The Pakistan Credit Rating Agency Limited

Rating Report

Ultra Pack (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Mar-2024	BBB	A2	Stable	Maintain	-
30-Mar-2023	BBB	A2	Stable	Maintain	-
30-Mar-2022	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Ultra Pack (Pvt.) Limited (UPPL) specializes in providing industrial packaging solutions primarily tailored for the cement industry, with a significant portion of its sales directed towards its affiliated entity, "Kohat Cement Company Limited," having PACRA assigned ratings (A+/A1). UPPL's core operations revolve around the manufacturing and distribution of polypropylene bags, including block-bottom AD-Star Bags, block-bottom open-mouth Bags, Laminated Stitched Bags, and Woven PP Fabric. The company's ratings are reflective of its market presence, underpinned by the backing of its principal sponsor, ANS Capital (Pvt.) Limited. The production of this packaging sector is closely linked with the demand derived from cement industry. The price of major raw materials in the packaging segment is correlated to international oil prices. Volatility in oil prices and exchange rates is a source of risk as market players face difficulty to pass on impact of increased material prices, thus ultimately holding an impact on the profitability of the sector. Consequently, the Company’s revenue stream is a derivative of its cement bags sales including to its associated entity. Oil prices declined steadily and consolidated around the range of USD~70/bbl. at the end of CY23 from the price of USD~114.59/bbl. at End-FY22, however, this positive development was offset by the dismal performance of the cement industry and wider macroeconomic challenges. The cement industry recorded capacity utilization of ~57% in FY23, which was the lowest in two decades, in line with the industry Ultra Pack capacity utilization also got impacted and stood at ~56% during FY23 (FY22 ~ 70%). UPPL has an installed capacity of ~120mln PP bags/annum. Accordingly, it captures a market share of around ~21% in PP bag distribution. The Company’s topline is a function of sales channeled through North region of Pakistan. Profit margins of UPPL are dependent on two factors: sales earnings and merchandise cost. During the review period, UPPL experienced a decline in profitability due to cost-push inflation, which was not adequately offset by sales revenue. Consequently, the company must reevaluate its pricing model. Moreover, UPPL needs to strengthen its equity base. Currently, ownership of the company is exclusively held by members of the sponsoring family. UPPL has implemented a robust internal control system throughout its operations. Financial risk profile of the Company is demonstrated by modest coverages, cashflows, and adequate working capital cycle. UPPL’s capital structure is moderately leveraged; encompassing STBs and low equity.

The ratings are dependent on the UPPL’s ability to grow its position amidst challenging industry environment while improving its proceeds. Prudent management of the working capital, maintaining sufficient cash flows and coverages are imperative for the ratings. Any significant decrease in margins and coverages will impact the ratings.

Disclosure

Name of Rated Entity	Ultra Pack (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Paper and Packaging(Nov-23)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@pacra.com | +92-42-35869504

Profile

Legal Structure Ultra Pack (Pvt.) Limited ('Ultra Pack' or 'the Company'), a subsidiary of ANS Capital is a private limited entity incorporated in 2016.

Background The Company was established in 2016 to offer industrial packaging solutions to cement industry including to its associated concern "Kohat Cement Company Limited." During 2017, the company was fully operational by using the latest Extrusion & Bag Conversion technologies. Its registered office is located in Sunder Industrial Estate, Lahore.

Operations Ultra Pack is principally engaged in the manufacturing of Polypropylene bags from plastic granules. The Company's product line includes Block Bottom AD-Star Bags, Block Bottom Open Mouth Bags, Laminated Stitched Bags, & Woven PP Fabric. The Company has an installed capacity of ~120mln units per annum.

Ownership

Ownership Structure The Company is exclusively owned by the sponsoring family through ANS Capital (Pvt.) Limited (~100%) where, the majority stake of ANS Capital resides with Mr. Nadeem Atta Sheikh (~41.87%). The other major proportion of shareholding is with Mr. Aizaz Mansoor Sheikh (~28.59%). The remaining shareholding (~29.54%) rests with other members of the family.

Stability Ownership structure seems stable as no major change in the shareholding is expected in near future. 100% stake rests with ANS Capital (Pvt.) Limited. However, defined and streamlined shareholding pattern among family members along with formal line of succession can add strength and bring more clarity for practical purposes.

Business Acumen The Sheikh Family (sponsors of the Company) is considered to have strong business acumen. The sponsors have been operating in Pakistan for a number of decades now and expanded its presence by venturing into different industries including cement, paper & packaging.

Financial Strength Kohat Cement Company being the flagship entity of ANS Capital maintains strong financial profile with substantial access to capital markets. Thus, sponsors' ability to provide support is considered high should the need arise.

Governance

Board Structure The board consists of three members, all of whom are affiliated with the sponsoring family: CEO Mr. Ibrahim Tanseer and Executive Directors Mr. Omer Aizaz and Mr. Faisal Atta. The absence of independent directors raises concerns about potential conflicts of interest and limitations on effective oversight of management.

