The Pakistan Credit Rating Agency Limited

Rating Report

EcoPack Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Apr-2021	BBB+	A2	Negative	Maintain	YES
07-May-2020	BBB+	A2	Negative	Maintain	YES
06-Nov-2019	BBB+	A2	Stable	Maintain	-
07-May-2019	BBB+	A2	Stable	Maintain	-
05-Nov-2018	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect EcoPack's established position in PET Preform and PET Bottle segment with 10% and 26% market share respectively and its strategic location in North. The PET packaging sector mostly derives its demand from water bottles, Carbonated Soft Drink (CSD) industry, pharma and other consumables. The increase in consumer demand for CSD products and conversion from glass to plastic bottles in recent years brought significant growth in PET packaging industry. However, the industry remains exposed to seasonality as beverages demand remains higher in summer months. In recent years, the Company's sales mix has shifted towards preforms from the bottling segment, which is a lower margin segment, resulting decreasing topline at the first hand. Decreased PET Resin prices due to falling crude oil prices internationally may reduce some pressure on margins and lowered financing expense on the back of reduced benchmark rates will help the Company to improve its bottom line in the long run. The Company’s capital structure remains moderately leveraged, though borrowings have shown meager increase. The Company's working capital is well managed resulted in low short term borrowings during the period. The local procurement of the raw material (PET Resin) relieved the Company from any supply chain issues during critical times.
The 'Rating Watch' signifies uncertainty created by the COVID-19 outbreak in the prevailing challenging economic environment. The Company remains operational as it is exempted from shutdown, being related to food & allied sector. The demand may take time to recover amidst countrywide lockdown and closure of restaurants, banquet halls, and non-essential shops.

The ratings are dependent on the Company's ability to sustain volumes and top-line in current scenario. Meanwhile, improving margins along with positive bottom line remains critical. Prolonged lockdown, resulting in significant dip in demand and sustained losses would have negative impact on the ratings.

Disclosure	
Name of Rated Entity	EcoPack Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Paper and Packaging(Nov-20)
Rating Analysts	Shazia Afzal | shazia.afzal@pacra.com | +92-42-35869504

Profile

Legal Structure EcoPack Limited (EcoPack or 'the Company') was incorporated as a Public Limited Company in 1992 and is listed on the Pakistan Stock Exchange.

Background The Company started commercial production in 1993. Over the years, the Company enhanced its production capacity of both PET Preforms and Bottles. The Company has been on the forefront of innovation and product development. EcoPack introduced 1 piece bottle for Carbonated Soft Drink (CSD) industry and successfully introduced the first 500ml bottle in the market.

Operations The Company has two product lines, namely i) PET Preforms, and ii) PET Bottles. The production capacities of PET preforms division and bottling division are 797mln and 304mln units per annum, respectively. The production facility of EcoPack is located in Hattar Industrial Area, KPK, while its head office is in Rawalpindi.

Ownership

Ownership Structure Majority of EcoPack's ownership resides with Mr. Hussain Jamil, holding 17.2% stake in the Company is the single largest stakeholder. Other family acquaintances holds 55% of stake of the Company. The remaining holding is with general public. Free Float of the Company is 80%.

Stability Ownership of the business is seen unsteady as the Company has 80% free float with a much diversified shareholding structure.

Business Acumen Jamil family has been associated with the plastic packaging business since 1969 and is well versed with dynamics of the industry. Their acumen of the industry is reflected in EcoPack's growth over the decades as it became one of the leading players in the industry.

Financial Strength EcoPack is a stable business entity. The Sponsors have adequate financial strength to support the Company in case need arises.

Governance

Board Structure EcoPack's BoD comprises seven members board, with two independent Directors, one Executive Director& four Non-Executive Directors. Apt size of the Board, presence of independent oversight and a female director indicates well framed governance structure in compliance with Code of Corporate Governance.

Members' Profile The BoD members have diversified skill mix both in terms of qualification and expertise. The board's Chairman, Mr. Amar Zafar Khan, is a Chartered Accountant having over 30 years of multi-functional experience at international financial institutions. The executive directors have strong knowledge of the plastic industry, which bodes well for the governance.

Board Effectiveness The Board met five times during FY20 to discharge its duties, with majority members attending all meetings. The Board ensures effective governance through two committees, namely i) Audit Committee, and ii) Human Resource and Remuneration Committee. Both committees are chaired by Independent Directors.

Financial Transparency The Audit Committee ensures accuracy of the Company's accounts and efficiency of internal controls. EcoPack's external auditors, KPMG Taseer Hadi and Co Chartered Accountants, have expressed an unqualified opinion on the financial reports for FY20.

