The Pakistan Credit Rating Agency Limited

Rating Report

Packages Convertors Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
18-Aug-2023	AA-	A1	Stable	Maintain	-
18-Aug-2022	AA-	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect Packages Convertors Limited ("PCL" or the "Company") association with Packages Limited, the holding Company of Packages Convertors. In 2020, after internal restructuring, the manufacturing business of Packages Limited were transferred to PCL, which is now a wholly-owned subsidiary of Packages Limited. PCL has a prominent market presence in its operational segments - Packaging (Flexible Packaging & Folding Cartons) and Consumer Products (Tissue & Sanitary Napkins). PCL enjoys the largest market share of Tissues, Folding Cartons and Flexible Packaging. The production of each segment is directly linked with the demand of food products and consumer goods. Considering the higher demand, the utilization level has remained on the higher side.
On the financial profile side, during 6MCY23 the Company has reported growth in sales by 32.8%, to PKR 25.9bln (SPLY: 19.5bln). The major contribution in sales growth came from Tissue segment. The profit after tax of the Company has increased resulting in improved NP margins from 5.5% to 7.5%. The cash flows have also been improved as compared to last year. The strategic relationships with international suppliers helped the Company in reaping the benefits of catering demand. However, the capital structure of the Company remained highly leveraged ~73% (6MCY22: 74%) which would remain imperative to the ratings where the long-term debt is related to expansion activities. However, good FCFO provides a cushion for the financial cost and debt repayment. Going forward, in order to strengthen its market position, the Company is in the process of further expansion and other technological advancements. The backing of Packages Limited is playing a pivotal role in supporting the current rating.

The ratings depends upon the management's capacity to enhance profit margins while upholding its market share. Skillful oversight of working capital, lowering the leverage ratio, robust cash flows, and adequate coverage are under considerations for the ratings. The successful execution of the management's diversification strategy, leading to improved margins and heightened profitability, holds significant importance. The ratings would be impacted by decline in margins or coverages.

Disclosure

Name of Rated Entity	Packages Convertors 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)
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Profile

Legal Structure Packages Convertors Limited was incorporated as a public company in May-2019 whereas all the manufacturing operations of Packages Limited were transferred to PCL in 2020 pursuant to internal restructuring.

Background Over the years, Packages Limited has continued to enhance its facilities to meet the growing demand of packaging & allied products. However, during 2020, after internal restructuring, Packages Limited has converted PCL into its 100% owned subsidiary, thus enabling Packages to act purely as a holding company. Packages Convertors Limited, remains as one of the flagship investment of the group.

Operations Packages Convertors has prominent market presence in its operational segments - Packaging (Flexible Packaging & Folding Cartons) and Consumer Products (Tissue & Sanitary Napkins).

Ownership

Ownership Structure Packages Convertors is 100% owned subsidiary of Packages Limited.

Stability Packages Limited is the flagship investment holding company of the Ali Group which has a history spanning over a period of more than 65 years. Packages investment book comprises entities engaged in the manufacturing and sale of inks, flexible packaging material, paper, paperboard, and corrugated boxes, biaxially oriented polypropylene film and cast polypropylene film, production and sale of ground calcium carbonate products, entities engaged in insurance, power generation, real estate segment of the economy and recently diversifying into manufacturing of corn-based starch.

Business Acumen The Group is ranked amongst the leading industrial groups of the country with interests in paper and paperboard, packaging, financial institutions, education, and real estate sectors. Packages Limited has significant successful joint ventures with international conglomerates and long standing relationship with various multinational companies.

Financial Strength Packages Convertor Limited net assets stood at ~PKR 5.9bln with a turnover of ~PKR 25.9bln during the 6MCY23 represents a sound support for the Company when needed. The overall group's asset stood at over PKR ~172bln with revenue of PKR~121bln during CY22.

Governance

Board Structure The Board comprises of three executive directors, and three non-executive directors and one independent director. Appropriate size of the board and presence of independent oversight supplements good governance framework.

Members' Profile The BoD, with a well-diversified background and relative expertise of its members, is a key source of oversight and guidance for the management. The Chairman of the Board Mr. Tariq Iqbal Khan is associated with the Company since 2020. Mr. Khan is also a Member of Institute of Chartered Accountants of Pakistan and on the board of 12 other companies.

Board Effectiveness The Board ensures effectiveness through two committees; Audit Committee and Human Resource & Remuneration Committee, having 6 and 5 members, respectively. Meetings were well attended with discussions focusing on the Company's performance.

