The Pakistan Credit Rating Agency Limited

Rating Report

EcoPack Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
05-Nov-2018	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan's Polyethylene Terephthalate (PET) packaging sector mostly derives its demand from bottled water and carbonated beverage industry, while, pharmaceutical and edible oil sectors have become an upcoming demand driver. To cater to this demand, introduction of different PET bottles sizes have become important drivers for the sector's growth. Strong consumer demand for beverages and other products that use PET packaging remains pivotal to the overall packaging industry's growth.

The industry primarily operates in two segments: PET Preforms and PET Bottles. PET Preform segment is experiencing volumetric growth. Whereas, PET Bottle segment enjoys better margins. The beverage companies in the last few years have installed bottle manufacturing units themselves limiting the growth in bottles segment for the vendors and at the same time creating a strong demand for Preforms from the vendor industry.

The ratings reflect the Company's established position in PET Preform and PET Bottle segments. EcoPack has experienced a rising top-line owing to significant demand growth in PET Preform segment and its increased share in revenues. Strong competition in PET Bottles market has led to modest growth in the Bottles business. However, this has led to an overall decline in margins percentage, as PET Preforms is relatively a lower margin and high volume segment. The Company's overall leveraging has increased but coverages remain comfortable. Sound working capital management lend support to financial profile.

The ratings are dependent upon the Company's ability to continue on it's growth momentum while improving its margins and capacity utilization. Deterioration in margins and/or coverages will have a negative impact on ratings.

Disclosure

Name of Rated Entity	EcoPack Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-18),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study | Packaging(Oct-18)
Rating Analysts	Adnan Dilawar | adnan@pacra.com | +92-42-35869504

Profile

Legal Structure EcoPack Limited is incorporated as a Public Limited Company since 1994.

Background In 1992, EcoPack was incorporated as a Private Limited Company. A year later,the Company started its commercial operations of manufacturing and selling Polyethylene Terephthalate (PET) Preforms and Bottles. In 1994, EcoPack became listed on the Karachi Stock Exchange.

Operations EcoPack has two product lines, PET Preforms and PET Bottles. In FY18, the Company expanded its Preform manufacturing injection divisions annual production capacity to 797 million units. The Bottle manufacturing division has an annual production capacity of 304 million units. The Company provides a complete range of Preforms and Bottles to Carbonated Soft Drinks (CSD) and various other beverage industries.

Ownership

Ownership Structure Majority of EcoPack's ownership resides with the sponsors through Jamil family (37%). Mr. Hussain Jamil owning 17.2% shares is one of the largest shareholder of the Company. Investment companies own 2.8% shares of the Company. Remaining 60% portion of the shares is a free float, of which 20% shares are held by acquaintances of the Sponsors.

Stability Ownership of the business is seen as stable as the major ownership vests with the sponsors i.e. Jamil family.

Business Acumen Jamil family has been associated with the plastic packaging industry since 1969, through setting up a plastic bag manufacturing unit. Over the years, the Sponsors have made EcoPack a reliable partner for the beverage industry.

Financial Strength EcoPack is a stable business entity. The Sponsors have substantial financial strength to support the Company in financial distress.

Governance

Board Structure EcoPack’s BoD comprises of two independent Directors, four non-executive Directors and one executive Director. Jamil family has prominent presence on the Board. Apt size of the Board, presence of independent oversight and a female Director on the Board indicates well framed governance structure.

Members’ Profile The BoD members have diversified experience and relevant expertise. Board’s Chairman, Mr. Amar Zafar Khan is a Chartered Accountant having over 30 years of multi-functional experience at premier international financial institutions.

Board Effectiveness The Board ensures effectiveness through Audit Committee and Human Resource and Remuneration Committee. Audit committee comprises of 3 members, whereas Human Resource and Remuneration Committee comprises of 5 members. Both Committees and the Board met 4 times during FY18, with majority attendance, to discuss company’s performance, approve its financial statements and make strategic decisions.

Financial Transparency The Audit Committee ensures accuracy of the Company's accounts and internal controls. EcoPack’s external auditors, M/s Rahman Sarfraz Rahim Iqbal Rafiq Chartered Accountants, 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 EcoPack operates through two divisions for PET Preforms and PET Bottles. Each division is headed by its respective Divisional heads, who reports to the Director Technical and Commercial. All functional Heads report to the Company’s COO. However, finance and accounts function reports the Company’s CFO. Both, CFO and COO, report to the CEO, who is accountable to the Board. However, Head of Internal Audit reports administratively to the CEO and functionally to the Board Audit Committee.

