The Pakistan Credit Rating Agency Limited

Rating Report

Starch Pack (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-Dec-2023	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Starch Pack (Pvt.) Limited ('SPPL' or the 'Company') is the latest venture of the esteemed Packages Group (the 'Group'). The primary purpose behind the Company's establishment is backward-integration and synergy within the Group. The assigned ratings incorporate the business acumen and the strong presence of the sponsoring Group. SPPL's business objective is the manufacturing and sale of corn-based native and modified starches, along with its derivatives and by-products, such as Glucose and Corn Oil. Pakistan's corn manufacturing industry is close to 100% localized, with the space having ample growth opportunity present due to very limited competition from large players. Corn Starch serves as a vital input for three of Pakistan's largest local industries - Textile, Feed, and Paper and Packaging. The governance structure is considered strong with the presence of independent directors and board committees well noted. The Company has a lean organizational structure focused on operational efficiency. A well-qualified and experienced management team provides comfort to the ratings. The control environment is sound with group oversight present whereas requisite policies are also in place. SPPL has successfully completed the testing phase of their native starch products within the Group. The ratings take into account the stable demand of native starch from within the group and the demand base for native and modified starches within the central Punjab region. The strategic location of the Company's manufacturing facility provides easy and quick access to corn, providing supply chain economies for SPPL. The ratings include the key advantage of the Group's international presence, yielding an established footprint to the international market for SPPL. The Company's testing for the export segment shall commence by the end of CY23, whereas commercial production for both local and export segments has started during 4QCY23.

The ratings are contingent upon the continued Group synergies, materialization of local and international commercial production, and the Company's continued control over its margins. Moving forward, market penetration and SPPL's maintenance of its competitive advantages remain important. Moreover, effective management of working capital cycle and retention of key management are paramount.

Disclosure

Name of Rated Entity	Starch 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 | Food Products(Dec-22)
Rating Analysts	Hassaan Ahmad | Hassaan.Ahmad@pacra.com | +92-42-35869504

Profile

Legal Structure Starch Pack (Private) Limited ('SPPL' or 'The Company') was incorporated as a private limited company and is a manufacturing concern that is involved in the production and sale of corn-based starch products and its derivatives such as Glucose and Corn Oil.

Background SPPL embarked on its operational journey by initiating the commercial production of starch products derived from corn, alongside the manufacturing of associated derivatives, and by-products. SPPL is currently striving to establish itself as a preeminent manufacturer of corn-based starch products in the industry.

Operations SPPL provides different types of corn-based products; starch, sweeteners and by-products which are used in the food industry, textile, and paper and board products. The grinding capacity of the plant is 250 tons per day.

Ownership

Ownership Structure Starch Pack (Pvt.) Limited is the 100% wholly owned subsidiary of Packages Limited. Mr. Imran Khalid Niazi, Mr. Riyaz Ali Towfiq Chinoy, Mr. Naveed Ahmed Khan, Mr. Asghar Abbas, Mr. Sajjad Iftikhar and Mr. Yusra Arshad Gilani are the nominees of Packages Limited, Packages Limited is the beneficial owner of the shares held by them.

Stability The ownership structure is stable as Packages Limited holds majority shares of the Company. They have vast experience in the packaging industry. The Packages Group is considered one of the largest and well-established groups in the country.

Business Acumen The Group is ranked amongst the leading industrial groups of the country with interests in paper and paperboard, packaging, financial institutions, education, and real estate sectors. A strong affiliation with international JVs is suitable for the Company's holding structure.

Financial Strength Starch Pack (Pvt.) Limited net assets stood at ~PKR 7bln during the 6MCY23 (CY22: ~PKR 5bln) representing a sound support for the Company when needed. The overall group's assets stood at over ~PKR 172bln during CY22 and equity stood at ~PKR 66bln.

Governance

Board Structure The Company has seven members on the board comprising one executive director, three non-executive directors and three independent directors. The board is chaired by Mr. Imran Khalid Niazi.

Members' Profile The BoD, with a well-diversified background and relative expertise of its members, is a key source of oversight and guidance for the management. The Chairman Mr. Imran Khalid Niazi is associated with board since 16th Jan'2023. He is a seasoned leader having provided professional & technical leadership at multinational companies across the globe. His professional journey has taken him from fertilizer, food, dairy and pharmaceutical multinational companies to Coca-Cola Company.