Financial Transparency PCL's external auditors, M/s A.F. Ferguson & Co., have been the Company's auditors since the Company's inception. The auditor has expressed an unqualified opinion on the financial reports of CY22.

Management

Organizational Structure The Company operates through eight departments namely, i) Production, ii) Marketing, iii) Finance, iv) IT v) Internal Audit, vi) EHS, vii) Sustainability and viii) Administration. All departments are reportable to the HOD and each HOD is reportable to the CEO, while the internal audit department is also reporting to the Board of Directors through the Audit Committee.

Management Team The Company's CEO, Mr. Syed Hyder Ali has been associated with the Company since its inception and is also the Managing Director of Packages Limited. The Company's CFO, Mr. M. Amjad Shaikh, has over 9 years of relevant experience. Mr. Salman Fazlur Rahman, Mr. Nasir Zaman Khan & Mr. Numan Noor, Business unit manager's of each business units have requisite experience.

Effectiveness The production facilities have minimal wastage which is effectively managed through re-cycling and re-using in the process of being scrapped to decrease loss. Management committees are established which meet periodically to ensure a smooth workflow.

MIS To generate MIS and operational reports, ERP software, SAP ECC6 is used.

Control Environment To ensure operational efficiency, the Internal Audit Function is in place that identifies and reports risks. The Audit Committee reviews the internal audit department reports and planned activities.

Business Risk

Industry Dynamics Pakistan's packaging industry consists of four major segments, paper, plastic, tinplate and glass. Paper and plastic segments occupy the major share in total market, while other materials such as tinplate and glass have relatively smaller size. Despite, the economic slowdown caused by several issues, demand for the segment remained almost consistent as it falls in the supply chain of various essential products and industries. The segment's direct costs consist largely of imported raw materials. Chemical wood pulp is one of the main raw materials in the production of paper packaging. Therefore, volatility in exchange rates and international price trends has an impact on costs.

Relative Position Amongst the larger players in the tissue paper industry and packaging market, PCL enjoys the largest market share of Tissue, Folding Carton and Flexible Packaging.

Revenues The Company generates major revenue through the sale of consumer products (Tissue) and flexible packaging. The Company's topline shows an increasing trend. During 6MCY23, the Company has reported a significant growth in sales by 32%, to PKR 25.9bln (SPLY: 19.5bln). The Company majorly makes sales directly to B2B customers.

Margins The Gross Profit margin increased from 20.8% in 6MCY22 to 29.8% in 6MCY23. While the OP margin increased from 13.3% to 22.6% due to efficient management expenses. Consequently, the net profit margin also increased from 5.5% to 7.5% as a result. The Company posted a net profit of ~PKR 1,947mln during 6MCY23 (SPLY: ~PKR 1,082mln, CY22: ~PKR 1,549mln).

Sustainability The Company has a well-established brand name in the market, especially in consumer products. Going forward, in order to strengthen its market position in Consumer product, the Company is in process of further geographic expansion and other technological advancements across all business units in order to improve the effectiveness of the business.

Financial Risk

Working Capital PCL's working capital management is supported through a short-term running finance facility obtained from a consortium of banks. Considering the raw material lead time and high product demand, PCL's inventory days stood 67 days same in CY22 (CY21: 62days). The trade receivable days also increased to 45 days from 43 days. While trade payable days increased to 28 days but remained same in CY22 and CY21 to 26 days. Consequently, the Company's net working capital days stood at 85 days at end-Jun'23, increasing from 84 days in CY22 and 79 days in CY21. Moreover, short term trade and total leverage improved moderately and stood at 26% & 20% respectively (SPLY: 8% , 6%) showing an adequate room to borrow for the Company.

Coverages As at 6MCY23, the Company's FCFO stood at PKR 6.05bln (6MCY22: 2.89bln) exhibiting a two folds surge due to increase in sales and operating margins. Finance cost, on the other hand, has increase to PKR 1,450mln (6MCY22: 645mln) showcasing a 2.2x increase. Owing to high finance costs, interest coverage slightly decreases to 4.2x (SPLY: 4.6x) while core and total operating coverages showed an improving trend and both stood at 2.7x (SPLY: 2.2x) due to almost same CMLTB.

Capitalization The Company has a highly leveraged capital structure since inception, although as at 6MCY23 the leveraging decreased to 73% from 74% at 6MCY22. As at 6MCY23, Total borrowings of the Company were PKR 16bln out which 49% are STB. Total Equity of the Company at 6MCY23 was PKR 5.9bln.

