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
09-Aug-2024	BBB	A2	Stable	Maintain	Yes
10-Aug-2023	BBB	A2	Stable	Maintain	Yes
10-Aug-2022	BBB	A2	Stable	Initial	-
29-Apr-2022	-	-	-	Suspended	-
30-Apr-2021	BBB+	A2	Negative	Maintain	Yes
07-May-2020	BBB+	A2	Negative	Maintain	Yes
06-Nov-2019	BBB+	A2	Stable	Maintain	-
07-May-2019	BBB+	A2	Stable	Maintain	-
05-Nov-2018	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

EcoPack Limited ("EcoPack" or "the Company") is one of the leading manufacturers of quality PET bottles and preforms in Pakistan. The strategic location of the company is in the northern region of the country. EcoPack has a production capacity of over 327 million bottles and 729 million preforms per year. The ratings reflect EcoPack Limited's established position in the PET preform and PET bottle market, sound governance, and experienced management team associated with EcoPack for a long time. The PET packaging sector mostly derives its demand from the Carbonated Soft Drink (CSD) and water bottle industry, edible oil, pharma, and other consumables. The industry is exposed to seasonality as beverage demand remains higher in the summer months and the M/O Holy Ramazan. During 9MFY24, the topline of the company increased by 6% to stand at PKR ~4.9bln (9MFY23: PKR ~4.6bln) with a major contribution of PET Bottles at 64% followed by PET Preforms clocking in at 36%. The increase in topline is attributable to an increase in volumetric sales of products and sale prices during the period. The gross profit of the company inclined to PKR 374mln (9MFY23: PKR 335mln) owing to enhanced revenues. However, due to the off-season impact and increase in the operational expenses and finance costs the company has reported a net loss of PKR 30mln (9MFY23: PKR 23mln). Moreover, the financial matrix reveals moderate leveraging, weakened coverages, and a stretched working capital cycle. Going forward, the impact of higher finance costs & overheads on profitability is expected to be offset by transferring the cost impact to customers, which would result in improvement in margins and an increase in the top line. On the ownership side, the ongoing litigation is still in process i.e. i) the appointment of the CEO and ii) the Acquisition of shares beyond prescribed limits. The Sindh High Court has granted an ad-interim stay order with a direction to maintain the status quo in this respect. The matter is still pending in the Sindh High Court.

Considering ongoing litigation, the rating watch will remain intact. Ratings would remain dependent upon the management's ability to improve margins while sustaining its market share. Prudent management of the working capital, and maintaining sufficient cash flows and coverages are imperative for the ratings. Any significant decrease in margins and coverages will impact the ratings.

Disclosure	
Name of Rated Entity	EcoPack Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-24),Methodology | Corporate Rating(Jul-23)
Related Research	Sector Study | Paper and Packaging(Nov-23)
Rating Analysts	Muhammad Usman Ameer | usman.ameer@pacra.com | +92-42-35869504

Profile

Legal Structure EcoPack Limited (EcoPack or 'the Company') was incorporated as a Public Limited Company in 1992 and is listed on the Pakistan Stock Exchange.

Background The Company started commercial production in 1993. Over the years, the Company enhanced its production capacity of both PET Preforms and Bottles. EcoPack was the first company to introduce PET bottles for the Carbonated Soft Drink (CSD) industry. The Company also successfully introduced the first 500ml bottle in the Pakistani market. In 2008, the Company consolidated its production units in Hattar.

Operations The Company has two product lines, namely i) PET Preforms, and ii) PET Bottles. The production capacities of the PET preforms division and bottling division are 797mln and 327mln units per annum, respectively. The production facility of EcoPack is located in Hattar Industrial Area, KPK, while its head office is in Rawalpindi.

Ownership

Ownership Structure The majority of EcoPack's ownership resides with the sponsors through the Jamil family (17%). Mr. Hussain Jamil holding a 17.2% stake in the Company is the single largest stakeholder. Mr. Hussain Jamil has been leading the Company for several years. At the end Jun23 the free float of the Company was 32.53% and ~29.12% of shares are held by three entities i) Sumaya Builders & Developers ii) Crosby Pakistan (Pvt) Ltd. and iii) The Eastern Express Company (Pvt) Ltd. and the remaining ~20.99% of shares are held by individuals.

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

Business Acumen The Jamil family has been associated with the plastic packaging business since 1969 and is well-versed in the dynamics of the industry. Their acumen in the industry is reflected in EcoPack's growth over the decades as it became one of the leading players in the industry.