Board Effectiveness The Board met four times during CY22, with the majority attendance to discuss pertinent matters. While the minutes of the meetings are documented, there is room for improvement concerning details and clarity of the minutes. To ensure effective governance, the Board has formed three committees, namely i) Audit Committee ii) Human Resource and Remuneration Committee, and, iii) IT Steering Committee.

Financial Transparency SPPL's external auditors, M/s A.F. Ferguson & Co. have been the Company's auditors since the Company has been established. The auditor has expressed an unqualified opinion on the financial reports of CY22.

Management

Organizational Structure The Company has a well-defined organizational structure divided into functional departments with clear lines of responsibilities. All department heads report directly to the respective Group Heads as well as the CEO of the Company. The dual reporting framework allows for an enhanced oversight framework. Key departments of SPPL include: i) EHS ii) Administration and security iii) Supply chain iv) Sales and Marketing v) Human Resource and vi) IT.

Management Team The Company's CEO, Mr. Fazeel Ur Rehman joined Packages group in 1997 after his graduation from Punjab University. He also possess certification in business management from LUMS. In his 25-year career with Packages Group, Mr. Fazeel served different businesses across the Group in Senior Management Positions. His most recent appointment was CEO OmyaPack, where he started up OmyaPack from scratch.

Effectiveness The experience of the sponsors along with a professional management team help the Company to streamline their operations and cut down on their costs. Management committees help improve effectiveness and efficiency by streamlining communication between various department heads. There are no management committees in place, indicating room for improvement.

MIS To generate MIS and operational reports, Starch Pack (Pvt) Limited is using s SAP ERP (ERP ECC6) as its primary ERP software since the year 2022 and the implementation partner was Excellence Delivered (ExD). In line with the Packages Group synergy, Starchpack (Pvt) Limited gets ERP support from Excellence Delivered Pakistan Limited.

Control Environment To ensure operational efficiency, the Company has a Group internal audit function which reports to the Board Audit Committee. The Company has set up effective mechanisms for the identification, assessment, and reporting of all types of risks arising out of the business operations. These risks include strategic, operational, financial or compliance risks which may compromise the achievement of overall business objectives of the Group.

Business Risk

Industry Dynamics Food and textile industry are fast-paced industries. The Company's success depends on understanding customer requirements, anticipation of future trends, challenges and opportunities, and partnering with suppliers and human capital to discover long-term and sustainable solution to all our stakeholders. The high inflation and political uncertainities impacted food ingredient demand, consumption demands and customer base.

Relative Position SPPL has not yet commenced its operations. Initially, sales will be directed internally within the Group, followed by a subsequent market expansion. Thus relative position of SPPL as a standalone entity can not b derived yet.

Revenues The Company generated major income through the trade of corn and profit from bank deposits during CY22, whereas going forward, sale of corn-based starches and its derivatives shall be the main contributors to the topline. During CY22, the Company reported ~PKR 36mln income through corn trade and profit on TDR whereas at the period ended 6MCY23, it stood at ~PKR 7mln. Starch-based product industry is vast and rapidly growing. The top starch usage in Textile consumed 70% of starch in Pakistan and after that, packaging consumed 18% of starch in Pakistan. The initial phase of SPPL involved directing starch mainly within the Group while tapping the broader market has also been initiated.

Margins In 6MCY23, SPPL reported a net loss of ~PKR 29mln whereas at the period ended CY22, the net profit stood at ~PKR 7mln. The main reason for the increased loss is the increase in finance costs and administrative expenses during 6MCY23. The management disclosed that currently, the Company earns a margin from TDRs. One significant factor contributing to the losses is that SPPL has not yet commenced its operations.

Sustainability The Company has a well-established brand name in the market, especially in consumer products. Going forward, SPPL has to strengthen its geographic footprint in different industries and expand its capacity utilization by installing flexible plans in different areas of Pakistan.

Financial Risk

Working Capital Starch Pack (Pvt.) Limited's working capital requirements are a function of its inventory, trade receivables and trade payables which are financed through short term borrowings and FCFO. For working capital management, the company will use the following strategy: Debtors will be well managed. The Group's credit term shall be within 30 days. Payment discipline is required to pay suppliers on time and in cash. The acquisition of raw materials (corn grains) will be divided into 10-12 months cycles (12 months total). Except for raw material (corn), payables will be cleared within 30 to 45 days. This helps the company to handle working capital more efficiently and effectively.

Coverages During 6MCY23, the Company's operating loss stood at ~PKR 24mln (CY22: profit of ~PKR 7mln). The EBITDA/Finance cost showed a decrease from an adequate coverage of ~1.1 at end-Dec'22 to ~0.0 at end-Jun'23.SPPL is maintaining its leverage DE ratio at 40%.

