



The Pakistan Credit Rating Agency Limited

Rating Report

Golden Packages (Pvt.) 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
29-Aug-2023	BBB	A2	Stable	Maintain	-
29-Aug-2022	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Golden Packages (Pvt.) Limited (“GPL” or “the Company”) is predominately manufacturing Cast Poly Propylene (CPP) Films and flexible packaging. The demand for the product is derived mainly from the food industry and consumers. The strong customer base of the Company bodes well for the assigned rating. The Company is wholly owned by family members. The sponsor’s family has vast experience in packaging and engaged in this business since 1991. The raw material of the finished product is ~100% imported hence, exposed to exchange rate risk. As per management representation, the Company’s market share in the overall industry is ~30%, whereas, the Company is the major supplier of flexible packaging in the KPK region. Almost 70% of the total sales of the Company are made to KPK. The Company has expanded its capacity year by year, from ~2,700 MT/annum in FY20 to ~18,000 MT/annum tons in FY23, and going forward to meet the ongoing demand for the CPP Films, GPL recently imported a new plant, which will enhance the production capacity to 20,000MT/annum. The internal audit department is operating under the direct supervision of directors due to which the Company has an effective mechanism for the identification, assessment, and reporting of all types of risk arising out of the business operations. With no MIS system in place at GPL, the room for improvement concerning IT systems is massive, including the GPL’s website which is still in the developing phase.

On the financial profile side, the Company has generated a topline of ~ PKR 3,426mln during 9MFY23 as compared to ~PKR 3,240mln in 9MFY22 with an increase of ~5.7% (FY22: ~PKR 4,320mln, FY21: ~PKR 3,948mln). Consequently, the bottom line of GPL has increased to ~PKR 427mln from PKR 375mln during the same period (FY22: ~PKR 500mln, FY21: ~PKR 467mln). The equity of the Company clocked in at ~PKR 2,796mln at the end of Mar-23 (FY22: ~PKR 2,369mln, ~FY21: PKR 1,869mln). The financial position of the Company is low leveraged with sound financial indicators as of the end Mar’23. Past trends of equity injection show strong financial commitments of the sponsors.

The ratings are 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 essential for the ratings. Any significant change in margins and coverages will impact the ratings.

Disclosure

Name of Rated Entity	Golden Packages (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Paper and Packaging(Nov-22)
Rating Analysts	Muhammad Atif Chaudhry Atif.Chaudhry@pacra.com +92-42-35869504



Profile

Legal Structure Golden Packages (Pvt.) Limited ("GPL" or the "Company") was incorporated as a private limited company on March 04, 2014.

Background Golden Packages (Pvt.) Limited was founded as a private limited company in 2014 and began its operations in 2016 with the commercial production of Cast Poly Propylene (CPP) Films. In 2018, the Company entered into the Flexible Packaging industry as well to strengthen its footprints in the packaging industry.

Operations The sponsor family has a history of successful business ventures. Their familial ties have allowed them to capture the untapped northern market, especially in the Khyber Pakhtunkhwa (KPK) province, while they have a significant presence in the central region as well including Lahore, Multan, and Faisalabad. The Company also has some limited customers in the Southern region; however, its main aim is to stay the market leader and expand its presence in the north.

Ownership

Ownership Structure Majority stake of GPL lies with Mr. Shah Hussain who owns ~54% while Mr. Rehman Khan holds ~38% stakes followed by Mr. Amir Sultan (~6%) and Mr. Inam Khan (2%). Mr. Rehman, Mr. Amir and Mr. Inam are all brothers, with Mr. Inam being the eldest. Mr. Shah Hussain is the son of Mr. Inam Khan.

Stability The ownership structure is stable as owners have vast experience in the packaging industry while having a personal stake in the business.

Business Acumen The owners and directors of GPL have good relevant experience and insights with regard to the packaging industry owing to their family background. The owner's father established his own packaging, textile and other business venture in the 1960s and 1970s. All three brothers along with their extended family are involved in business ventures, with Mr. Amir is managing GPL. Mr. Inam oversees an export-oriented textile factory in Faisalabad and Mr. Rehman is involved in Olympia Packaging in Peshawar.

Financial Strength All the brothers have significant resources to finance the Company if the need arises. The equity injections along with ~PKR 343m long-term interest-free directors loan indicate the owner's financial strength and willingness to support the business.

Governance

Board Structure The Company's Board structure primarily revolves around its sponsor family. There are 4 directors on the Board, and all of them are executives. The presence of non-executive and independent directors is encouraged.

Members' Profile All the Board members are businessmen in the profession and have the relevant skills.

