The Pakistan Credit Rating Agency Limited

Rating Report

Golden Packages (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Aug-2024	BBB	A2	Stable	Maintain	-
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 Company is wholly owned by family members. The sponsor’s family has vast experience in packaging and engaged in this business since 1991. The demand for the product is derived mainly from the food industry and consumers. The strong and intact customer base of the Company bodes well for the assigned rating. The raw material of the finished product is ~100% imported hence, exposed to exchange rate risk. The internal audit department operates 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. The company has developed and put in place an MIS system powered by SAP during the period. During FY24, the topline of the company increased by 29% to stand at PKR 7,841mln (FY23: PKR 6,095mln). Consequently, the net profit of the company inclined to PKR 924mln (FY23: PKR 764mln). Moreover, the financial matrix indicates a stable profile through good working capital management, strong coverages, and low leveraging. However, there is room for improvement in the qualitative factors inclusive of the governance framework, segregation of key heads, and financial transparency. A cumulative improvement in these factions along with sustentation of the financial profile will be considered positive for ratings of the company.

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 | Rating Modifiers(Apr-24),Methodology | Corporate Rating(Jul-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24)
Related Research	Sector Study | Paper and Packaging(Nov-23)
Rating Analysts	Muhammad Usman Ameer | usman.ameer@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 The majority stake in Golden Packages lies with Mr. Munir Khan who owns 54% of the total shares. Mr. Rehman Khan is also a major shareholder with 38% ownership, while Mr. Amir Sultan owns 8% shares of the company.

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 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 ventures in the 1960s and 1970s.

Financial Strength All family members have significant resources to finance the Company if the need arises. The equity injections along with long-term interest-free directors loans 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. 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 meets at adequate times during the year, with the majority attending 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 Z.U.M.I.R.S & Co. Chartered Accountants have expressed an unqualified opinion on the financial statements for FY23. The audit for FY24 is underway.

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 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 11 years of relevant experience and also has experience in 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 The company has deployed SAP systems during the year to match the industrial standards.

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

Business Risk

Industry Dynamics Today’s packaging industry is fast-paced. The Company’s success depends on understanding customer requirements, anticipating future trends, challenges, and opportunities, and partnering with suppliers and human capital to discover long-term and sustainable solutions for all our stakeholders. Demand for Pakistan’s CPP Films is growing as it is a cheaper and more readily available packaging material as compared to the alternatives. However, the demand in Pakistan is also seasonal in nature as it mostly drives its demand from the country’s food sector. In this regard, improvement in the purchasing power of the ultimate consumer has also played a positive role leading to a growth of 10-15% in the food segment. Thus, generating demand for the country’s packaging industry.

Relative Position GPL is increasingly becoming a well-known name in the CPP and flexible market segment, with its main competitors being Tri-Pack and Astro Films. MACPAC is not considered a main competitor due to its being mainly concentrated in the southern region while GPL has its roots in the Northern and Central regions.

Revenues The Company generates revenue from the sale of CPP Films in the local market as well as through exports. During FY24, the revenues inclined to PKR 7,841mln (FY23: PKR 6,095mln). Local sales (exclusive of tax) of the company are inclined to PKR 8,279mln (FY23: PKR 6,251mln) while the exports of the company recorded at PKR 58mln (FY23: PKR 308mln). The Company’s exports are to a single company, Najeeb Insaf Limited, situated in Afghanistan.

Margins During FY24, the gross profit margin of the company declined to 13.4% (FY23: 15.1%). The operating profit margin of the company witnessed a similar trend clocking in at 12.9% (FY23: 14.6%). The finance cost of the company decreased to PKR 44mln (FY23: PKR 49mln). The net income of the company was recorded at PKR 924mln (FY23: PKR 764mln). However, the net margin declined to 11.8% (FY23: 12.5%).

Sustainability In recent years, the Company has undergone significant expansion while 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 maintain market position. Additionally, the management is focused on consolidating its position in the industry and increasing the capacity utilization of newly established CPP facilities.

Financial Risk

Working Capital Golden Packages (Pvt.) Limited’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 FY24, the Company’s inventory days decreased to 36 days (FY23: 38 days). The trade receivable days also decreased to 53 days (FY23: 59 days) and trade payable days also decreased to 27 days (FY23: 37 days).