Management Team EcoPack has a set of experienced & professional management. The Company’s CEO, Mr. Hussain Jamil has been associated with the Company since inception. He has a business experience of over 40 years and holds a graduate degree from the University of Karachi.

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

MIS EcoPack’s Plant in Hattar, Head Office in Rawalpindi, and Regional Offices in Lahore and Karachi are all connected through an ERP system. The Company uses SAP to facilitate the management through various reports.

Control Environment To maintain sound internal controls and operational efficiency, the Company has co-sourced its internal audit function to KPMG. Regular reviews are undertaken by the internal audit function to overlook the Company’s operational control.

Business Risk

Industry Dynamics Pakistan’s Polyethylene Terephthalate (PET) packaging sector mostly derives its demand from bottled water and carbonated beverage industry, while, pharmaceutical and edible oil sectors have become an upcoming demand driver. To cater to this demand, introduction of different PET bottles sizes have become important drivers for the sector’s growth. Strong consumer demand for beverages and other products that use PET packaging remains pivotal to the overall packaging industry's growth. Major players in the PET packaging industry include: Gatron Industries Limited, EcoPack Limited, Al Hafiz Crystoplast, Continental Plastic and Mehran Plastic. Each players has a distinct relative standing in the PET Preform and PET Bottle segments of the industry. However, Gatron is nearly the sole supplier of PET Resin in Pakistan.

Relative Position EcoPack holds a moderate market share of 10% in the Preform segment. Whereas ,in the Bottle segment, the Company has a healthy market share of around 30%.

Revenues In FY18, EcoPack generated revenue from two divisions: PET Preforms/Injection Division - 48% (PKR 1.6 billion) and PET Bottles manufacturing/Blowing Division - 52% (PKR 1.7 billion). A slight tilt towards PET bottles was supported by strong market demand by the beverage sector. However, an increase in the demand for Preforms directed the Company to expand the injection capacity upto 797 million units per annum during FY18. This expansion supported the injection division's revenue to grow by 114%. Thus, leading the Company’s top line to increase by 50% (FY18: PKR 3.3 billion, FY17: PKR 2.2 billion). In 1QFY19, the Company's revenue increased by 105% (1QFY19: PKR 1.1 billion, 1QFY18: PKR 537 million) supported by significant increase in the sale of Preforms (1QFY19: PKR 722 million, 1QFY18: PKR 215 million) after capacity expansion.

Margins In FY18, EcoPack's margins showed a declining trend (Gross: FY18: 12.3%, FY17: 16.2%) mainly due to almost 40% increase in the average price of PET Resin and increase in the share of revenue from Preforms as compared to last year. The Company's operating margins also posted a decline (FY18: 7.7%, FY17: 10.1%). In 1QFY19, business margins deteriorated due to lower utilization of enhanced capacity thus making the Company unable to absorb the increased fixed cost.

Sustainability Going forward, growth in demand is anticipated in beverages, bottled drinking water products and pharmaceuticals. Product & customer diversification will be an area of focus in the coming years.

Financial Risk

Working Capital In FY18, EcoPack posted a stable net cash cycle of 40 days (FY17: 46 days). This was supported by significant improvement in the Company's inventory days (FY18: 26 days, FY17: 40 days). However, slight increase was witnessed in the Company's receivable days (FY18: 33 days, FY17: 25 days) due to increased production in the Preform segment. EcoPack procures PET Resin from Gatron/Novatex on sight LC. In order to sustain the short term borrowing buffer, the Company needs to maintain discipline in working capital management. In 1QFY19, an increase in the inventory held and receivable days increased the Company's net cash cycle to 66 days.

Coverages As the business expanded; total borrowings of the Company witnessed an increase. In FY18, EcoPack's free cash flows (PKR 292 million) remained well below its current liabilities (PKR 637 million). Thus, stressing the financial profile of the Company. Despite a decline, EcoPack’s interest coverage remained above 1 (FY18:1.3x, FY17: 1.8x), indicating the Company ability to timely pay off their liabilities. In 1QFY19, the Company's coverages further deteriorated to 0.7x due to an increase in the financial charges (1QFY19: 28 million).

