



The Pakistan Credit Rating Agency Limited

## Rating Report

### MACPAC Films Limited

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
05-Oct-2020	BBB-	A3	Stable	Maintain	-
08-Oct-2019	BBB-	A3	Stable	Downgrade	-
08-Apr-2019	BBB	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Macpac operates within the Biaxially Oriented Polypropylene (BOPP) and Cast Polypropylene (CPP) segments of the industry. Both are petrochemical of which price is linked to oil and gas prices, which causes volatility. Its raw material polypropylene (PP) is not manufactured in Pakistan and its demand is met almost entirely by imports. So the key input is dependent on regional supply and demand dynamics as well as strength of PKR. Exchange rate volatility also put pressure on the industry margins. Revenues growth of the players in packaging industry became slow due to increased competition.

The assigned ratings reflect Macpac Films relatively stable position in the packaging industry and strong acumen of the sponsors. The Company's margins showed an improvement - both at gross and operating levels - resulting a decrease in net losses for 3QFY20. Decreasing raw material cost coupled with predictable exchange rates volatility translates into better gross margins. New Cast Polypropylene (CPP) unit achieved 35% capacity utilization during the period and will add in profitability as utilization will increase in future. The Company has increased its leveraging during 3QFY20, though it remains moderate, with certain repayments coming up. The equity base has reduced due to losses.

The ratings are dependent on improving margins and profitability of the Company as a going concern. Meanwhile, adequate equity base and intact coverages is imperative. Sustained losses will have negative impact on the ratings.

#### Disclosure

<b>Name of Rated Entity</b>	MACPAC Films Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-20),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria   Rating Modifier(Jun-20)
<b>Related Research</b>	Sector Study   Paper and Packaging(Nov-19)
<b>Rating Analysts</b>	Shazia Afzal   shazia.afzal@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Macpac Film Ltd. was incorporated as a Public Limited Company in 1993. The Company is listed on Pakistan Stock Exchange.

**Background** Macpac Films was the brainchild of Mr. Maqbool Elahi Shaikh. The Company started commercial production of Biaxially - Oriented Polypropylene (BOPP) films in 1995. In 2003, the Company setup a new plant for Cast Polypropylene (CPP) films to diversify its existing product range. After a fire incident in 2007, the Company had to halt the manufacturing of CPP line. In 2014, the Company was able to install a Metalizer plant for BOPP films, which started its commercial production in 2015. In 2017, the Company started to reinstall the CPP manufacturing line which became commercially operational in Jan-19.

**Operations** Macpac Films Ltd. is considered to be the pioneers of Biaxially - Oriented Polypropylene (BOPP) and Cast Polypropylene (CPP) films in Pakistan, with rich experience and strong brand identity. Keeping in view the market dynamics for transparent, matte, pearled and metallized films; the Company produces them in different varieties and thickness - ranging from 10 to 60 microns.

## Ownership

**Ownership Structure** Macpac Films is primarily owned by Elahi family (48.45%). Among the sponsoring family, major ownership vests with Mr. Maqbool Elahi (46.54%). Munshi family has an ownership stake of 15% in the Company. Mr. Munaf Ibrahim owns 8.98% stake of the Company. The Company has a free float of 27%.

**Stability** Ownership of the business is seen as stable as the major ownership vests with Elahi family. The second generation of the family has been inducted in the business.

**Business Acumen** The sponsors through their vast experience, have become reliable partner for the packaging industry, by making the Company to consistently comply with the standards of high quality.

**Financial Strength** Macpac Films is a stable business entity. The sponsoring family has made several investments in the real estate sector. The Company's sister concern Toyo Packaging (Pvt) Limited was established in 1989 and having a broad portfolio of customers. This strong forward integration strengthens the customers bond and gives competitive edge through a strong supply chain support.

## Governance

**Board Structure** Macpac Films's BoD comprises two Independent Directors, three Non-Executive Directors and two Executive Directors.

**Members' Profile** The BoD, with a diversified background and expertise of its members, is a key source of oversight and guidance for the management. Board's Chairman, Mr Naeem Munshi (Non - Executive Director) has been associated with the Company since inception.

**Board Effectiveness** The minutes of the BoD meetings are well documented. To ensure effective governance, the Board has formed two committees, namely Audit Committee and Human Resource and Remuneration Committee.

