RATING REPORT

I J Plastic Industries (Pvt.) Limited

REPORT DATE:
January 10, 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	*January 10, 2022*	

COMPANY INFORMATION	
Incorporated in 2007	**External auditors:** Kreston Hyder Bhimji & Co. Chartered Accountants.
Private Limited Company	**CEO/Chairman of the Board:** Syed Junaid Ali
Key Shareholders (with stake 5% or more):	
Syed Junaid Ali – 45%	
Syed Muhammad Jalil – 23%	
Syed Muhammad Awais Shah – 23%	
Syed Shahzad Jamshed Ali – 10%	

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

IJ Plastic Industries (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

IJ Plastic Industries (Pvt.) Limited was incorporated as a private limited company under the repealed Companies Ordinance, 1984 (Now companies Act, 2017). The company is primarily involved in manufacturing of plastic based packaging products. The registered office of the company is situated at 132-C, Small Industrial Estate, Sargodha Road, Faisalabad.

Financial Snapshot

Tier-1 Equity: end-FY21: Rs. 166.4m; end-FY20: Rs. 86.5m; end-FY19: Rs. 83.8m.

Assets: end-FY21: Rs. 396.3m; end-FY20: Rs. 288.5m; end-FY19: Rs. 229.2m.

Profit After Tax: FY21: Rs. 54.1m; FY20: Rs. 4.6m; FY19: Rs. (18.8)m.

RATING RATIONALE

IJ Plastic Industries (Pvt.) (IJPIL) Limited is involved in manufacturing of a diverse product mix of plastic packaging products. The company operates in packaging industry with growth potential and intense competition due to presence of a large number of unorganized players and dominance of some large corporates. Majority sales are to recurring institutional clients. Topline almost doubled in FY21 on the back of higher volumetric sales and increase in product prices. Profit margins have improved in the last two outgoing years on account of increase in prices and costs rationalization. Liquidity is considered adequate in terms of cash flow coverages. Capitalization indicators are supported by profit retention and interest free loan from sponsors, which is payable at the discretion of the company. IJPIL has installed a mesh bag plant in the ongoing year while the management intends to install a new five-layered stretch film plant and corrugation plant, which is expected to become operational in 1QFY23. Enhanced operations amidst industrial expansion bode well for the company. The maintenance of capitalization indicators at comfortable level, continued sponsors support and projected growth in sales would be key rating sensitivities, going forward.

Key Rating Drivers

Company's Overview: IJPIL has two manufacturing units situated in Faisalabad at Special Economic Zone and Small Industrial Estate, Sahianwala. The company is a family-owned business, initially started as a partnership firm in 1980s and was later incorporated as Private Limited company in 2007. The company is involved in manufacturing of polyethylene shrink films, PVC shrink films, polyethylene lamination films for dairy packaging and other food items like sugar, ketchup, sauces etc., Polypropylene (PP) buckets, agro products including silo tube bags, tunnel farming sheets etc., polybags and garbage bags. As per management, IJPIL is a major player in PVC shrink films with around 30% of market share in Punjab. Meanwhile, the management is making efforts to expand its operations by introducing new product lines.

The packaging industry of Pakistan consists of several small private players and a few major listed companies. The packaging industry derives its demand from various other industries. FMCG sector is a major driver of packaging, which demand has historically seen high growth due to increasing urbanization and spur in online shopping.

Increase in capacity utilization while the company is also in the process of adding new product lines to expand operations: The company has an installed capacity of 6.9m Kgs (FY20: 6.9m Kgs; FY19: 5.4m Kgs). Capacity utilization increased to 59% (FY20: 35%; FY19: 29%) in the outgoing year. Capacity utilization has remained at low levels previously mainly due to lower demand. The production capacity increased in FY20 with installation of PP bucket machinery which started commercial operations in Jul'20. Property, plant and equipment stood higher at Rs. 93.1m (FY20: Rs. 89.5m; FY19: Rs. 59.0m) at end-FY21, additions included civil work on building and some machinery related to mesh bag plant. Entire machinery related to mesh bag plant arrived in July'21 and became operational in the following month. Mesh bags clients of IJPIL are predominant in Northern areas of the country for packing of fruits and vegetables.

In addition, the management plans to install five-layered stretch plant and corrugation plant in the ongoing year. Presently, the company is manufacturing three-layered stretch films and new plant would cater to the demand of five-layered stretch films in the market; expected cost on this project is around Rs. 100m. The corrugation plant is expected to cost around Rs. 80m. Both of these projects would be financed through debt and equity mix of 70:30. The company is also in process of building a factory at a special economic zone in Faisalabad to accommodate for the aforementioned new production setups. The factory is expected to be completely built within a period of six months. The management intends to place order for both of these plants in Feb'22, after approval of financing arrangements from banks. The machinery is expected to be installed by end-Aug'22.