The Pakistan Credit Rating Agency Limited

Packages Convertor Limited Paper and Packaging	Jun-23 6M	Dec-22 12M	Jun-22 6M	Dec-21 12M
A BALANCE SHEET				
1 Non-Current Assets	13,156	11,988	10,939	8,860
2 Investments	-	-	-	-
3 Related Party Exposure	229	103	45	26
4 Current Assets	19,599	17,459	15,262	11,604
a Inventories	*9,847*	*9,250*	*7,096*	*6,113*
b Trade Receivables	*6,687*	*6,155*	*5,537*	*3,731*
5 Total Assets	32,983	29,550	26,246	20,490
6 Current Liabilities	9,214	6,545	5,669	3,629
a Trade Payables	*4,573*	*3,760*	*3,215*	*2,274*
7 Borrowings	16,020	16,625	14,216	11,026
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	1,837	1,859	1,230	1,203
10 Net Assets	5,912	4,522	5,131	4,632
11 Shareholders' Equity	5,912	4,522	4,966	4,632
B INCOME STATEMENT				
1 Sales	25,915	41,585	19,564	29,881
a Cost of Good Sold	*(18,182)*	*(33,397)*	*(15,483)*	*(24,071)*
2 Gross Profit	7,733	8,189	4,082	5,809
a Operating Expenses	(1,881)	(3,342)	(1,472)	(2,399)
3 Operating Profit	5,851	4,847	2,610	3,410
a Non Operating Income or (Expense)	*(668)*	*(360)*	*(176)*	*(115)*
4 Profit or (Loss) before Interest and Tax	5,184	4,487	2,434	3,295
a Total Finance Cost	*(1,487)*	*(1,900)*	*(645)*	*(702)*
b Taxation	*(1,750)*	*(1,038)*	*(707)*	*(742)*
6 Net Income Or (Loss)	1,947	1,549	1,082	1,852
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*5,918*	*5,396*	*2,891*	*4,265*
b Net Cash from Operating Activities before Working Capital	*4,699*	*3,880*	*2,484*	*3,697*
c Changes in Working Capital	*(1,525)*	*(4,029)*	*(2,242)*	*(2,905)*
1 Net Cash provided by Operating Activities	3,173	(149)	242	792
2 Net Cash (Used in) or Available From Investing Activities	(1,871)	(4,202)	(2,631)	(2,285)
3 Net Cash (Used in) or Available From Financing Activities	(1,329)	1,903	(719)	(1,573)
4 Net Cash generated or (Used) during the period	(26)	(2,448)	(3,108)	(3,065)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	24.6%	39.2%	30.9%	150.4%
b Gross Profit Margin	29.8%	19.7%	20.9%	19.4%
c Net Profit Margin	7.5%	3.7%	5.5%	6.2%
d Cash Conversion Efficiency (FCFO adjusted for Working C	16.9%	3.3%	3.3%	4.6%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	69.5%	40.5%	48.9%	45.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	112	111	105	102
b Net Working Capital (Average Days)	83	84	79	78
c Current Ratio (Current Assets / Current Liabilities)	2.1	2.7	2.7	3.2
3 Coverages				
a EBITDA / Finance Cost	4.4	3.1	5.0	6.8
b FCFO / Finance Cost+CMLTB+Excess STB	2.6	1.7	2.2	2.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	0.9	2.5	1.2	1.6
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equit	73.0%	78.6%	74.1%	70.4%
b Interest or Markup Payable (Days)	87.2	95.8	104.0	99.0
c Entity Average Borrowing Rate	18.6%	14.1%	10.2%	7.2%

Credit Rating

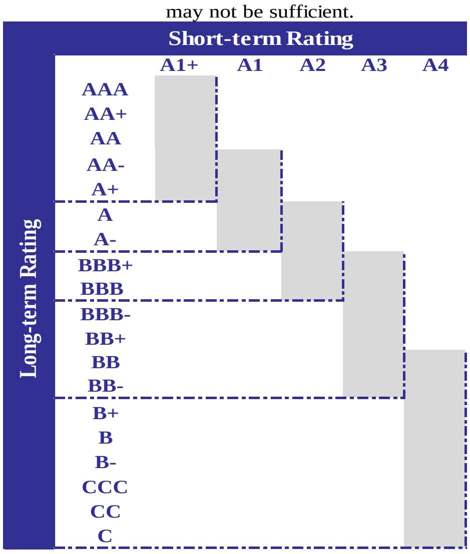
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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 | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

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