**Financial Transparency** The Audit Committee ensures accuracy of the Company's accounts and internal controls. Macpac Film's external auditors, M/s EY Ford Rhodes., have expressed an unqualified opinion on the financial reports for FY19.

## Management

**Organizational Structure** To perform well, Macpac Films has structured and organized its organogram as per the operational needs. The Company operates through Supply Chain, Sales and Marketing, Finance, Internal Audit, Human Resource, Information Technology and Administration.

**Management Team** Macpac Films Ltd. has a set of experienced & professional management. The Company's CEO, Mr. Najam ul Hassan is associated with Macpac Films since 2017. He has an extensive experience of two decades in different sectors and also served as CFO of the company.

**Effectiveness** Management's effectiveness and efficiency can be ensured through the presence of management committees. At Macpac, management committees are not in place. Thus, indicating a room for improvement

**MIS** Macpac Films manufacturing facilities in Port Qasim are connected with the Company's Head Office in Karachi through an ERP. To facilitate the management, various reports related to Finance, Sales, HR, Production and Import are generated on daily and monthly basis. Frequency of these reports may alter as per the managements requirement.

**Control Environment** The Company has an internal audit function at place, which provides an effective mechanism for identification, assessment and reporting of all types of risks arising out of the business operations. This function provides support, guidance and monitoring of the internally placed SOPs along with conducting Gap Analysis for evaluating already placed policies and procedures.

## Business Risk

**Industry Dynamics** BOPP and CPP film industry comprises of three main players: Macpac Films Ltd, Tripack Films Limited and International Packaging Films Limited. A major challenge faced by the sector is prices and availability of the raw material specifically polymers such as polypropylene, & polyethylene. The polymers act as a major raw material in the extrusion of the film and represent 80% of the raw material consumed. Packaging industry use variants of Polymer Resin to manufacture BOPP and CPP films. Polymers' prices are largely a function of global crude oil prices, demand supply dynamics and exchange rate volatility. The recent market dynamics of cost base of raw materials for the company represents a declining trend. On the other hand exchange rate is also relatively stable. A low cost of raw material with predictable exchange rates will produce a better profitability and margins for the industry in future.

**Relative Position** Macpac Films holds a moderate market share of 11% in BOPP and CPP films segment.

**Revenues** The Company generates revenue through the sale of BOPP and CPP films in the local market. BOPP comprises 74% while CPP contributes 26% of total revenue during FY20. The Company's topline shows a decreasing trend. During 3Q FY20, the Company generated a topline of PKR 1.7bn vs PKR~1.8bn during 3QFY19, showing a decrease of 5% in revenue (FY19: PKR 2.4bn). This is mainly due to slow growth in demand which is partially contributed by macro economic conditions in the country. The Company makes sales directly to B2B customers and top ten customers generally account for ~50% of revenues.

**Margins** The Company operates within a thin margin segment of BOPP. Meanwhile, the CPP segment is expected to earn relatively better margins. This led to a meager increase in the Company's gross profit margin: 3QFY20: 4.7% vs 3QFY19: 3.7% (FY19: 4.3%) due to better raw material cost in the period. While net profit margin during 3QFY20 : -3.4% vs -5.4% during 3QFY19 ( FY19 :-9.7%). The trickle-down effect of gross margin combined with greater operational efficiency restricted the Company's operating loss at PKR~58 mln during 3QFY20 vs PKR~97 mln loss during 3QFY19 ( FY19 loss PKR~234 mln).

**Sustainability** The Company's CPP plant became operational during second half FY19 (Jan-19) after fire incident. This will strengthen Macpac Films competitive position and will also increase the overall capacity by over 40%.

## Financial Risk

**Working Capital** Macpac Films's working capital management is supported through short-term running finance facility obtained from a consortium of banks. Macpac Films's inventory days stood at 56 days during 3QFY20 vs 3QFY19: 60 days (FY19: 66 days) are due to high demand and thus net working capital days decreased to 13 days during 3QFY20 vs 3QFY19 34 days. It demonstrate into low inventory days and favourable receivable days with more flexible terms of payables .

