



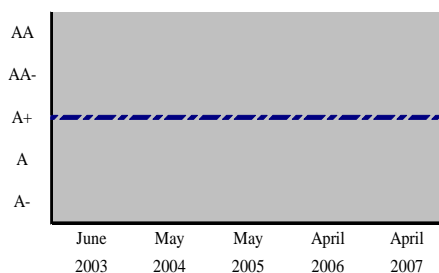
TRI-PACK FILMS LIMITED (TPFL)

RATINGS (APRIL 2007)

TRI-PACK FILMS LIMITED

	NEW	PREVIOUS
ENTITY		
Long Term	A+	A+
Short Term	A1	A1

L.T. RATING HISTORY



FINANCIAL DATA

PKR (mln)

	31-Dec-06	1-Dec-05
Total Assets	2,812.2	2,757.9
Equity	1,082.0	989.1
Profit after Tax	167.8	83.9
ROA (%)	5.97	3.04
ROE (%)	15.52	8.49
Total Debt/Equity (%)	89.83	129.43

ANALYSTS

Aisha Yasin
+92 42 586 9504
aishayasin@pacra.com

Shahzad Saleem
+92 42 586 9504
shahzad@pacra.com

ASSESSMENT

- TPFL's ratings reflect its low business risk emanating from the company's market leadership position, supported by good product and service quality. At the same time, the company continues to generate robust cash flows on the back of improving profitability, which, in turn, has helped in reducing the financial risk. The ratings recognize the management's well-conceived business strategy to withstand competitive pressure, while improving core performance.
- The domestic demand for BOPP film has continued to grow owing to a shift towards flexible packaging. In the backdrop of growing demand and limited production by the other player, TPFL has managed to fully utilize its recently enhanced production capacity. Additionally, TPFL enjoys superior brand recognition and has maintained its image of service quality, ensuring repetitive demand for its products. TPFL further increased its market share during the year and now constitutes almost 80%.
- The company's performance showed considerable improvement in 2006 on the back of 27% turnover growth and increased output prices. Moreover, oil prices after touching peak reduced substantially during the second half of the year reducing the raw material cost while output prices remained relatively stable. This, in addition to improved production efficiency and increasing proportion of value added products in the sale mix, resulted in higher gross margin. Moreover, with higher domestic demand during 2006, the company entered into export market on selective basis. Given limited increase in operating expenditure, the benefit of improved turnover and margins was fully translated in the bottom line as reflected in almost doubling the ROE.
- Going forward, the company has formulated a pragmatic expansion plan, which would help the company in aligning additional capacity with growing demand over the medium term. This plan includes immediate capacity expansion by around 15-20% through de bottlenecking. This would be followed by an addition of CPP plant (8,000-10,000 tonnes p.a.). Over the medium-term, the management is also planning a major addition in BOPP capacity (30,000-35,000 tonnes p.a.). Nevertheless, the management would continue with its strategy of changing production mix in favor of value added products. The enhanced capacity would enable TPFL to enter into regional markets.
- The company's customer base is concentrated with around 34% (CY05: 35%) of sales derived from ten clients. Most of these customers are converters, who provide packaging products to its customers. The product end users, therefore, represent a large and diversified base.
- The company did not acquire any new debt during the year, and the gradual repayment of the existing debt has resulted in considerable improvement in the financial structure, which is stronger than most corporate in the manufacturing sector.

KEY RATING DRIVERS

- The ratings are dependent on the company's success in preserving its margins, while maintaining volume growth, in an increasingly commoditizing industry. At the same time, the ratings remain constrained by limited diversity in the company's operations.