Capitalization Starch Pack's gearing ratio has increased from~36% at the end of Dec-22 to ~53% at the end of Jun-23. The short-term borrowings have significantly increased by 1.7x during 6MCY23.

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Starch Pack (Pvt.) Limited		Jun-23	Dec-22	Dec-21
Paper and Packaging		6M	12M	12M
A BALANCE SHEET				
1	Non-Current Assets	5,243	3,663	304
2	Investments	-	322	1,100
3	Related Party Exposure	14	12	-
4	Current Assets	1,407	849	96
	a Inventories	*378*	*191*	-
	b Trade Receivables	-	-	-
5	**Total Assets**	6,664	4,846	1,500
6	Current Liabilities	295	145	4
	a Trade Payables	*122*	*66*	*2*
7	Borrowings	3,187	1,641	-
8	Related Party Exposure	338	184	15
9	Non-Current Liabilities	-	-	-
10	**Net Assets**	2,843	2,876	1,481
11	**Shareholders' Equity**	2,843	2,877	1,481
B INCOME STATEMENT				
1	**Sales**	-	-	-
	a Cost of Good Sold	-	-	-
2	**Gross Profit**	-	-	-
	a Operating Expenses	*(31)*	*(28)*	*(21)*
3	**Operating Profit**	(31)	(28)	(21)
	a Non Operating Income or (Expense)	*7*	*37*	*9*
4	**Profit or (Loss) before Interest and Tax**	(24)	8	(12)
	a Total Finance Cost	*(810)*	*(13)*	*697*
	b Taxation	*(0)*	*0*	*(3)*
6	**Net Income Or (Loss)**	(834)	(5)	682
C CASH FLOW STATEMENT				
	a Free Cash Flows from Operations (FCFO)	*1*	*(43)*	*(13)*
	b Net Cash from Operating Activities before Working Capital Changes	*1*	*(43)*	*(13)*
	c Changes in Working Capital	*(99)*	*(535)*	*13*
1	**Net Cash provided by Operating Activities**	(98)	(578)	0
2	**Net Cash (Used in) or Available From Investing Activities**	(1,203)	(3,278)	(1,404)
3	**Net Cash (Used in) or Available From Financing Activities**	1,039	3,014	1,496
4	**Net Cash generated or (Used) during the period**	(262)	(843)	92
D RATIO ANALYSIS				
1	**Performance**			
	a Sales Growth (for the period)	N/A	N/A	N/A
	b Gross Profit Margin	N/A	N/A	N/A
	c Net Profit Margin	N/A	N/A	N/A
	d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	N/A	N/A	N/A
	*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	-114.6%	-0.7%	93.1%
2	**Working Capital Management**			
	a Gross Working Capital (Average Days)	N/A	N/A	N/A
	b Net Working Capital (Average Days)	N/A	N/A	N/A
	c Current Ratio (Current Assets / Current Liabilities)	4.8	5.9	23.0
3	**Coverages**			
	a EBITDA / Finance Cost	0.0	1.1	0.0
	b FCFO / Finance Cost+CMLTB+Excess STB	0.0	-3.6	0.0
	c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-1.7	-30.0	0.0
4	**Capital Structure**			
	a Total Borrowings / (Total Borrowings+Shareholders' Equity)	52.9%	36.3%	0.0%
	b Interest or Markup Payable (Days)	36.0	2193.2	0.0
	c Entity Average Borrowing Rate	66.6%	0.7%	--

Credit Rating

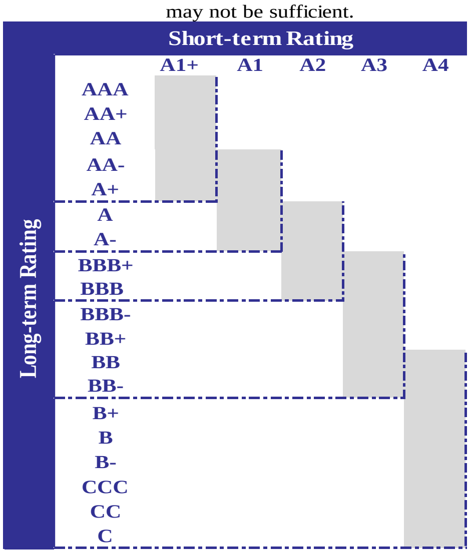
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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(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)

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