The Pakistan Credit Rating Agency Limited

Rating Report

Poly Pack (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Mar-2024	A-	A2	Stable	Maintain	-
02-Mar-2023	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Poly Pack (Pvt.) Limited ("the Company") is predominately manufacturing Poly Propylene Woven Bags. The Company is also engaged in the manufacturing of Polyethylene Plain Films, Polyethylene Shrink Film, POF Shrink Film, and Flexible Packaging. The demand for the product is derived mainly from the food industry and consumers. The strong customer base of the Company bodes well for the assigned rating. The industry-wise volumetric decrease in sales has been reported but the selling prices have absorbed the impact to much extent. The reduced demand for products has led to a decline in actual plant production. The plant has the capacity to produce ~60,000 MT/annum annually, but its utilization capacity dropped to ~60% in FY23, from ~92% in FY22 (FY21: ~74%). The Company is wholly owned by family members. The sponsor's family has vast experience in packaging and engaged in this business since 1991. The raw material of the finished product is ~100% imported hence, exposed to exchange rate risk. As per management representation, the Company has captured the major share of the PP Woven Bags market and enjoys the highest market share of approximately ~9%. Almost 60% of the total sales of the Company are made in the Punjab region. The internal audit department is operating under the direct supervision of directors. The Company has developed an effective mechanism for the identification, assessment, and reporting of all types of risk arising out of the business operations.
On the financial profile side, the company's revenue hasn't experienced substantial growth. In FY23, Poly Pack (Pvt.) Limited achieved a topline of PKR 15,077mln, marking a modest increase of about ~5.8% compared to PKR 14,252mln in FY22 (FY21: PKR 11,994mln). Furthermore, the Company faced challenges with rising raw material costs due to inflation and exchange rate fluctuations but successfully managed to improve its profit margins. In FY23, the company experienced an improvement in its financial performance. The gross profit margin rose from ~6.0% in FY22 to ~8.5% in FY23. This increase contributed to a rise in the net profit margin from ~4.3% to ~5.1% during the same period, despite facing significantly higher finance costs. As a result of these improvements, the company achieved a bottom line of ~PKR 771mln in FY23, compared to ~PKR 609mln in FY22 (FY21: ~PKR 523mln). The product demand is expected to come full circle once the macro-level fundamentals improve. The Company is low leveraged with sound financial indicators as of the end of Jun'23. Past trends of equity injections show strong financial commitments of the sponsors.

The ratings are dependent upon the management's ability to improve margins while sustaining itsmarket share. Prudent management of the working capital, and maintaining sufficient cash flowsand coverages are essential for the ratings. Any significant change in margins and coverages willimpact the ratings.

Disclosure

Name of Rated Entity	Poly Pack (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Paper and Packaging(Nov-23)
Rating Analysts	Muhammad Atif Chaudhry | Atif.Chaudhry@pacra.com | +92-42-35869504

Profile

Legal Structure Poly Pack (Pvt.) Limited ('The Company') was incorporated as a private limited company in 1991.

Background The Company has began its operations with the commercial production of Poly Propylene Bags. The main sponsor family has utilized his skills and experience to turn Poly Pack (Pvt.) Limited into a competent contender in the PP bags and flexible market. The Company is currently one of the largest producers of plastic packaging products in Pakistan.

Operations Poly Pack (Pvt.) Limited provides different types of Poly Propylene Woven Bags, Polyethylene Plain Films, Polyethylene Shrink films, and POF Shrink Films. They have expanded their capacity year by year, from ~34,600 MT/annum in FY20 to ~60,000 MT/annum tons, with a utilized capacity of 36,000 MT/annum (60%) in FY23. They have also set up a flexible packaging line where they print and provide packaging to large-scale corporate clientele.

Ownership

Ownership Structure Majority stake of Poly Pack (Pvt.) Limited lies with Mr. Iftikhar Ahmed who owns ~43.6% of the total shares. Mr. Aamir, Mr. Bilal, and Mr. Abdullah hold respectively ~15.6% ownership of the company. Mr. Aamir, Mr. Bilal, and Mr. Abdullah are all brothers, with Mr. Aamir being the eldest, followed by Mr. Bilal and Mr. Abdullah. Mrs. Nazia Iftikhar is the wife of Mr. Iftikhar Ahmed.

Stability Ownership structure is stable as owners have vast experience in the packaging industry while having a personal stake in business. Equity injections in FY20 of ~PKR 160mln and FY21 of ~PKR 85mln show their commitment to business, and their plan to keep a low-leveraged capital structure keeps financial risk low.

Business Acumen The owners and directors of Poly Pack (Pvt.) Limited have extensive relevant experience and insights about the packaging industry owing to their family background. All three brothers are involved in managing the affairs of the Company under the supervision of their father. Mr. Bilal oversees all the financial and tax-related affairs of the company. While Mr. Aamir and Mr. Abdullah are involved in managing the operational activities of the company.

Financial Strength The Financial strength of the sponsors is sufficient to support the Company in the times of crises. All the brothers have significant resources to finance the Company if the need arises.

