The Pakistan Credit Rating Agency Limited

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SECTORWATCH | CORONAVIRUS | FLEXIBLE & PAPER PACKAGING

Since the start of 2020, the novel coronavirus (COVID-19) outbreak has quickly spread across the world and caused disruptions in economies worldwide. Starting in China – itself a global manufacturing hub – and moving to more than 200 countries and territories, virtually all major economies and markets have been adversely impacted. The full impact of such an outbreak on Pakistan's economy is difficult to ascertain at present and will depend on the severity and duration of the outbreak as well as Government's response. However, it is clear that credit conditions are under stress and this will impact credit quality of many entities and sectors. In this context, PACRA aims to provide analysis on how the ongoing outbreak of COVID-19 may impact various sectors in Pakistan.

SECTOR	**SUB-SECTOR**
CONSUMER GOODS & SERVICES	**FLEXIBLE & PAPER PACKAGING**
SIZE	- CPP, BOPP and BOPET revenue of PKR ~ 35bln (estimated) in FY20. - Flexible packaging, paper packaging, i.e. folding cartons, and tissue paper revenue of PKR ~50bln, PKR ~22bln and PKR ~9-10bln (estimated) in FY19, respectively, and same is expected in FY20
NUMBER OF PLAYERS	- CPP, BOPP and BOPET films segment represented by four major players. Several small players exist in film packaging segment - Tissue paper, folding carton and flexible packaging markets dominated by Packages Ltd. with ~62%, ~50% and ~22% market share (estimated), respectively. A number of small players occupy the rest of the market - Significant presence of informal sector in flexible packaging and folding cartons segments.
PACRA PENETRATION	- PACRA rates 2 entities in film packaging industry, representing ~30% market share - PACRA rates 1 entity in tissue paper, folding cartons and flexible packaging industry with ~35% share of total market share
IMPACT	- Demand: The demand for flexible packaging industry emanates from food, beverages, cigarettes, and allied industries. These industries remained operational during lockdown under essential food items. With summer season approaching, demand for flexible packaging industry is expected to remain intact. The demand from cigarette industry, a major consumer of folding cartons, is expected to be there albeit with modest decline. Tissue papers and folding cartons segments witnessed slowed down due to closure of certain geographical areas. However, this is expected to pick up with lockdown easing and higher demand for hygiene, food and consumer products. - Operations: The flexible packaging, folding cartons and tissue industries' production activities were not majorly affected by the countrywide lockdown. However, some industry players have slowed down their production activities in order to avoid pile up of finished goods inventory and improve their liquidity profile. - Supply Chain: Feedstock for flexible packaging, used in manufacturing of plastic films, are derivatives of crude oil. Resultantly, supply chain is dominated by Middle East and is not disrupted. Further, wood pulp used in manufacturing of folding cartons and tissues are dominated by China. The industry has started procurement of wood pulp from USA to avoid disruptions. Chinese market has also opened up lately as well. - Financial Obligations: Overall paper and packaging industry is moderately leveraged with borrowings mainly short-term in nature to finance working capital requirements. Principle repayments against long-term debt remains minimal. SBP's recent rate cuts of 525bps will reduce debt servicing costs and mitigate pressure on bottom-line. Further, SBP loan deferment scheme will provide relief.

- Profitability and Margins: The prices of flexible packaging feedstock have declined due to declining crude oil prices internationally. Although this will be passed through to the customer, margins will be better in short-term with lower working capital requirements. On the other hand, margins of the tissue papers and folding cartons segments are expected to decline in FY20 on the back of higher prices of raw material and higher sourcing costs from geographies other than China (USA, Europe).

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