Growth in topline along with improvement in profit margins: Net sales almost doubled to Rs. 708.5m (FY20: Rs. 358.8m; FY19: Rs. 358.0m) in FY21. The growth was driven by increase in quantity sold to 2.60m Kgs (FY20: 1.46m Kgs; FY19: 1.58m Kgs), coupled with higher average gross selling prices to Rs. 320 per Kg (FY20: Rs. 290 per Kg; FY19: Rs. 265 per Kg) in FY21. Topline remained stagnant in FY20 owing to closure of plant during lockdown imposed by Government and some supply chain disruptions amid covid-19. Some of the major recurring customers of the company included Coca Cola Beverages Pakistan Ltd., Pakistan Aluminum Beverage Cans Ltd. Al-Hilal Industries (Pvt.) Ltd. Tetra Pak Pakistan Limited, Fauji Foods Ltd., Lotte Akhtar Beverages (Pvt.) Limited, Nestle Pakistan Ltd., ICI Pakistan Ltd. and Associated Industries Ltd. Customer concentration, albeit remained high in terms of sales to top ten customers (FY21: 62%; FY20: 73%; FY19: 68%), improved in the outgoing year due to inclusion of PP bucket clients. The company has secured orders from various edible oil companies for PP buckets. Proportion of top ten clients with their respective contribution to net sales in FY21 is presented below:

	Customers Name	% of Net Sales
1	Coca Cola Beverages Pakistan Ltd.	9.0%
2	Pakistan Aluminum Beverages Cans Ltd.	7.9%
3	Hoor Oil Industries	7.6%
4	Momin Ghee (Pvt.) Ltd.	5.9%
5	Al-Hilal Industries (Pvt.) Ltd.	5.8%
6	Tetra Pak Pakistan Ltd.	5.7%
7	Punjab Beverages Company (Pvt.)	5.3%
8	Fauji Foods Ltd.	5.2%
9	Mavra Ghee Industries (Pvt.) Ltd.	5.0%
10	Nestle Pakistan Ltd.	5.0%

The company has generated gross profit of Rs. 106.4m (FY20: Rs. 47.5m; FY19: Rs. 3.6m) in FY21 with increase in gross margins to 15.0% (FY20: 13.2%; FY19: 1.0%) on account on increase in scale of operations and average selling prices of products. Meanwhile, very thin gross margins in FY19 were mainly due to higher average cost of raw materials, which the company could not fully pass on. The price of raw material used in plastic products is largely correlated to international oil prices. Around 90% of the raw material used is imported from various suppliers; local materials include dyes and chemical additives. The cost of sales increased to Rs. 602.1m (FY20: Rs. 311.3m; FY19: Rs. 354.3m) in line with scale of operations. The raw material consumed amounted to Rs. 528.9m (FY20: 283.6m; FY19: Rs. 327.6m) and accounted for 88% of the cost of goods manufactured (FY20: 89%; FY19: 92%) in FY21. Fuel and power cost and other cost components were largely rationalized with operations. Salaries and wages increased due to higher average headcount and inflationary adjustments. Distribution cost has also increased in line with higher sales. Administrative expenses increased to Rs. 18.2m (FY20: 11.8m; FY19: Rs. 8.6m) mainly on account of higher salaries and electricity cost. Finance cost was recorded lower at Rs. 16.8m (FY20: Rs. 21.2m; FY19: Rs. 11.2m) due to lower average markup rates during FY21. Accounting for taxation, the company generated Rs. 54.1m (FY20: Rs. 4.6m; FY19: Rs. (18.8)m) in net profits. Net margin increased sizably to 7.6% (FY20: 1.3%; FY19: N/A) on account of higher gross profit and largely rationalized operating expenses.

The company recorded net sales of Rs. 480m in first five months of the ongoing year, out of which around Rs. 80m constituted sales from mesh bags. The management projects the net revenues of around Rs. 1.4b in FY22. Going forward, growth in topline would be largely supported by new product lines. Five-layered stretch plant is expected to achieve full capacity in 2-3 years, yielding incremental revenue of Rs. 1.25b. In the first year of production, an incremental revenue from the same is projected at around Rs. 400m. Revenue from corrugation plant is estimated around Rs. 1b while operating at full capacity.

Adequate liquidity profile: Liquidity position of the company has improved notably in the ongoing year on the back of higher cash flows. Funds from operations increased to Rs. 61.9m (FY20: Rs. 13.1m; FY19: Rs. (22.5)m) in FY21. Resultantly, FFO to total debt and FFO to long-term debt have increased to 0.44x (FY20: 0.10; FY19: N/A) and 2.74x (FY20: 0.98x; FY19: N/A), respectively. Debt service coverage increased to 3.56x (FY20: 1.0x; FY19: N/A) owing to higher cash flows and minimal long-term repayments.