Financial Strength EcoPack is a stable business entity. The Sponsors have adequate financial strength to support the Company in case the need arises.

Governance

Board Structure EcoPack's BoD comprises a seven-member board, with two independent Directors, one Executive Director & four Non-Executive Directors. Apt size of the Board, the presence of independent oversight, and a female director indicate a well-framed governance structure in compliance with the Code of Corporate Governance.

Members' Profile The BoD members have a diversified skill mix both in terms of qualification and expertise. The board's Chairman, Mr. Muhammad Kamran Nasir, is a Chartered Accountant having over 31 years of multi-functional experience at international financial institutions. The executive directors have strong knowledge of the plastic industry, which bodes well for the governance.

Board Effectiveness The Board met six times during FY24 to discharge its duties, with the majority of members attending all meetings. The Board ensures effective governance through two committees, namely i) the Audit Committee, and ii) Human Resource and Remuneration Committee. Both committees are chaired by Independent Directors.

Financial Transparency To ensure operational efficiency, the Company has set up an internal audit function. The Audit Committee reviews the financial statements and ensures that the accounts fairly represent the financial position of the Company. It also ensures the effectiveness of internal controls. EcoPack's external auditors, M/s A.F. Ferguson & Co, have expressed an unqualified opinion on the financial reports for FY23. The audit for FY24 is underway.

Management

Organizational Structure EcoPack's production function is divided into two divisions, namely i) PET Preforms, and ii) PET Bottles. Each division is headed by its respective Divisional Head, who reports to the Director of Technical and Commercial. All functional Heads report to the Company's COO. However, the finance and accounts function reports to the Company's CFO. The CFO and COO report to the CEO.

Management Team The Company's CEO, Mr. Hussain Jamil, has been associated with the Company since its inception. He is a seasoned businessman and carries over 46 years of experience. All senior management has a long association with the Company. Mr Raza Chinoy is the COO of the Company. He has been associated with the company since 2006. Mr Ali Adil is the CFO of the Company and associated with the Company since 2003.

Effectiveness Cross-functional management committees increase efficiency as they assist in inter-departmental coordination. EcoPack has two functional committees, which increases management effectiveness. The committees are (a) Waste Sale Committee: To look after the waste sales-related matters headed by Director C&T (b) SAP Steering Committee: To look after the ERP-related matters headed by the CFO.

MIS The Company uses SAP ERP to manage the flow of information. EcoPack's Plant, Head Office, and Regional Offices are all connected through this ERP system. The SAP is capable of generating various reports, which are submitted to the management for monitoring purposes.

Control Environment To ensure operational efficiency, the Company has outsourced the internal audit function to M/S BDO Ebrahim & Co. who are considered suitably qualified for it. The internal audit function reports to the audit committee. EcoPack has set up a Quality Control and Assurance department that conducts regular inspections to ensure product quality.

Business Risk

Industry Dynamics The industry is seasonal in nature with the summer season having the greatest demand. Strong consumer demand for beverages remains pivotal to the overall packaging industry's growth. The industry is indirectly exposed to PKR/USD depreciation as the raw material manufacturing is directly linked with the crude oil prices. Going Forward, increasing interest rates coupled with volatility in the exchange rate may further impact the profitability of the industry.

Relative Position EcoPack holds a moderate market share of ~10% in the Preform segment, whereas in the Bottle segment, the Company has a market share of ~29%. Gatron/Novatex is the major supplier of PET resin.

Revenues EcoPack generates revenue from two divisions, namely i) PET Preforms (Injection) Division and ii) PET Bottling (Blowing) Division. During 9MFY24, the topline of the company increased by 6% to stand at PKR ~4.9bln (9MFY23: PKR ~4.6bln) with a major contribution of PET Bottles clocking in at 64% followed by PET Preforms clocking in at 36%. The increase in topline is attributable to an increase in volumetric sales of products and sale prices during the period.

Margins During 9MFY24, the gross margin of the company inclined to 9.1% (9MFY23: 6.8%) owing to enhanced revenues. The operating margin of the company witnessed a similar trend clocking in at 3.9% (9MFY23: 3.7%). The finance cost of the company increased to PKR 181mln (9MFY23: PKR 155mln) owing to the increase in the policy rate. Consequently, the net loss of the company was recorded at PKR 30mln (9MFY23: PKR 23mln). However, the net margin of the company remained largely unchanged at -0.7% (9MFY23: -0.6%).

Sustainability The Company consistently monitors and inspects production facilities and makes changes where needed in order to maintain a competitive advantage in a high-cost environment and improve margins.