Coverages During FY24, the Company’s free cash flow (FCFO) stood at PKR 1,121mln (FY23: PKR 937mln). The Company’s EBITDA stood at PKR 1,219mln (FY23: PKR 1,013mln). Consequently, the interest coverage of the company is inclined to 25.6x (FY23: 19.2x).

Capitalization Golden Packages has a low-leveraged structure. At end-Jun24, the leveraging of the company decreased to 8.7% (end-Jun23: 14.8%) owing to an increase in the equity base clocking in at PKR 4,057mln (end-Jun23: PKR 3,133mln) attributable to inclined profitability. The borrowings of the company declined to PKR 387mln (end-Jun23: PKR 544mln).

The Pakistan Credit Rating Agency Limited

Golden Packages (Pvt.) Limited Paper & Packaging	Jun-24 12M	Jun-23 12M	Jun-22 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	1,410	1,163	761	391
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	3,450	3,494	2,701	1,586
a Inventories	*885*	*673*	*601*	*445*
b Trade Receivables	*971*	*1,302*	*667*	*450*
5 Total Assets	4,860	4,657	3,461	1,977
6 Current Liabilities	415	980	461	432
a Trade Payables	*294*	*883*	*355*	*415*
7 Borrowings	387	544	631	10
8 Related Party Exposure	-	-	-	343
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	4,057	3,133	2,369	1,192
11 Shareholders' Equity	4,057	3,133	2,369	1,192
B INCOME STATEMENT				
1 Sales	7,841	6,095	4,320	2,961
a Cost of Good Sold	*(6,792)*	*(5,175)*	*(3,727)*	*(2,620)*
2 Gross Profit	1,048	920	593	341
a Operating Expenses	(36)	(31)	(24)	(19)
3 Operating Profit	1,012	889	569	322
a Non Operating Income or (Expense)	*54*	-	-	-
4 Profit or (Loss) before Interest and Tax	1,066	889	569	322
a Total Finance Cost	*(44)*	*(49)*	*(15)*	*(10)*
b Taxation	*(98)*	*(76)*	*(54)*	*(44)*
6 Net Income Or (Loss)	924	764	500	267
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,121*	*937*	*595*	*353*
b Net Cash from Operating Activities before Working Capital Changes	*1,077*	*888*	*580*	*343*
c Changes in Working Capital	*(516)*	*(158)*	*(508)*	*(333)*
1 Net Cash provided by Operating Activities	560	730	72	10
2 Net Cash (Used in) or Available From Investing Activities	(400)	(527)	(495)	(4)
3 Net Cash (Used in) or Available From Financing Activities	(169)	(87)	168	110
4 Net Cash generated or (Used) during the period	(9)	116	(256)	116
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	28.6%	41.1%	9.4%	149.1%
b Gross Profit Margin	13.4%	15.1%	13.7%	11.5%
c Net Profit Margin	11.8%	12.5%	11.6%	9.0%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	7.7%	12.8%	2.0%	0.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	23.3%	28.0%	23.3%	26.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	89	97	107	98
b Net Working Capital (Average Days)	62	60	72	65
c Current Ratio (Current Assets / Current Liabilities)	8.3	3.6	5.9	3.7
3 Coverages				
a EBITDA / Finance Cost	27.8	20.8	42.5	42.3
b FCFO / Finance Cost+CMLTB+Excess STB	5.3	4.6	39.0	37.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.4	0.6	0.6	1.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	8.7%	14.8%	21.0%	22.8%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	11.1%	8.4%	2.9%	3.1%

Corporate Rating Criteria

Scale

Credit Rating

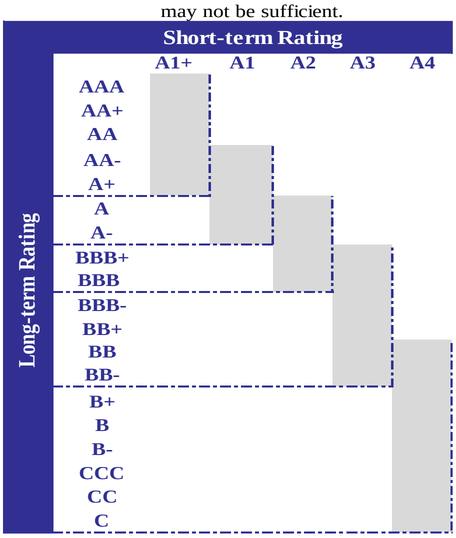
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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.



**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
(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