Management

Organizational Structure EcoPack's production function is divided into two divisions, namely i) PET Preforms, and ii) PET Bottles. Each division is headed by its respective Divisional Head, who reports to Director Technical and Commercial. All functional Heads report to the Company's COO. However, finance and accounts function reports to the Company's CFO. The CFO and COO report to the CEO.

Management Team The Company's CEO, Mr. Hussain Jamil, has been associated with the Company since its inception. He is a seasoned businessman and carries over 40 years of experience. All senior management has long association with the Company. Mr Raza Chinoy is the COO of the company. He is associated with the Company since 2006.Mr Ali Adil is CFO of the Company and associated with the Company since 2003.

Effectiveness Cross-functional management committees increase efficiency as they assist in inter-departmental coordination. EcoPack has two functional committees, which increases management effectiveness. The committees are (a) Waste Sale Committee: To look after the waste sales related matters headed by Director C&T (b) SAP Steering Committee: To look after the ERP related matters headed by CFO.

MIS The Company uses SAP ERP, installed by Sidat Hyder Financials, to manage flow of information. EcoPack's Plant, Head Office, and Regional Offices are all connected through this ERP system. The SAP is capable of generating various reports, which are submitted to the management for monitoring purposes.

Control Environment To ensure operational efficiency, the Company has outsourced the internal audit function to M/S BDO Ebrahim& Co. who are considered suitably qualified for it. The internal audit function reports to the audit committee. EcoPack has setup a Quality Control and Assurance department that conducts regular inspections to ensure product quality.

Business Risk

Industry Dynamics The packaging industry derives its demand majorly from food and beverage industries. The demand suffered amid Covid-19 pandamic. The price of major raw material in plastic segment is co-related to international oil prices and therefore volatility in oil prices and exchange rates is a significant source of risk. Moreover many beverages players have set up their own bottling plants and only purchase Preform from market. Being a low margin product ,the margins of the industry remained under pressure comparatively. Oil prices are recently on downward trend and this bodes well for the packaging industry.

Relative Position EcoPack holds a moderate market share of ~10% in the Preform segment, whereas in the Bottle segment, the Company has a market share of ~27%.

Revenues EcoPack generates revenue from two divisions, namely i) PET Preforms (Injection) Division and ii) PET Bottling (Blowing) Division. Over the years, the sales mix has been gradually shifting towards PET Preforms as several players have setup bottling units. During 2QFY21, PET preforms division constituted 57% of the overall sales mix (FY20: 53%). EcoPack generates 18% of its revenue from northern region of the country during 2QFY21 (FY20: 76%), where majority of the beverage plants and companies are located. The Company's top ten customers comprise above~80% of the total revenue, showing high concentration.

Margins During 2QFY21, gross margin stood at 0.9% (2QFY20:-5.3%& FY20:4.8%) as gross profit clocked in at PKR 9mln (2QFY20: PKR -57mln & FY20: PKR148mln). The negative gross profit margin during last corresponding period was due to lockdown effect which shows revival during current period. The operating margin stood at -5.6% during 2QFY21 (2QFY20: -11.6% & FY20: 0.8%) due to the trickle-down effect of the better gross margin but still remained negative due to decrease in sales during the period. The Company's net loss has reduced to PKR~(84)mln during 2QFY21 from PKR~(142)mln during last corresponding period (&FY20:PKR~(104)mln) and the net margin stood at -9% from -13.3% (&FY20: -3.4%) due to trickledown effect of operating margin during the period.

Sustainability The Company has incurred capital expenditure of PKR 48mln in FY20 for manufacturing light weight preforms which will be helpful for maintaining competitive advantage in high cost environment and improving margins.

Financial Risk

Working Capital EcoPack's working capital management is supported through short-term running finance facility. During 2QFY21, the Company's gross working capital days decreased to 79days from 96days during 2QFY20(&FY20: 70days). This was due to decrease in receivable days and favorable paymen terms. Additionally, net working capital days showed a significant improvement to 40 days from 76 days on YOY basis.The short term borrowings has decreased to PKR~498mln during 2QFY21 from PKR~628mln during 2QFY20.