Capitalization EcoPack's debt to equity ratio showed a moderate increase (FY18: 54% FY17: 39%) with a relatively small equity base and an increase in the total debt to PKR 1 billion (Short Term Borrowing: PKR 479 million, Long Term Borrowing: PKR 526 million) in FY18 to support capacity expansion. In 1QFY19, debt to equity ratio posted a slight improvement (52%) as the Company repaid some of its loans.

Packaging

The Pakistan Credit Rating Agency Limited

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EcoPack Limited

BALANCE SHEET	30-Sep-18	30-Jun-18	30-Jun-17	30-Jun-16	30-Jun-15
	3M	FY	FY	FY	FY
Non-Current Assets	**1,416**	**1,426**	**1,015**	**1,026**	**1,063**
Investments (Incl. associates)	**-**	**-**	**36**	**-**	**-**
Equity	-	-	-	-	-
Debt	-	-	36	-	-
Investment property	-	-	-	-	-
Current Assets	**863**	**1,000**	**655**	**672**	**618**
Inventory	295	225	247	241	203
Trade Receivables	259	455	149	158	217
Others	309	321	259	272	199
Total Assets	**2,280**	**2,426**	**1,706**	**1,697**	**1,681**
Debt	**924**	**1,006**	**498**	**667**	**698**
Short-term	451	479	242	344	288
Long-term (Inlc. Current Maturity of long-term debt)	473	526	256	323	410
Other shortterm liabilities	260	313	175	189	283
Other Longterm Liabilities	239	237	262	204	177
Shareholder's Equity	**856**	**870**	**771**	**637**	**523**
Total Liabilities & Equity	**2,280**	**2,426**	**1,706**	**1,697**	**1,681**
INCOME STATEMENT					
Turnover	**1,099**	**3,312**	**2,205**	**2,097**	**1,848**
Gross Profit	74	408	357	349	285
Net Other Income	(6)	(55)	(18)	(41)	(6)
Financial Charges	(28)	(67)	(54)	(70)	(104)
Net Income	**(14)**	**127**	**106**	**102**	**26**
Cashflow Statement					
Free Cashflow from Operations (FCFO)	50	292	286	334	239
Net Cash changes in Working Capital	88	(180)	(1)	(123)	(166)
Net Cash from Operating Activities	105	51	234	135	(40)
Net Cash from InvestingActivities	(16)	(510)	(66)	(82)	(79)
Net Cash from Financing Activities	(55)	241	(67)	(87)	175
Ratio Analysis					
Performance					
Turnover Growth	105%	50%	5%	13%	-17%
Gross Margin	7%	12%	16%	17%	15%
Net Margin	-1%	4%	5%	5%	1%
ROE	-7%	14%	14%	16%	5%
Coverages					
Interest Coverage (FCFO/Gross Interest)	1.8	4.4	5.3	4.8	2.3
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	0.7	1.3	1.8	2.3	1.2
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	0.7	1.3	1.8	2.3	1.2
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interes	5.2	2.3	1.1	1.2	3.0
Liquidity					
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	66	40	46	38	15
Capital Structure (Total Debt/Total Debt+Equity)	52%	54%	39%	51%	57%

Rating Scale

Credit Rating Scale & Definitions

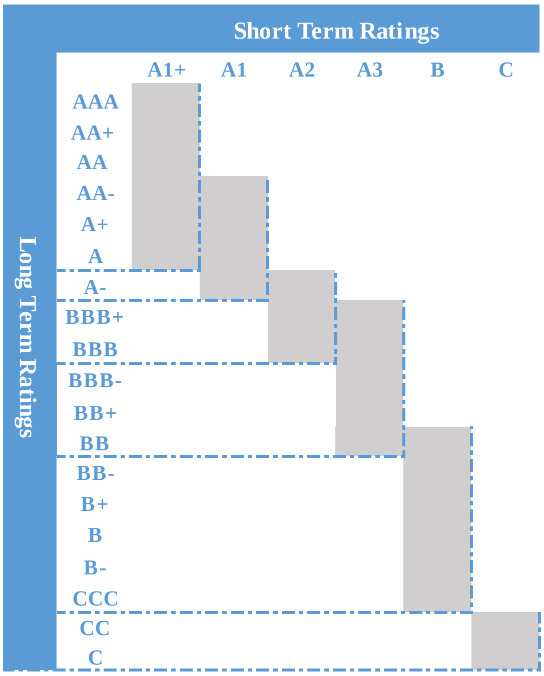
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

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 Ratings

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 conditions.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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 surveill the opinion due to lack of requisite information.

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

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