Governance

Board Structure The Company's Board structure primarily revolves around its sponsor family. There are 4 directors on the Board, all of them are executive. The addition of independent director would be encouraged.

Members' Profile All the Board members are businessmen in the profession and have the relevant skills.

Board Effectiveness The Board has the strength of all members belonging to the same family, increasing their cohesiveness. The Board met four times during FY23, with the majority attending to discuss pertinent matters. At Poly Pack (Pvt.) Limited, absence of board committees are indicating the room for improvement.

Financial Transparency M/s PKF F.R.A.N.T.S. are the external auditors of the company. They have expressed an unqualified opinion on the financial reports for FY23. The firm is QCR rated by ICAP and is in the "B" Category of SBP's panel of auditors.

Management

Organizational Structure Poly Pack (Pvt.) Limited has developed a defined organizational structure keeping in mind the Company's operational needs. The Company operates through Procurement, Sales and Marketing, Finance and Accounting, production and Technical department and Administration Departments.

Management Team The Company's General Manager (Production), Mr. Mushtaq Anjum Chaudhary has been associated with the Company since its inception. Mr. Mushtaq Anjum Chaudhary has over 45 years of relevant experience and also has special expertise in Polymer/Polyolefins. The Company's Manager Finance, Mr. Aamir Manzoor, is a CA finalist and has over 29 years of relevant experience. He has been working with the Company for 20 years.

Effectiveness The experience of the sponsors along with a professional management team has helped the Company to streamline its operations. However, Management's effectiveness and efficiency can be ensured through the presence of management committees. At Poly Pack (Pvt.) Limited, absence of management committees are indicating the room for improvement.

MIS To generate MIS and operational reports, the ERP software, SAP Crystal Reports is used.

Control Environment The Company has developed an effective mechanism for identification, assessment, and reporting of all types of risk arising out of the business operations because there is an internal audit department in place to ensure operational efficiency which operates under the direct supervision of directors.

Business Risk

Industry Dynamics A major challenge faced by the sector is prices and availability of raw materials specifically polymers such as polypropylene & polyethene (PP) resin. Resin prices are largely a function of global crude oil prices, demand-supply dynamics, and exchange rate volatility. The recent market dynamics of the cost base of raw materials for the company represented a rising trend. This coupled with the significant depreciation of the currency would be expected to lead to higher raw material prices and thus create pressure on margins going forward. If the cost of raw materials with predictable exchange rates sustain, it will produce better profitability and margins for the industry in the future.

Relative Position The Company has captured the major share of the PP Woven Bags market and enjoys the highest market share of approximately ~9%. Poly pack (Pvt.) Limited is also becoming a well-known name in the PP films and flexible market segment and also holds a prominent share in this segment.

Revenues The Company's top line shows an increasing trend due to increase in sale price but the increase in prices of products has impacted demand. Though, an industry-wide volumetric decrease in sales has been reported but the selling prices have absorbed the impact to much extent. During FY23, the Company generated a top line of ~PKR 15,077mln (FY22: ~PKR 14,252mln, FY21: ~PKR 11,994mln), showing an increase of ~ 6% in revenue.

Margins Raw materials being used for manufacturing Poly Propylene Woven Bags and flexible packaging are imported. So, to maintain the margins, the Company passes on the cost to B2B consumers. In FY23, gross margin and operating profit margin both increased as compared to FY22. The GP margin increased from ~6.0% in FY22 to ~8.5% in FY23 while OP margin increased from ~5.0% to ~7.2%. Consequently, the net profit margin also increased from ~4.3% to ~5.1% during the same period. The bottom-line of the Company clocked in at ~PKR 771mln during FY23 increased from ~PKR 609mln during FY22 (FY21: ~PKR 523mln).

Sustainability In recent years, the Company has undergone through significant expansion while further capital expenditure is expected for the planned expansion. The Company is also investing in the BOPP plant which will improve the operational efficiency of the Company and also will help to maintain a better position in the market.

Financial Risk

Working Capital Poly Pack (Pvt.) Limited experienced a notable rise in inventory days, increasing from ~24 days at end-Jun22 to ~34 days at end-Jun23. Inventory days increased because the Company has imported raw materials in huge quantities due to the rise in raw material prices and currency rate fluctuations. Meanwhile, trade receivable days decreased from ~27 days to ~25 days during the same period. But the trade payable days increased from ~49 days at end FY22 to ~64 days at end FY23. Consequently, the Company's net working capital days decreased to ~(-6) days at end FY23 from ~2 days at the end of FY22.

Coverages In FY23, the Company's FCFOs stood at ~PKR 911mln increasing from ~PKR 523mln in FY22 (FY21: ~PKR 494mln). But during FY23, FCFO/Finance cost stood at ~ 19.7x decreased from ~ 22.3x of coverage during FY22 (FY21: ~27.5x) due to a significant increase in the finance cost. The finance cost stood at ~PKR 178mln increased from ~PKR 27mln (FY21: ~PKR 16mln); however, this is still a very healthy coverage level for the Company.

