



The Pakistan Credit Rating Agency Limited

## Rating Report

### Pakistan Synthetics Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Apr-2023	A-	A2	Stable	Maintain	-
29-Apr-2022	A-	A2	Stable	Upgrade	-
06-Aug-2021	BBB+	A2	Stable	Maintain	-
07-Aug-2020	BBB+	A2	Stable	Maintain	Yes
07-Feb-2020	BBB+	A2	Stable	Maintain	-
09-Aug-2019	BBB+	A2	Stable	Maintain	-
11-Feb-2019	BBB+	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Pakistan Synthetics Limited ("PSL" or the "Company") rating reflects the strong sponsor profile, satisfactory market position, and adequate financial profile of the Company. The principal activity of the Company is the manufacturing and sale of Plastic and Crown Caps, PET resin and PET Preform. As per management representation, Pakistan Synthetics holds a moderate market share of ~10%-15% in the PET Resin segment. Whereas, in the Plastic Caps and Metal Crowns, the Company is a market leader with an estimated share of 60% and 15%-20% in PET Preform. The demand for Pakistan's PET packaging industry is seasonal in nature as it mostly drives its demand from the country's beverage sector. PET Preform is the largest segment and it made a major contribution to total revenue of 37% in 6MFY23. While metal crowns and plastic caps contributed 29% and 34% in PET Resin.

On financial side, the Company earned a top-line of PKR 5,810mln (SPLY: PKR 5,016mln). The top line of the Company increased by 16% in 6MFY23. The demand for the product has increased rapidly which leads to piled-up inventory. The Company's net profit decreased by 27% to PKR 411mln (SPLY: PKR 564mln). The decline in profitability is attributable to higher cost of production and increasing finance costs. The Company has a low leveraged capital structure. Long-term debt is related to expansion activities, whereas short-term debt has increased substantially to cater the increasing needs of working capital management. Going forward, the Company focused on consolidating its position in the industry and increasing PET Preform's capacity to accommodate the diverse demands.

The ratings would remain dependent upon the Company's ability to sustain its healthy business profile amidst strong competition, herein, effective and prudent management of financial risk indicators remain important.

#### Disclosure

<b>Name of Rated Entity</b>	Pakistan Synthetics Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Paper and Packaging(Nov-22)
<b>Rating Analysts</b>	Wajeeha Asghar   wajeeha.asghar@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Pakistan Synthetics Limited (Pakistan Synthetics or 'the Company') is a public limited company.

**Background** Pakistan Synthetic was founded as a private limited company in 1984 and converted to a public limited company in 1987. The Company currently produces PET Resin, PET Preform, Plastic Caps and Metal Crowns. Initially, the Company also produced Polymer Staple Fibre. However, its production was discontinued in 2015.

**Operations** The Company produces Plastic Closures, Metal Crowns, PET Resin and PET Preform with respective capacities of ~55,8570 Cartons per annum, ~28,000 MT per annum and ~39,000 Octabins per annum. The Company's manufacturing facilities are located in Hub, Baluchistan and Port Qasim, Karachi. The registered office is located in Clifton, Karachi.

## Ownership

**Ownership Structure** The majority stake of Pakistan Synthetics lies with the Yaqoob Karim family who own approximately 73% of total shares. Mr. Yaqoob Karim (~19.8%) and Mr. Noman Yaqoob (~21.3%) are the two largest stakeholders of the Company. Mutual funds own ~7% of the Company's shares and insurance companies own ~3%. Approximately ~15% of the stake resides with the general public.

**Stability** The ownership structure is stable as the Yaqoob Karim family holds majority shares of the Company. They have vast experience of the plastic packaging industry.

**Business Acumen** Pakistan Synthetics is wholly owned by Yaqoob Karim family. Previously, the Company was the successful venture of Al-Karam Group. The Group was ranked amongst the leading industrial groups of the country with interests in textile, financial institutions, consumables and consumer product sectors.

**Financial Strength** Pakistan Synthetics is owned by a strong business Family. The members of the sponsoring family hold shares and directorships of many companies.

## Governance

**Board Structure** The Company's board is comprised of eight members and is dominated by Haji Karim family. There are four Independent Directors, two Non-Executive Directors and two Executive Directors, including the CEO on the board.

**Members' Profile** The Board's Chairman Mr. Khurshid Akhtar is a Non-Executive Director and was appointed through the elections held on April 2022. All directors have diversified backgrounds and expertise which enables them to provide effective oversight and guidance to the management.

**Board Effectiveness** The Board met six times during FY22, with majority attendance to discuss pertinent matters. The minutes of these BOD meetings were well documented. To ensure effective governance, the Board has formed two committees, namely, (i) Audit Committee, and (ii) HR and Remuneration Committee.