TRI-PACK FILMS LIMITED (TPFL)

PROFILE

- Tri-Pack Films Limited (TPFL), a joint venture between Packages Limited (PL) and Mitsubishi Corporation of Japan, was incorporated in 1993 for the manufacturing of Biaxially Oriented Polypropylene (BOPP) Film. TPFL started its commercial production in 1995 with a rated capacity of 5,400 tonnes per annum (t.p.a), and, with recent expansion completed in 2006, it has installed capacity of 26,800 tonnes annually. The company is listed on all stock exchanges in Pakistan with its head office in Karachi. The company maintains two regional offices: one each in Karachi and Lahore, for better geographical coverage of its sales. Packages Limited (PL) holds around 33% shares; Mitsubishi Corporation of Japan holds 25% shares, and financial institutions and individuals hold the rest of 42% shares.
- The seven-member Board of Directors of TPFL comprises five nominees of PL and the remaining directors represent Mitsubishi Corporation. The chief executive officer has over twenty years of work experience with the Packages Group, within Pakistan and abroad.

TPFL'S OPERATIONS:

- TPFL is the largest producer of Biaxially Oriented Polypropylene (BOPP) with state –of-the-art technology. BOPP film is a packaging material widely used in the consumer goods industry. It is used extensively for printed packaging and over wrapping purposes. TPFL produces five different grades of film: Plain, Composite Pearlized, Cigarette and Metallized. The major volume of sales is currently contributed by composite and plain grades. The plant of Tri-Pack Films is based on the “Stenter Process”, which is considered superior in comparison to the alternative, “bubble process”. Each and every process is automated. The production process comprises four stages: polymer handling, film manufacturing, finishing and reclaiming. The continuous monitoring mechanism is in process for keeping quality up to international standard with minimal wastage of resources. Also, TPFL's new line of production has the enhanced feature of cost effectiveness, which has further improved its operational efficiency. The continual efforts on part of TPFL's management have established the company as a quality producer. The company is ISO 9001 and ISO 14001 certified, which re-establish its quality image.
- TPFL is gradually replacing lower-end products with value added products through metallizer unit and plasma treater. In addition, other films (polyester and CPP film) and metallized paper are also provided to its customers on demand. All these efforts along with the company's higher production capacity would enable it to maintain its dominant market position.

BOPP FILM INDUSTRY

- BOPP film in recent years has become the high growth product in the world market for its usefulness as a barrier against moisture. The demand has grown steadily on the back of increased demand in emerging markets. The continuing shift from more traditional packaging materials to flexible packaging remains the principal growth driver. The BOPP demand in Asia, currently growing at an average annual rate of around 8%, is likely to normalize at 5% p.a. by 2013. In order to tap the growing demand, the industry has witnessed a substantial increase in production capacity. However, this has led to currently oversupply situation, putting pressure on margins particularly for basic BOPP products.
- The present demand of the product in Pakistan is likely to sustain at around 15% p.a. owing to the increasing trend for flexible packaging. The production of BOPP in the country started back in early nineties. Currently, there are only two manufacturers of BOPP film with total installed capacity of 48,800 tonnes (TPFL: 26,800; Macpac: 22,000) as against current demand of around 31,000. However, due to problems being faced by Macpac, it is operating considerably below its capacity. This has provided TPFL the opportunity to utilize its full capacity.
- Although the prices of main raw material of BOPP film (Polypropylene resin) are dependent upon the crude oil prices, which remain vulnerable to sharp volatility, the international prices of BOPP are largely a part of the changing supply and demand situation in the international market. As the crude oil prices remained relatively low during the second half of 2006, margins showed an improvement. Going forward, as the supply/demand situation is likely to be tightened gradually – the percentage increase in demand is more than the percentage increase in capacity – producers are expected to show higher capacity utilization leading to improved profitability. It is also expected that raw material prices constituting above 75% of manufacturing cost are not likely to increase substantially.

LIQUIDITY & CAPITAL STRUCTURE

- The company's cash generation from operations remained robust coupled with improved sales growth and margins. Also net interest cover improved due to higher profitability in spite of increased financial charges. The company has largely sustained its current ratio above unity. The unutilized credit lines (PKR; 935mln) also ensure availability of liquidity to the company in any contingency.