Board Effectiveness The Board met six times during FY22, with the majority attendance to discuss pertinent matters. While the quality of the Board's minutes is adequate. To ensure effective governance, the Board has formed two committees, namely, (i) Audit Committee, and (ii) Human Resource and Remuneration Committee.

Financial Transparency The Audit Committee ensures the accuracy of the Company's accounts and internal controls. The Company's external auditors, M/s Ale Imran & Co. Chartered Accountants have expressed an unqualified opinion on the financial statements for FY22.

Management

Organizational Structure Golden Packages has developed a defined organizational structure keeping in mind the Company's operational needs. The Company has a lean organizational structure to control the personnel costs while efficiently managing its operations.

Management Team The Company's CEO, Mr. Rehman Khan has been associated with the Company since its inception. Mr. Rehman Khan has over 10 years of relevant experience and also has experience of senior management abroad. Mr. Amir Sultan, the MD of the Company, has a vast business portfolio, simultaneously managing multiple business ventures, and enhancing GPL's practices through his own business acumen.

Effectiveness The experience of the sponsors along with a professional management team has helped the Company to streamline its operations and cut down on its costs. The production facilities have minimal wastage of around 6% which is effectively managed through re-cycling and re-using in the process.

MIS With no MIS system in place at GPL, room for improvement with regard to IT systems is needed. The Company's website is underdeveloped. A significant investment towards Information Technology is needed with a new IT department to be made in order to better match the industry's standards.

Control Environment The absence of IT-based security systems and controls is also noted.

Business Risk

Industry Dynamics A major challenge faced by the sector is prices and availability of raw materials specifically polymers such as polypropylene, & polyethylene. The packaging industry uses 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 the cost base of raw materials for the company represented a rising trend. This coupled with the significant depreciation of the currency would be expected to lead to higher raw material prices and thus create pressure on margins going forward. If the cost of raw materials with predictable exchange rates sustain, it will produce better profitability and margins for the industry in the future.

Relative Position The Company has captured the Northern CPP market, concentrated to the KPK province, and enjoys close to 70% market share in the region. GPL is increasingly becoming a well-known name in the CPP and flexible market segment, with its main competitors being Tri-Pack, MACPAC and Astro Films.

Revenues The Company generates revenue from the sale of CPP Films in the local market as well as through exports. The Company's top line shows an increasing trend (Attributable to a volumetric increase). During 9MFY23, the Company generated a top line of ~PKR 3,426m (FY22: ~PKR 4,320m, FY21: ~PKR 3,948m), showing an increase of ~5.7% in revenue, while the exports increased from ~PKR 58m to ~PKR 250m during the same period. The Company's exports are made to a single company, Najeeb Insaf Limited, situated in Afghanistan.

Margins Raw materials that are being used for manufacturing films are ~100% imported. So, to maintain the margins the Company passes on the cost to B2B consumers. In 9MFY23, the gross margin and operating profit margin both increased as compared to FY22. The GP margin increased from ~13.7% in FY22 to ~15.0% in 9MFY23 while the OP margin increased from ~13.2% to ~14.5% during the same period. The main reason for the increasing profitability ratios is attributable to an increase in sale prices and volumetric increase in sales and, on the other hand, the rise in the cost of raw materials due to the rise in commodity prices as well as exchange rate fluctuations has increased manufacturing cost as compared to correspondence period. Consequently, the net profit margin also increased from ~11.6% to ~11.8% during the same period because the Company has reported the Net profit of PKR 426.6m during 9MFY23 as compared with net profit of PKR 499m during FY22.

Sustainability In recent years, GPL has undergone significant expansion with the introduction of a flexible packaging division. Further capital expenditure is expected for the planned expansion towards BOPP. Going forward, the Company plans to invest in BMR activities to improve operational efficiency and increase its market position.

Financial Risk

Working Capital GPL's working capital requirements are a function of its inventory, trade receivables and trade payables which are financed through short term borrowings and FCFO. During 9MFY23, the Company's inventory days decreased to ~37 days from ~51 days in FY22. Meanwhile, trade receivable days also increased to ~61 days from ~56 days. Trade payable days decreased to ~30 days from ~34 days during the same period. Consequently, the Company's net working capital days also decreased to ~68 days from ~72 days at the end of 9MFY23. The decrease in net working capital days shows good working capital management.

Coverages During 9MFY23, the Company's FCFOs stood at ~PKR 581m increasing from ~PKR 446m in FY22. The FCFO/Finance cost also showed an increase from ~39x of coverage at the end of 9MFY22 to ~53x at the end of 9MFY23; however, this is still a very healthy coverage level for the Company. While the Company does take on both short-term and long-term financing from financial institutions, the strategy is to keep the Company mainly equity-focused, thus the finance cost is planned to be on a manageable scale going forward.