Capitalization The Company has a low leveraged capital structure. Long-term debt is related to expansion activities, whereas short-term debt is related to working capital management. Its gearing ratio has decreased from ~14% at the end of FY22 to ~7.7% at the end of FY23 due to significant decrease in total borrowing. At the end of FY23 the long-term borrowing has decreased to ~PKR 186mln from ~PKR 269mln end-FY22 Consequently, the total borrowing has decreased to ~PKR 287mln from ~PKR 384mln during the same period.

The Pakistan Credit Rating Agency Limited

cial Summary
PKR mln

Poly Pack (Pvt.) Limited	Jun-23	Jun-22	Jun-21	Jun-20
Paper and Packaging	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	1,442	1,308	1,114	808
2 Investments	-	-	-	-
3 Related Party Exposure	2,491	995	0	-
4 Current Assets	3,740	3,035	3,067	2,207
a Inventories	*1,649*	*1,169*	*679*	*735*
b Trade Receivables	*1,001*	*1,035*	*1,085*	*925*
5 Total Assets	7,673	5,337	4,181	3,015
6 Current Liabilities	3,401	2,380	1,950	970
a Trade Payables	*3,160*	*2,157*	*1,686*	*775*
7 Borrowings	287	384	344	11
8 Related Party Exposure	37	24	418	167
9 Non-Current Liabilities	48	39	39	35
10 Net Assets	3,901	2,511	1,430	1,833
11 Shareholders' Equity	3,901	2,511	1,430	1,833
B INCOME STATEMENT				
1 Sales	15,077	14,252	11,994	7,866
a Cost of Good Sold	*(13,795)*	*(13,402)*	*(11,236)*	*(7,390)*
2 Gross Profit	1,282	850	758	476
a Operating Expenses	(192)	(144)	(126)	(97)
3 Operating Profit	1,091	706	632	380
a Non Operating Income or (Expense)	*(48)*	*(29)*	*(27)*	*(19)*
4 Profit or (Loss) before Interest and Tax	1,042	677	604	361
a Total Finance Cost	*(178)*	*(27)*	*(16)*	*(3)*
b Taxation	*(93)*	*(41)*	*(66)*	*(132)*
6 Net Income Or (Loss)	771	609	523	225
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*911*	*523*	*494*	*298*
b Net Cash from Operating Activities before Working Capital Changes	*735*	*503*	*489*	*294*
c Changes in Working Capital	*(971)*	*(1,075)*	*825*	*(426)*
1 Net Cash provided by Operating Activities	(235)	(571)	1,314	(132)
2 Net Cash (Used in) or Available From Investing Activities	(285)	(250)	(363)	3
3 Net Cash (Used in) or Available From Financing Activities	533	120	(426)	217
4 Net Cash generated or (Used) during the period	13	(701)	526	87
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	5.8%	18.8%	52.5%	27.3%
b Gross Profit Margin	8.5%	6.0%	6.3%	6.1%
c Net Profit Margin	5.1%	4.3%	4.4%	2.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-0.4%	-3.9%	11.0%	-1.6%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	24.1%	30.9%	32.0%	13.5%
2 Working Capital Management				
a Gross Working Capital (Average Days)	59	51	52	77
b Net Working Capital (Average Days)	-6	2	15	32
c Current Ratio (Current Assets / Current Liabilities)	1.1	1.3	1.6	2.3
3 Coverages				
a EBITDA / Finance Cost	26.8	37.8	40.7	672.2
b FCFO / Finance Cost+CMLTB+Excess STB	6.6	3.8	3.7	448.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.4	0.8	1.6	0.6
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	7.7%	14.0%	34.8%	8.8%
b Interest or Markup Payable (Days)	61.3	170.7	166.2	276.2
c Entity Average Borrowing Rate	12.7%	4.0%	3.8%	0.4%

Credit Rating

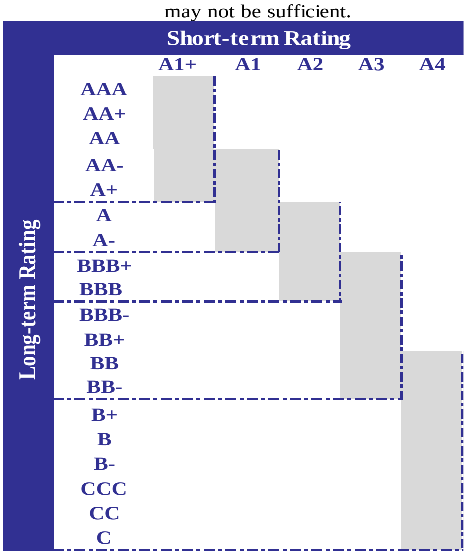
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA 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.
A+ A 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.
BBB+ BBB 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.
BB+ BB 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.
B+ B 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.
CCC CC C	**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.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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 | Clause 11-(A)(p).
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
Proprietary Information