**Financial Transparency** The Company's external auditors, BDO Ebrahim & Co Chartered Accountants., have expressed an unqualified opinion on the financial reports for 6MFY23.

## Management

**Organizational Structure** The Company has a well-defined organizational structure developed according to operational needs. There are seven departments, which include Plant Operations, Finance, Sales and Marketing among others.

**Management Team** The Company's CEO, Mr. Yaqoob Haji Karim, has been associated with the Company for over 25 years. He also serves on the boards of Al-Karam Textile Mills (Pvt.) Limited and Anma Industries (Pvt.) Limited. All members of the senior management are experienced and have long associations with the Company, which bodes well for operational efficiency.

**Effectiveness** Management committees help improve effectiveness and efficiency by streamlining communication between various department heads. There are no management committees in place, indicating a room for improvement

**MIS** The Company has recently installed SAP and various modules have already been implemented. The Company was previously operating through a Legacy system and the switch to SAP was made in order to facilitate generation of various types of operational reports required by the management.

**Control Environment** The Company has an internal audit function in place, which provides an effective mechanism for identification, assessment and reporting of all types of risks arising out of the business operations. The Company has numerous certifications including ISO 9001 and Halal certification indicating strong compliance with quality standards.

## Business Risk

**Industry Dynamics** The demand for Pakistan's PET packaging industry is seasonal in nature as it mostly drives its demand from country's beverage sector. Additionally, conversion from glass to plastic bottles also drives demand. The tough economic environment has reduced the purchasing power of the ultimate consumer and had a negative impact on the food and beverage segment. This in turn has reduced demand for the PET packaging industry's products. Pharmaceutical and edible oils sectors are becoming an upcoming demand driver for PET packaging.

**Relative Position** Pakistan Synthetics holds a moderate market share of ~10%-15% in the PET Resin segment. Whereas, in the Plastic Caps and Metal Crowns, the Company is a market leader with an estimated share of 60% and 15%-20% in PET Preform during 6MFY23, respectively.

**Revenues** The Company generates revenue from the sale of Plastic caps and Metal crowns, PET Resin and PET Preforms in the local market. PET Preform is the largest segment and it made a contribution to total revenue of 37% in 6MFY23. Metal crowns and plastic caps contributed 29% in 6MFY23 and 34% in PET Resin. During 6MFY23, the Company earned a top-line of PKR 5,810mln (SPLY: PKR 5,016mln).

**Margins** In 6MFY23, the Company's gross margin clocked in at 18% (SPLY: 22%). The operating margin decreased to 13% (SPLY: 16.7%). The main reason for the decreasing profitability ratios is attributable to the rise in the cost of raw materials due to inflation as well as exchange rate fluctuations. The Company earned net profit after tax for 6MFY23 amounting to PKR 411mln with a net margin of 7%.

**Sustainability** In FY22, the Company has undergone significant expansion. Therefore, further capital expenditure is not expected. Going forward, the Company plans to invest in BMR activities to improve operational efficiency and maintain market position. Additionally, the management is focused on consolidating its position in the industry and increasing capacity utilization of PET Preform segment.

## Financial Risk

**Working Capital** The Company's inventory days increased to 95 days in 6MFY23. The trade receivable days decreased at 46 days and trade payable days increased to 75 days in 6MFY23. Consequently, the Company's net working capital days stood at 66 days in 6MFY23. The Company's short-term trade leverage stood at 21.4% during 6MFY23. However, in FY22 inventory days decreased to 63 days from 71 days FY21. The Company's trade receivable days decreased to 54 days in FY22 (FY21: 72 days). The Company's trade payables days also decreased to 57 days in FY22 (FY21: 59 days). The Company's short term trade leverage stood at 20.3% during FY22.

**Coverages** In 6MFY23, the Company's EBITDA decreased to 950mln (2,186mln in June 2022). The finance cost decreased to 142mln (FY22 248mln). The EBITDA over finance cost 7.5mln (FY22 9.8mln). However, in FY22, Pakistan synthetic limited EBITDA decreased to 1031mln in FY22 (PKR 1501mln in FY21). The Finance cost of the Company increased from PKR 189mln in FY21 to PKR 248mln in FY22 as a result of increase in discount rates as compared to last year.

**Capitalization** Pakistan Synthetics Limited continues to have a low leverage capital structure in Dec'22. Its gearing ratio has decreased from 43.2% in FY22 to 39.4% in 6MFY23. The main reason behind decrease in ratio is due to paying off loan to Islamic temporary economic refinance facility (ITERF). Short-term borrowing over total borrowing increased to 56.8% (FY22: 55%).