Capitalization The Company has a low-leveraged capital structure. Long-term debt is related to expansion activities, whereas short-term debt is related to working capital management. The long-term liabilities are ~20.5% of equity at the end of 9MFY22 and ~14.63% of equity at the end of FY22. The total borrowings include only long-term borrowing which increased from ~PKR 347m at the end of FY22 to ~PKR 574m at the end of 9MFY23. The GPL currently has no short-term borrowings at the end of 9MFY23. The STB clocked in at PKR284m at the end of FY22. Its gearing ratio has increased from ~21% at the end of FY22 to ~24.5% at the end of 9MFY23, while it has remained at ~19.8% in FY21, indicating that while the Company does have debt, it is not increasing its debt ratio currently and is instead relying more on organic growth.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Golden Packages (Pvt.) Limited Paper & Packaging	Mar-23 9M	Jun-22 12M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET					
1 Non-Current Assets	1,091	761	345	391	463
2 Investments	-	-	-	-	-
3 Related Party Exposure	-	-	-	-	-
4 Current Assets	2,640	2,701	2,467	1,586	861
<i>a Inventories</i>	674	601	601	445	271
<i>b Trade Receivables</i>	367	667	658	450	304
5 Total Assets	3,731	3,461	2,812	1,977	1,324
6 Current Liabilities	362	461	480	432	146
<i>a Trade Payables</i>	295	355	459	415	127
7 Borrowings	574	631	114	10	103
8 Related Party Exposure	-	-	348	343	150
9 Non-Current Liabilities	-	-	-	-	-
10 Net Assets	2,796	2,369	1,869	1,192	925
11 Shareholders' Equity	2,796	2,369	1,869	1,192	925
B INCOME STATEMENT					
1 Sales	3,426	4,320	3,948	2,961	1,189
<i>a Cost of Good Sold</i>	(2,895)	(3,727)	(3,376)	(2,620)	(1,065)
2 Gross Profit	532	593	572	341	124
<i>a Operating Expenses</i>	(24)	(24)	(20)	(19)	(13)
3 Operating Profit	508	569	551	322	111
<i>a Non Operating Income or (Expense)</i>	-	-	-	-	-
4 Profit or (Loss) before Interest and Tax	508	569	551	322	111
<i>a Total Finance Cost</i>	(38)	(15)	(11)	(10)	(5)
<i>b Taxation</i>	(43)	(54)	(74)	(44)	(13)
6 Net Income Or (Loss)	427	500	467	267	92
C CASH FLOW STATEMENT					
<i>a Free Cash Flows from Operations (FCFO)</i>	581	595	585	353	125
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	543	580	575	343	119
<i>c Changes in Working Capital</i>	185	(508)	(680)	(333)	(186)
1 Net Cash provided by Operating Activities	728	72	(105)	10	(66)
2 Net Cash (Used in) or Available From Investing Activities	(446)	(495)	(62)	(4)	(49)
3 Net Cash (Used in) or Available From Financing Activities	(57)	168	319	110	120
4 Net Cash generated or (Used) during the period	225	(256)	152	116	4
D RATIO ANALYSIS					
1 Performance					
<i>a Sales Growth (for the period)</i>	5.7%	9.4%	33.3%	149.1%	0.0%
<i>b Gross Profit Margin</i>	15.5%	13.7%	14.5%	11.5%	10.4%
<i>c Net Profit Margin</i>	12.5%	11.6%	11.8%	9.0%	7.7%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	22.4%	2.0%	-2.4%	0.7%	-5.1%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	21.1%	23.3%	29.3%	26.8%	9.9%
2 Working Capital Management					
<i>a Gross Working Capital (Average Days)</i>	92	107	100	98	172
<i>b Net Working Capital (Average Days)</i>	66	72	59	65	133
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	7.3	5.9	5.1	3.7	5.9
3 Coverages					
<i>a EBITDA / Finance Cost</i>	16.4	42.5	62.9	42.3	29.5
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	15.3	39.0	55.8	37.6	8.4
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.8	0.6	0.8	1.0	1.4
4 Capital Structure					
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	17.0%	21.0%	19.8%	22.8%	21.5%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	0.0	0.0	0.0
<i>c Entity Average Borrowing Rate</i>	8.4%	2.9%	2.7%	3.1%	2.2%

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
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	e) Holding Company Rating
b) Corporate Rating	f) Independent Power Producer Rating
c) Debt Instrument Rating	g) Microfinance Institution Rating
d) Financial Institution Rating	h) Non-Banking Finance Companies Rating

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 | 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 | 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