**Coverages** Macpac Films's interest coverage, during 3QFY20 stood at 0.1x which was negative during FY19 (0.4)x translated into insufficient debt servicing ability in the short run. The Company's core and total debt service coverage maintained at 1.1x during 3QFY20 since last year. Free cash flow improved due to decreased loss during 3QFY20 stood at PKR~65mln vs 3QFY19 : PKR~(94)mln (FY19:PKR~(16)mln) while finance cost increased due to policy rates and increase in short term borrowings during 3QFY20 PKR~591mln vs PKR~417mln during 3QFY19.

**Capitalization** The Company has a moderately leveraged structure at 58% during 3QFY20 vs 46% during 3QFY19 (FY19: 56%). This was largely due to increase in short term borrowings comprises 62% of total borrowings during 3QFY20 vs 48% during 3QFY19 (FY19: 53%).



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Macpac Films Limited Paper & Packaging	Mar-20 9M	Jun-19 12M	Jun-18 12M	Jun-17 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	1,348	1,423	1,188	819
2 Investments	-	-	-	-
3 Related Party Exposure	115	112	61	47
4 Current Assets	828	961	983	695
<i>a Inventories</i>	319	376	491	444
<i>b Trade Receivables</i>	258	325	338	193
5 Total Assets	2,290	2,496	2,232	1,561
6 Current Liabilities	761	858	1,056	508
<i>a Trade Payables</i>	521	595	509	291
7 Borrowings	832	830	125	165
8 Related Party Exposure	-	-	-	143
9 Non-Current Liabilities	102	156	146	151
10 Net Assets	595	653	905	593
11 Shareholders' Equity	595	653	905	593
<b>B INCOME STATEMENT</b>				
1 Sales	1,693	2,415	2,125	1,516
<i>a Cost of Good Sold</i>	(1,613)	(2,312)	(1,902)	(1,263)
2 Gross Profit	80	103	223	253
<i>a Operating Expenses</i>	(82)	(119)	(103)	(94)
3 Operating Profit	(1)	(15)	120	159
<i>a Non Operating Income or (Expense)</i>	7	(97)	(31)	(6)
4 Profit or (Loss) before Interest and Tax	6	(112)	89	153
<i>a Total Finance Cost</i>	(114)	(89)	(22)	(27)
<i>b Taxation</i>	50	(33)	(11)	(48)
6 Net Income Or (Loss)	(58)	(234)	55	78
<b>C CASH FLOW STATEMENT</b>				
<i>a Free Cash Flows from Operations (FCFO)</i>	65	(16)	130	190
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	(40)	(100)	110	165
<i>c Changes in Working Capital</i>	(3)	86	288	(94)
1 Net Cash provided by Operating Activities	(42)	(14)	398	71
2 Net Cash (Used in) or Available From Investing Activities	(20)	(405)	(443)	(79)
3 Net Cash (Used in) or Available From Financing Activities	11	438	73	1
4 Net Cash generated or (Used) during the period	(51)	19	28	(8)
<b>D RATIO ANALYSIS</b>				
<b>1 Performance</b>				
<i>a Sales Growth (for the period)</i>	-6.5%	13.7%	40.2%	15.7%
<i>b Gross Profit Margin</i>	4.7%	4.3%	10.5%	16.7%
<i>c Net Profit Margin</i>	-3.4%	-9.7%	2.6%	5.2%
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	7.3%	4.0%	9.7%	16.1%
<i>e Return on Equity (ROE)</i>	-12.4%	-30.0%	7.4%	13.6%
<b>2 Working Capital Management</b>				
<i>a Gross Working Capital (Average Days)</i>	103	116	126	183
<i>b Net Working Capital (Average Days)</i>	13	32	57	143
<i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>	1.1	1.1	0.9	1.4
<b>3 Coverages</b>				
<i>a EBITDA / Finance Cost</i>	1.3	1.3	13.9	11.8
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	0.1	0.0	0.6	3.3
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	-19.1	-8.1	1.7	1.2
<b>4 Capital Structure (Total Debt/Total Debt+Equity)</b>				
<i>a Total Borrowings / Total Borrowings+Equity</i>	58.3%	56.0%	12.2%	34.2%
<i>b Interest or Markup Payable (Days)</i>	49.2	38.0	74.6	13.7
<i>c Average Borrowing Rate</i>	15.3%	15.5%	6.8%	9.7%

**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.

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+	<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	
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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
--	---

**Disclaimer:** PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

### **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**

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent