



The Pakistan Credit Rating Agency Limited

Rating Report

MACPAC Films Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
08-Oct-2019	BBB-	A3	Stable	Downgrade	-
08-Apr-2019	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned ratings reflect Macpac Films relatively stable position in the packaging industry and strong acumen of the sponsors. Macpac operates within the Biaxially Oriented Polypropylene (BOPP) and Cast Polypropylene (CPP) segments of the industry. The revenues of the Company have shown growth (~14% higher on YoY basis) since the new CPP line became operational. The Company's margins have declined - both at gross and operating levels - resulting in losses for FY19. The Company faces competition and rising raw material costs due to PKR devaluation but could not pass on the same immediately to customers. Improvement in margins, through better prices or cost efficiencies, is required to ensure future profitability. The Company has increased its leveraging during FY19, though it remains moderate, with certain repayments coming up. The financial profile of the Company is under duress due to stressed cash flows and weak coverages. The equity base has reduced due to losses.

The ratings are dependent on improving margins and profitability of the Company significantly. Meanwhile, strengthening equity and coverages is imperative. Sustained losses will have negative impact on the ratings.

Disclosure

Name of Rated Entity	MACPAC Films Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Criteria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study Packaging(Oct-18)
Rating Analysts	Ateeb Riaz ateeb.riaz@pacra.com +92-42-35869504

Profile

Legal Structure Macpac Films Ltd. (Macpac Films) was incorporated as a Public Limited Company in 1993. The Company is listed on the Pakistan Stock Exchange.

Background Macpac Films started commercial production of Biaxially Oriented Polypropylene (BOPP) films in 1995 and began commercial production of Cast Polypropylene (CPP) films in 2003. In 2007, the Company had to halt the CPP films production due to a fire incident. In 2015, Metalizer plant for BOPP films became commercially operational. In 2017, the Company re-installed its CPP films manufacturing line, which became commercially operational in Feb-19.

Operations Macpac Films produces multiple grades of BOPP films variants at an installed capacity of 15,000 MT per annum. The Company's diverse portfolio also includes multi layered CPP films variants, manufactured at an installed capacity of 6,996 MT per annum. These films have applications in confectionery, biscuits, cookies, snacks, tea and baked products packaging. To minimize wastage, the Company opted to install Bruckner and SML manufacturing plants. Macpac Films production facility is located at Port Qasim, Karachi and the registered office is situated at Tipu Sultan Road, Karachi.

Ownership

Ownership Structure Macpac Films is primarily owned by Elahi family (51%), with major ownership residing with Mr. Maqbool Elahi (47%). Munshi family owns 15% stake in the Company. Employees Old Age Benefit holds 8% shares. The Company has a free float of 35%.

Stability Ownership of the business is seen as stable as the major ownership vests with Elahi family. The second generation has been inducted in the business.

Business Acumen Mr. Maqbool Elahi Sheikh introduced BOPP and CPP films in Pakistan and is considered a pioneer. The sponsors have been associated with the plastic packaging industry since 1983, after setting up Toyo Packaging (Pvt.) Limited.

Financial Strength Macpac Films is a stable business entity. The sponsoring family has made several investments in other sectors. The Company's sister concern, Toyo Packaging (Pvt.) Limited had a turnover of PKR 1.5bln in FY18.

Governance

Board Structure Macpac Films BoD comprises of three Non-Executive Directors, two Executive Directors and two Independent Directors. Elahi family has prominent presence on the Board. The Company follows Code of Corporate Governance ensuring independent oversight.

Members' Profile The BoD members have diversified and relevant expertise. Board's Chairman, Mr. Naeem Munshi has been associated with the Company since inception. He holds the office of CEO at Hilal Foods (Pvt.) Limited and is a Board member of Hilal Care (Pvt.) Limited and Unique Food Service Co. (Pvt.) Limited.

Board Effectiveness The Board met five times during FY18, with majority attendance to discuss pertinent matters. Minutes of the BoD meetings were well documented. The Board has formed Audit Committee and Human Resource and Remuneration Committee. Each Committee comprises three members and met at least once every quarter during the year with majority attendance.

Financial Transparency Macpac Films external auditors, M/s EY Ford Rhodes, have expressed an unqualified opinion on the financial reports for FY18. The firm is QCR rated by ICAP and is in the A Category of SBP's panel of auditors.

Management

Organizational Structure Macpac Films operates through six divisions; Plant, Sales and Marketing, Finance, Internal Audit, Human Resource and Information Technology. All Divisional Heads report to the Company's CEO, who reports to the Board. However, Head of Internal Audit and Human Resource reports administratively to the CEO and functionally to the Board Audit Committee and Human Resource and Remuneration Committee, respectively.

Management Team Macpac Films has professional management. Mr. Maqbool Elahi Sheikh, the founder of Macpac Films, has been working as CEO since inception. His overall work experience is above 50 years. Having an overall work experience of above 2 decades, Mr. Najam ul Hassan has been associated with the Company from past 2 years as the Chief Operating Officer.

Effectiveness Keeping in view the size and operations of the Company, improvement in operations can be achieved by establishing functional committees.

MIS Macpac Films manufacturing plant is in Port Qasim. The Head Office and plant are connected through an ERP system. To facilitate the management, various reports are generated on daily and monthly basis. The frequency of these reports may alter as per the managements requirement.

Control Environment The Company's internal audit function provides support, guidance and monitoring of the internally placed SOPs along with conducting Gap Analysis for evaluating already placed policies and procedures.

Business Risk

Industry Dynamics Pakistan's packaging industry drives demand mainly from country's food sector, posting a growth of ~10-15%. Packaging industry uses variants of Polymer Resin to manufacture BOPET, BOPP and CPP films. During FY18, the packing film industry generated revenue around PKR 20bln. Major players in the packaging industry includes: Tri-Pack Films Limited, Macpac Films Limited, International Packaging Limited and Astro Films - Ismail Industries Limited.

Relative Position Macpac Films holds a moderate market share of 11% in BOPP and CPP films segment.

Revenues Macpac Films generates revenues by selling variants of BOPP films in the local market only. The Company began commercial operations of its CPP films line in late FY19, which also contributed to growth in revenue. Sales are made directly to B2B customers with top ten customers accounting for ~50% of sales. On geographical basis, revenue is concentrated in the South region of the country (~56% of total sales). In FY19, the Company showed a growth in its topline of 14% and generated revenues of PKR 2.4bln (FY18: PKR 2.1bln).

Margins The Company operates within a thin margin segment of BOPP films. However, CPP films are expected to have relatively better margins. During FY19, the Company saw its margins deteriorate significantly as a result of intense competition in the market and increased average import prices of raw materials. In FY19, the Company's gross margin stood at ~4% (FY18: 10.5%, FY17: 16.7%). The operating margin in FY19 was ~-1% (FY18: 5.6%, FY17: 10.5%) due to decline in gross margin and higher operating costs on the back of new CPP line. The finance cost of the Company increased on the back of greater borrowings and higher interest rate environment and stood at ~PKR 89mln (FY18: PKR 23mln). On the backdrop of above factors, the Company incurred net loss amounting to PKR 234mln (FY18: PKR 55mln Profit). The net margin was -9.7% (FY18: 2.6%), reflecting depressed performance

Sustainability Going forward, Macpac Films CPP plant's production capacity is expected to increase by over 40%. Improvement in margins and profitability is important, going forward.

Financial Risk

Working Capital Working capital is a function of inventory and trade receivables and is financed partly via in house generated cash flows and mainly from short-term borrowings. The Company's reliance on short-term borrowings has increased significantly during FY19 and clocked in at ~PKR 439mln (FY18: ~PKR 108mln). In FY19, the Company's gross working capital days decreased to 129 days (FY18: 135 days, FY17: 166 days) as a result of reduced inventory days (FY19: 66 days, FY18: 80 days) and despite higher trade receivable days (FY19: 63 days, FY18: 55 days). Moreover, their net working capital days also fell slightly from 128 days in FY18 to 120 days in FY19.

Coverages The free cash flows (FCFO) of the Company turned negative during FY19 and clocked in at negative ~PKR 16mln (FY18: PKR 130mln). This resulted in poor coverages. The interest coverage ratio dropped to -0.2x during FY19 (FY18: 8.8x) on the backdrop of higher finance cost. The debt coverage ratio also decreased to -0.0x during FY19 (FY18: ~1x).

Capitalization The Company has a moderately leveraged capital structure (FY19: ~56%, FY18: 12%). The leveraging increased during the year on the back of significant long-term borrowings (FY19: PKR 291mln, FY18: PKR 17mln), utilized to finance the capex requirements of CPP plant. Short-term borrowings comprise ~53% of total borrowings. The leveraging of the Company is expected to remain at the current level, going forward.