Current asset base increased to Rs. 301.1m (FY20: Rs. 196.8m; FY19: Rs. 166.3m) by end-FY21 mainly due to higher inventories and trade debts. Stock in trade stood higher at Rs. 131.1m (FY20: Rs. 95.8m; FY19: Rs. 60.4m) on account of higher raw material inventory (FY21: Rs. 108.2m; FY20: Rs. 72.9m; FY19: Rs. 43.8m). Trade debts increased to Rs. 124.3m (FY20: Rs. 60.6m; FY19: Rs. 68.7m) by end-FY21. Aging profile is considered satisfactory given 83% of trade receivables were due for less than 60 days, 14% were outstanding for less than 90 days while 3% were due above 90 days. The company provides credit period of 15 to 90 days to its customers. Tax refunds due from Government amounted to Rs. 22.5m (FY20: Rs. 24.3m; FY19: Rs. 27.8m). Cash and bank balances of Rs. 16.8m (FY20: Rs. 13.2m; FY19: Rs. 6.6m) were held by the company. Current ratio increased to Rs. 1.42x (FY20: 1.02x; FY19: 1.19x). Net operating cycle remained somewhat manageable at 91 days (FY20: 92 days; FY19: 106 days). In addition, coverage of short-term borrowings via stock in trade and trade receivables remained adequate at 2.19x (FY20: 1.39x; FY19: 1.24x) at end-FY21.

Decrease in leverage indicators in the outgoing year; equity base supported by profit retention and interest free loan from sponsors: The core equity increased to Rs. 166.4m (FY20: Rs. 86.5m; FY19: Rs. 83.8m) on account of profit retention and equity injection. The sponsors have also supported equity on timeline basis by providing interest free loan which increased to Rs. 63.1m (FY20: Rs. 37.3m; FY19: Rs. 39.2m) in FY21, the loan is payable at discretion of the company.

The debt profile largely constituted short-term borrowings, which amounted to Rs. 116.8m (FY20: Rs. 112.3m; FY19: Rs. 103.7m). Long-term loan including current portion stood at Rs. 22.5m (FY20: Rs. 13.3m; FY19: Rs. 12.3m). During FY21, the company has obtained a facility of Rs. 65m for import of mesh bag plant, under SBP TERF facility, out of which Rs. 9.4m were disbursed before June 30, 2021 against some components of machinery. The remaining amount was disbursed in Jul'21 upon receiving full shipment; total expenditure on this plant including installation charges and some local components amounted to Rs. 75m. Trade and Other payables increased to Rs. 86.0m (FY20: Rs. 70.2m; FY19: Rs. 25.1m) by end-FY21. Debt leverage and gearing decreased to 1.38x (FY20: 2.34x; FY19: 1.74x) and 0.84x (FY20: 1.45x; FY19: 1.38x) on the back of higher equity base. Leverage indicators may increase due to mobilization of additional long-term borrowings for the planned capex. The ratings would remain dependent on maintenance of capitalization indicators at comfortable level, going forward.

BALANCE SHEET	Jun 30, 2019	Jun 30, 2020	June 30, 2021*
Property and Equipment	59.0	89.5	93.1
Inventory	60.4	95.8	131.1
Trade Debts	68.7	60.6	124.3
Tax Refunds Due from Government	27.8	24.3	22.5
Cash & Bank Balances	6.6	13.2	16.8
Other Assets	6.7	5.1	8.5
Total Assets	**229.2**	**288.5**	**396.3**
Trade and Other Payables	25.1	70.2	86.0
Short Term Borrowings	103.7	112.3	116.8
Long-Term Borrowings (incl. current maturity)	12.3	13.3	22.5
Total Interest-Bearing Debt	**116.0**	**125.6**	**139.4**
Other Liabilities	4.4	6.2	4.5
Total Liabilities	**145.4**	**202.0**	**229.9**
Paid Up Capital	10	10	10
Tier-1/ Total Equity	83.8	86.5	166.4

INCOME STATEMENT	Jun 30, 2019	Jun 30, 2020	Jun 30, 2021*
Net Sales	358.0	358.8	708.5
Gross Profit	3.6	47.5	106.4
Operating Profit	(7.0)	34.2	84.7
Finance Cost	11.2	21.2	16.8
Profit Before Tax	(18.2)	12.1	66.4
Profit After Tax	(18.8)	4.6	54.1

RATIO ANALYSIS	Jun 30, 2019	Jun 30, 2020	Jun 30, 2021*
Gross Margin (%)	1.0	13.2	15.0
Net Margins	-	1.3	7.6
Current Ratio	1.19	1.02	1.42
Net Working Capital	26.8	3.9	89.8
Funds from Operations (FFO)	(22.5)	13.1	61.9
FFO to Total Debt (x)	-	0.10	0.44
FFO to Long Term Debt (x)	-	0.98	2.74
Debt Leverage	1.74	2.34	1.38
Gearing	1.38	1.45	0.84
Debt Servicing Coverage Ratio (x)	-	1.00	3.56
ROAA (%)	-	1.8	15.8
ROAE (%)	-	5.4	42.8
(Stock in Trade+ Trade Debt) to Short-Term Borrowing (x)	1.24	1.39	2.19

**Unaudited*

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	IJ Plastic Industries (Pvt.) Limited
Sector	Paper and Packaging
Type of Relationship	Solicited
Purpose of Rating	Entity 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 Meeting/s Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
10-Jan-21	BBB-	A-2	Stable	Initial

Due Diligence Meeting/s Conducted

Name	Designation	Date
Mr. Shuja Athar	CFO	December 28, 2021