Members' Profile The board members boast extensive related industry experience, additionally serving as directors at ANS Capital and Ultra Kraft (Pvt.) Limited. CEO Mr. Ibrahim Tanseer brings over 10 years of expertise to the company.

Board Effectiveness The lack of board committees raises concerns regarding the potential for impartial oversight and the company's adherence to good governance practices. Board members' additional director positions in the holding company exacerbate this concern.

Financial Transparency M/s. Viqar A. Khan & Co., Chartered Accountants (QCR rated firm), is the external auditor of the Company. The auditors have expressed an unqualified audit opinion on the financial statements of Ultra Pack for the year ended June 30, 2023.

Management

Organizational Structure A well-defined organizational structure exists in the Company. The functions reporting to CEO are: 1) Accounting & Finance, 2) Administration & Security, 3) Internal Audit, 4) IT, 5) Marketing & Sales, 6) HRM, 7) Quality Assurance and 8) Compliance & QHSE. However, the functions reporting to Director Operations are: 1) Supply Chain Purchase and 2) Production.

Management Team Mr. Ibrahim Tanseer, a CA (ICAEW) with over 10 years of experience at the company, leads a team of qualified individuals with relevant industry expertise. Key members include Mr. Abdul Jabbar (GM Production) and Mr. Abdur Raheem (Marketing & Sales Manager).

Effectiveness With the support of right personnel, the Company is building up the business strengths and increasing its foot print across different cities of Pakistan. Functions of the management are clear and defined to effectively achieve its underlying goals and objectives.

MIS S The Company is presently using Oracle based ERP solution with version R-12 having multiple operational modules to keep track of daily and monthly reports.

Control Environment To ensure operational efficiency and appraisal of internal controls, the Company has an in-house internal audit department which implements and monitors the policies and procedures of the Company.

Business Risk

Industry Dynamics Pakistan's packaging industry is dominated by four segments: paper, plastic, tinplate, and glass, with paper and plastic holding the largest market share. The price of major raw material in plastic segment is correlated to international oil prices. Oil prices declined steadily and consolidated around the range of USD~70/bbl at the end of CY23 from the price of USD~114.59/bbl at End-FY22. Volatility in oil prices and exchange rates is a significant source of risk ultimately holding an impact on the profitability of the sector.

Relative Position Ultra Pack (Pvt.) Limited manufactures & sells premium quality Polypropylene bags. In the PP bags segment, Syntronics is the largest player in the industry with an installed capacity of ~216mln units followed by Cherat Packaging with capacity of ~180mln units. In polypropylene packaging segment, Ultra Pack holds ~21.4% share in the country's production capacity.

Revenues Primarily, the Company derives its revenues from the manufacturing & sale of PP Bags, followed by coated fabric, laminated stitched bags, and weaved fabric. During FY23, the Company's topline clocked in at ~PKR 2,668mln (FY22: ~PKR 2,636mln) (FY21: ~PKR 2,003mln) registering CAGR of only 1.2% against 31.6% last year. As per management accounts for 6MFY24, the Company recorded topline of PKR 1,353mln with just ~1.4% sales growth.

Margins During FY23, the Company's gross margin decreased to ~10.4%. (FY22: ~10.6%, FY21: ~14.2%, FY20: ~16.7%, FY19: ~15.8%) on back of proportionate increase in the prices of raw materials consumed. As per the 6M management accounts, the gross margin remained ~8%. Operating profit margin also reduced to ~3.6% in FY23 (FY22: ~6.5%, FY21: ~9.5%, FY20: ~12.7%, FY19: ~12.2%) due to higher operating expenses year-on-year basis. Resultantly, net profit margin of the Company also reduced in FY23 and stood at ~2.5% (FY22: 4.6%, FY21: ~6.2%, FY20: ~7.8%, FY19: ~7.7%). According to management accounts at end Dec-23, the Company's operating, and net margins stood at 2.1%, and 0.8%, respectively.

Sustainability Given the current economic climate and industry dynamics in Pakistan, the company's demand and supply are likely to face challenges. However, the potential revival of the construction sector and rising cement demand could positively impact revenue. Additionally, the industry faces intense competition due to price sensitivity.

Financial Risk

Working Capital Ultra Pack's capital needs emanate from financing inventories and trade receivables for which the Company relies on internal cash flow generations and borrowings. During FY23, the Company's gross working capital days decreased to ~83 (FY22: ~102, FY21: ~163 days). Average inventory days increased to ~46 days (~FY22: ~35 days, FY21: ~31 days). Whereas average receivable days significantly reduced to ~36 days (FY22: ~67 days, FY21: ~132 days) on back of timely recoveries from debtors. Resultantly, net working capital cycle also ramped down to ~30 days (FY22: ~65 days, FY21: ~127 days). As at end Jun-23, gross working capital cycle stood at ~83 days, however net working capital cycle stood at ~30 days. the 6M management account show gross working capital days at 79 and the net working capital cycle at 33 days.

Coverages During FY23, the Company's free cash flows from operations (FCFO) marked at PKR 83mln, (FY22: 143mln, FY21: PKR 222mln) on account of gross profit incurred PKR 277 mln in FY23, (FY22: PKR 279mln in FY22, FY21: PKR 285mln). As at end Dec-23, the Company's FCFO clocked PKR 30mln. Interest coverage ratio of the Company reduced to 3.3x in FY23, (FY22: 6.3x, FY21: 9.4x) whereas core-debt coverage ratio stood at 3.3x (FY22: 1.1x, FY21: 1.3x).

Capitalization In FY23, the Company had a leveraged capital structure with a leverage ratio of ~32.3% (FY22: ~45.3%, FY21: ~44.4%). Leveraging ratio improved year-on-year basis as the Company's borrowings stood at PKR 118mln in FY23 (FY22: PKR 205mln), mainly due to short-term borrowings availed for working capital requirements. Leveraging ratio recorded at ~30.8% as per management accounts of FY24.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

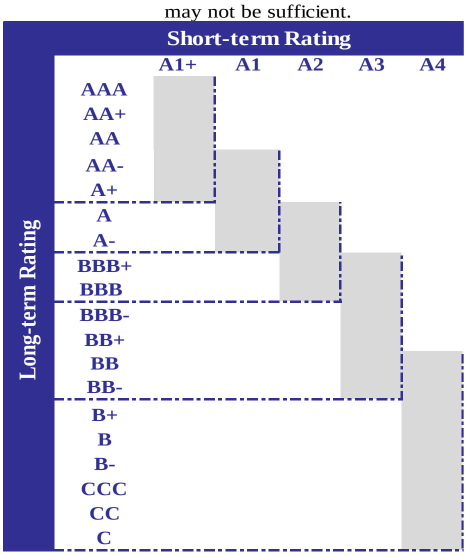
Ultra Pack (Private) Limited Paper & Packaging	Dec-22 6M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	694	710	749	784
2 Investments	21	19	-	-
3 Related Party Exposure	45	275	54	-
4 Current Assets	791	1,056	1,010	1,201
a Inventories	*171*	*298*	*212*	*129*
b Trade Receivables	*304*	*354*	*607*	*836*
5 Total Assets	1,551	2,060	1,813	1,986
6 Current Liabilities	461	768	640	579
a Trade Payables	*229*	*382*	*150*	*241*
7 Borrowings	55	205	247	265
8 Related Party Exposure	305	341	238	578
9 Non-Current Liabilities	86	86	80	79
10 Net Assets	643	659	607	483
11 Shareholders' Equity	643	659	607	483
B INCOME STATEMENT				
1 Sales	1,094	2,636	2,003	1,880
a Cost of Good Sold	*(1,039)*	*(2,357)*	*(1,718)*	*(1,567)*
2 Gross Profit	56	279	285	313
a Operating Expenses	*(58)*	*(106)*	*(95)*	*(75)*
3 Operating Profit	(3)	172	190	239
a Non Operating Income or (Expense)	*15*	*24*	*11*	*11*
4 Profit or (Loss) before Interest and Tax	12	196	201	249
a Total Finance Cost	*(14)*	*(25)*	*(25)*	*(43)*
b Taxation	*(14)*	*(49)*	*(52)*	*(60)*
6 Net Income Or (Loss)	(16)	122	124	147
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*(27)*	*143*	*222*	*266*
b Net Cash from Operating Activities before Working Capital Changes	*(43)*	*118*	*195*	*221*
c Changes in Working Capital	*(98)*	*212*	*227*	*(255)*
1 Net Cash provided by Operating Activities	(141)	331	422	(34)
2 Net Cash (Used in) or Available From Investing Activities	220	(226)	(69)	32
3 Net Cash (Used in) or Available From Financing Activities	(186)	(9)	(358)	(84)
4 Net Cash generated or (Used) during the period	(107)	96	(5)	(86)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-17.0%	31.6%	6.5%	9.6%
b Gross Profit Margin	5.1%	10.6%	14.2%	16.7%
c Net Profit Margin	-1.5%	4.6%	6.2%	7.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-11.4%	13.5%	22.4%	0.6%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareh*	-5.0%	19.2%	22.7%	35.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	94	102	163	139
b Net Working Capital (Average Days)	43	65	127	108
c Current Ratio (Current Assets / Current Liabilities)	1.7	1.4	1.6	2.1
3 Coverages				
a EBITDA / Finance Cost	2.8	10.2	11.2	7.7
b FCFO / Finance Cost+CMLTB+Excess STB	-0.9	1.1	1.3	3.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-4.2	3.7	2.4	3.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	35.9%	45.3%	44.4%	63.6%
b Interest or Markup Payable (Days)	71.0	103.9	92.0	73.4
c Entity Average Borrowing Rate	5.5%	4.5%	3.5%	4.7%

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.

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

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