0.12%	0.50%	1.26%
ROAE (%)	14.35%	0.25%	0.83%	2.11%
Gearing (x)	0.94	0.33	0.37	0.32
Leverage (x)	1.62	0.69	0.64	0.71
Current Ratio (x)	1.0	1.2	1.2	1.1
(Trade Debts + Stock in Trade)/STB	79.1%	63.3%	45.9%	62.1%

**excluding interest free loan at the discretion of the Company*

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	Blow Plast (Private) Limited
Sector	Plastic Packaging
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	
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	

Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
08-March-22	BBB	A-2	Stable	Initial

Due Diligence Meetings Conducted:

Name	Designation	Date
Mr. Imran Akram Shaikh	GM Finance & Taxation	31-Jan-2022