The Pakistan Credit Rating Agency Limited

Financial Summary

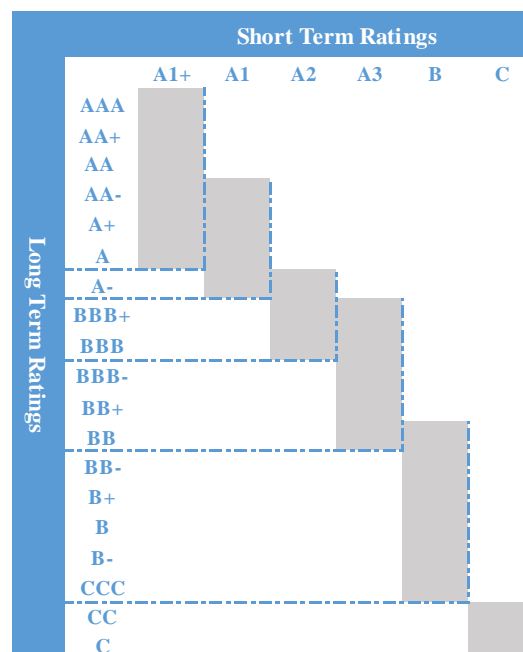
PKR mln

Macpac Films Limited Packaging	Jun-19 12M	Jun-18 12M	Jun-17 12M	Jun-16 12M
A BALANCE SHEET				
1 Non-Current Assets	1,423	1,188	819	811
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,073	1,044	741	746
a Inventories	376	491	444	465
b Trade Receivables	437	398	240	233
5 Total Assets	2,496	2,232	1,561	1,557
6 Current Liabilities	858	1,056	508	596
a Trade Payables	64	47	39	35
7 Borrowings	830	125	165	118
8 Related Party Exposure	-	-	143	143
9 Non-Current Liabilities	156	146	151	145
10 Net Assets	653	905	593	554
11 Shareholders' Equity	653	905	593	554
B INCOME STATEMENT				
1 Sales	2,415	2,125	1,516	1,310
a Cost of Good Sold	(2,312)	(1,902)	(1,263)	(1,081)
2 Gross Profit	103	223	253	229
a Operating Expenses	(119)	(103)	(94)	(79)
3 Operating Profit	(15)	120	159	150
a Non Operating Income or (Expense)	(97)	(31)	(6)	(11)
4 Profit or (Loss) before Interest and Tax	(112)	89	153	139
a Total Finance Cost	(89)	(22)	(27)	(23)
b Taxation	(33)	(11)	(48)	(30)
6 Net Income Or (Loss)	(234)	55	78	86
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	(16)	130	190	180
b Net Cash from Operating Activities before Working Capital Changes	(100)	110	165	163
c Changes in Working Capital	86	288	(94)	(42)
1 Net Cash provided by Operating Activities	(14)	398	71	121
2 Net Cash (Used in) or Available From Investing Activities	(405)	(443)	(79)	(4)
3 Net Cash (Used in) or Available From Financing Activities	446	73	1	(119)
4 Net Cash generated or (Used) during the period	27	28	(8)	(1)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	13.7%	40.2%	15.7%	--
b Gross Profit Margin	4.3%	10.5%	16.7%	17.5%
c Net Profit Margin	-9.7%	2.6%	5.2%	6.6%
d Cash Conversion Efficiency (EBITDA/Sales)	4.0%	9.7%	16.1%	17.7%
e Return on Equity (ROE)	-30.0%	7.4%	13.6%	15.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	129	135	166	164
b Net Working Capital (Average Days)	120	128	158	154
c Current Ratio (Total Current Assets/Total Current Liabilities)	1.3	1.0	1.5	1.3
3 Coverages				
a EBITDA / Finance Cost	1.3	13.9	11.8	15.4
b FCFO / Finance Cost+CMLTB+Excess STB	0.0	0.9	3.3	2.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-6.8	1.2	1.2	1.6
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	56.0%	12.2%	34.2%	32.0%
b Interest or Markup Payable (Days)	38.0	74.6	13.7	12.8
c Average Borrowing Rate	15.5%	6.8%	7.2%	5.8%

Credit Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	A1	A strong capacity for timely repayment.
AA		A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
AA-		A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A+	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
A		C	An inadequate capacity to ensure timely repayment.
A-			
BBB+	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.		
BBB			
BBB-			
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.		
BB			
BB-			
B+	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.		
B			
B-			
CCC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.		
CC			
C			
D	Obligations are currently in default.		



Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.	Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.	Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.	Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.	Harmonization A change in rating due to revision in applicable methodology or underlying scale.
--	--	---	---	--

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA’s prior written consent