Financial Risk

Working Capital EcoPack's working capital management is supported through a short-term running finance facility. At end-Mar24, the Company's gross working capital days increased to 67 days (end-Jun23: 60 days). This was due to an increase in the receivable and inventory days. Consequently, the net working capital days increased to 45 days (end-Jun23: 42 days) due to an increase in payable days.

Coverages During 9MFY24, the free cash flows declined to PKR 196mln (9MFY23: PKR 228mln). The increasing policy rate led to higher finance costs paid clocking in at PKR 182mln (9MFY23: PKR 98mln). Hence, the interest coverage of the company declined to 1.1x (9MFY23: 1.9x) and the debt coverage also declined to 0.5x (9MFY23: 0.9x).

Capitalization At end-Mar24, the leveraging of the company decreased to 47.8% (end-Jun23: 51.5%) owing to declined total borrowing of the company clocking in at PKR 1,050mln (end-Jun23: PKR 1,249mln). The equity base of the company reported at PKR 1,145mln (end-Jun23: 1,175mln)

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Financial Summary
PKR mln

EcoPack Limited Paper & Packaging	Mar-24 9M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	1,539	1,566	1,441	1,354
2 Investments	-	-	7	7
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,312	1,411	1,054	780
a Inventories	*468*	*506*	*385*	*375*
b Trade Receivables	*506*	*545*	*441*	*228*
5 Total Assets	2,851	2,976	2,502	2,142
6 Current Liabilities	655	518	530	263
a Trade Payables	*386*	*284*	*280*	*130*
7 Borrowings	1,050	1,249	923	1,005
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	0	34	18	24
10 Net Assets	1,146	1,175	1,031	850
11 Shareholders' Equity	1,145	1,175	1,031	850
B INCOME STATEMENT				
1 Sales	4,119	5,689	5,025	3,101
a Cost of Good Sold	*(3,746)*	*(5,212)*	*(4,616)*	*(2,799)*
2 Gross Profit	373	478	410	302
a Operating Expenses	(211)	(166)	(140)	(127)
3 Operating Profit	162	312	270	175
a Non Operating Income or (Expense)	*(7)*	*(7)*	*(1)*	*(16)*
4 Profit or (Loss) before Interest and Tax	155	305	268	159
a Total Finance Cost	*(181)*	*(224)*	*(122)*	*(93)*
b Taxation	*(5)*	*(41)*	*(46)*	*(20)*
6 Net Income Or (Loss)	(30)	40	100	46
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*196*	*420*	*351*	*241*
b Net Cash from Operating Activities before Working Capital Changes	*14*	*262*	*261*	*171*
c Changes in Working Capital	*230*	*(397)*	*(11)*	*(204)*
1 Net Cash provided by Operating Activities	244	(134)	249	(34)
2 Net Cash (Used in) or Available From Investing Activities	(76)	(73)	(65)	(78)
3 Net Cash (Used in) or Available From Financing Activities	(240)	241	(188)	162
4 Net Cash generated or (Used) during the period	(72)	34	(3)	50
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-3.5%	13.2%	62.1%	1.5%
b Gross Profit Margin	9.1%	8.4%	8.2%	9.7%
c Net Profit Margin	-0.7%	0.7%	2.0%	1.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	10.4%	0.4%	6.8%	1.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	-0.9%	3.6%	10.7%	5.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	67	60	52	62
b Net Working Capital (Average Days)	45	42	37	45
c Current Ratio (Current Assets / Current Liabilities)	2.0	2.7	2.0	3.0
3 Coverages				
a EBITDA / Finance Cost	1.6	2.2	3.7	4.0
b FCFO / Finance Cost+CMLTB+Excess STB	0.5	0.9	1.0	0.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	14.2	1.8	1.6	3.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	47.8%	51.5%	47.2%	54.2%
b Interest or Markup Payable (Days)	61.5	79.0	49.0	58.5
c Entity Average Borrowing Rate	20.7%	18.0%	10.4%	8.5%

Corporate Rating Criteria

Scale

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.

Long-term Rating \ Short-term Rating	A1+	A1	A2	A3	A4
AAA	■				
AA+	■				
AA	■				
AA-	■	■			
A+	■	■			
A		■	■		
A-		■	■		
BBB+			■	■	
BBB			■	■	
BBB-				■	
BB+				■	
BB				■	■
BB-				■	■
B+					■
B					■
B-					■
CCC					■
CC					■
C					■

*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