Pakistan Synthetic Ltd Packaging	Dec-22	Jun-22	Dec-21	Jun-21	Jun-20
	6M	12M	6M	12M	12M

#### A BALANCE SHEET

1 Non-Current Assets	3,197	3,328	3,251	2,423	2,124
2 Investments	5	6	148	1	1
3 Related Party Exposure	-	-	-	-	-
4 Current Assets	5,343	5,226	4,121	3,281	2,975
<i>a Inventories</i>	3,441	2,594	2,403	1,671	1,149
<i>b Trade Receivables</i>	1,094	1,818	945	1,028	877
5 Total Assets	8,544	8,560	7,520	5,705	5,100
6 Current Liabilities	2,571	2,926	2,216	1,618	1,297
<i>a Trade Payables</i>	2,302	2,442	1,880	1,376	971
7 Borrowings	2,293	2,371	2,451	1,588	2,165
8 Related Party Exposure	-	-	-	-	-
9 Non-Current Liabilities	155	148	155	153	36
10 Net Assets	3,525	3,115	2,699	2,345	1,602
11 Shareholders' Equity	3,525	3,115	2,699	2,345	1,602

#### B INCOME STATEMENT

1 Sales	5,810	12,311	5,016	7,251	6,587
<i>a Cost of Good Sold</i>	(4,760)	(9,988)	(3,916)	(5,799)	(6,127)
2 Gross Profit	1,051	2,324	1,100	1,452	461
<i>a Operating Expenses</i>	(298)	(333)	(163)	(202)	(176)
3 Operating Profit	753	1,990	936	1,250	284
<i>a Non Operating Income or (Expense)</i>	20	(268)	(68)	(5)	6
4 Profit or (Loss) before Interest and Tax	772	1,722	869	1,245	290
<i>a Total Finance Cost</i>	(142)	(248)	(77)	(189)	(389)
<i>b Taxation</i>	(219)	(495)	(228)	(307)	0
6 Net Income Or (Loss)	411	979	563	748	(99)

#### C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	889	2,048	968	1,502	500
<i>b Net Cash from Operating Activities before Working Capital</i>	800	1,839	910	1,309	116
<i>c Changes in Working Capital</i>	(585)	(857)	(496)	(297)	301
1 Net Cash provided by Operating Activities	216	982	414	1,013	416
2 Net Cash (Used in) or Available From Investing Activities	(70)	(1,398)	(1,058)	(396)	(122)
3 Net Cash (Used in) or Available From Financing Activities	(264)	337	711	(389)	(472)
4 Net Cash generated or (Used) during the period	(119)	(79)	67	227	(177)

#### D RATIO ANALYSIS

1 Performance					
<i>a Sales Growth (for the period)</i>	-5.6%	69.8%	38.4%	10.1%	-6.4%
<i>b Gross Profit Margin</i>	18.1%	18.9%	21.9%	20.0%	7.0%
<i>c Net Profit Margin</i>	7.1%	8.0%	11.2%	10.3%	-1.5%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital / Net Profit Margin)</i>	5.2%	9.7%	9.4%	16.6%	12.1%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets / Total Equity)]</i>	23.3%	37.7%	47.5%	33.7%	-5.7%
2 Working Capital Management					
<i>a Gross Working Capital (Average Days)</i>	141	105	110	119	134
<i>b Net Working Capital (Average Days)</i>	66	49	51	60	82
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.1	1.8	1.9	2.0	2.3
3 Coverages					
<i>a EBITDA / Finance Cost</i>	7.5	9.8	13.7	8.2	1.5
<i>b FCFO / Finance Cost + CMLTB + Excess STB</i>	4.5	3.9	5.9	3.7	0.9
<i>c Debt Payback (Total Borrowings + Excess STB) / (FCFO - Finance Cost)</i>	0.7	0.7	0.6	0.5	3.6
4 Capital Structure					
<i>a Total Borrowings / (Total Borrowings + Shareholders' Equity)</i>	39.4%	43.2%	47.6%	40.4%	57.5%
<i>b Interest or Markup Payable (Days)</i>	54.7	31.9	34.5	13.5	24.7
<i>c Entity Average Borrowing Rate</i>	9.4%	9.7%	7.1%	8.5%	12.3%

### 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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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.
AA-	
A+	
A	<b>High credit quality.</b> 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.
A-	
BBB+	
BBB	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	
BB	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB-	
B+	
B	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	<b>Very high credit risk.</b> 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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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

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(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)

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- (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)
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- (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)

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- (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)

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