Coverages During 2QFY21, the Company's free cash flows is negative and stood at PKR (20) mln (2QFY20: PKR (53) mln & FY20: 128mln). Finance costs of the Company decreased substantially to PKR~43mln during 2QFY21 (2QFY20: PKR 73mln, &FY20: PKR 157mln) due to decrease in policy rates and also a small decrease in total borrowings i-e PKR~951 mln (2QFY20: PKR 976mln, &FY20: PKR 869 mln). As a result, the interest coverage ratio showed a bit improvement of 0.5x during 2QFY21 (2QFY20: (0.6)x & FY20:1.3x) and the debt coverage ratio stood at (0.1)x during the period (2QFY20: (0.4x)& FY20: 0.5x). This is due to negative free cashflow of the Company during the period under discussion.However, this situation is expected to improve in the third and fourth quarters as the demand picks up and beverages companies started to build inventories for the full peak summer season.

Capitalization EcoPack has a moderate to high leveraged capital structure. During 2QFY21, the leveraging maintained at 57% on YOY basis (FY20: 52%). The short term borrowings comprises 52% of total borrowings during the period. Long term debt showed an increase of PKR~296mln from PKR~225mln.

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Financial Summary
PKR mln

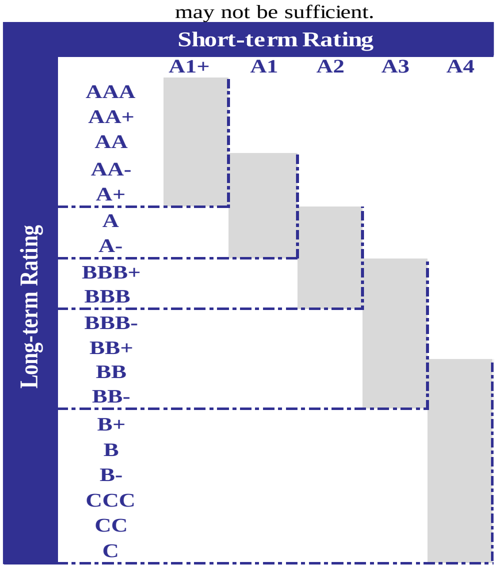
Ecopack Ltd Paper&Packaging	Dec-20 6M	Jun-20 12M	Jun-19 12M	Jun-18 12M
A BALANCE SHEET				
1 Non-Current Assets	1,387	1,426	1,463	1,381
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	604	729	1,103	999
a Inventories	*250*	*236*	*325*	*225*
b Trade Receivables	*92*	*215*	*403*	*455*
5 Total Assets	1,991	2,155	2,566	2,381
6 Current Liabilities	320	247	231	299
a Trade Payables	*239*	*161*	*132*	*222*
7 Borrowings	951	869	1,138	976
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	2	235	290	239
10 Net Assets	718	805	907	868
11 Shareholders' Equity	718	805	907	868
B INCOME STATEMENT				
1 Sales	926	3,054	4,075	3,312
a Cost of Good Sold	*(917)*	*(2,906)*	*(3,689)*	*(2,949)*
2 Gross Profit	9	148	386	363
a Operating Expenses	(60)	(124)	(132)	(112)
3 Operating Profit	(52)	24	254	251
a Non Operating Income or (Expense)	*(24)*	*(12)*	*(18)*	*(52)*
4 Profit or (Loss) before Interest and Tax	(76)	12	236	199
a Total Finance Cost	*(40)*	*(157)*	*(127)*	*(67)*
b Taxation	*32*	*41*	*(34)*	*(9)*
6 Net Income Or (Loss)	(84)	(104)	75	123
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*(20)*	*128*	*362*	*290*
b Net Cash from Operating Activities before Working Capital Changes	*(70)*	*19*	*292*	*225*
c Changes in Working Capital	*43*	*420*	*(222)*	*(180)*
1 Net Cash provided by Operating Activities	(27)	439	70	46
2 Net Cash (Used in) or Available From Investing Activities	(61)	(98)	(190)	(506)
3 Net Cash (Used in) or Available From Financing Activities	119	(356)	75	517
4 Net Cash generated or (Used) during the period	31	(15)	(44)	57
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-39.4%	-25.1%	23.0%	50.2%
b Gross Profit Margin	0.9%	4.8%	9.5%	11.0%
c Net Profit Margin	-9.0%	-3.4%	1.8%	3.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	2.6%	17.9%	3.4%	3.3%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	-22.4%	-11.8%	8.6%	16.5%
2 Working Capital Management				
a Gross Working Capital (Average Days)	79	70	63	66
b Net Working Capital (Average Days)	40	53	47	47
c Current Ratio (Current Assets / Current Liabilities)	1.9	3.0	4.8	3.3
3 Coverages				
a EBITDA / Finance Cost	0.5	1.3	3.8	7.4
b FCFO / Finance Cost+CMLTB+Excess STB	-0.1	0.5	1.4	1.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-5.8	-18.7	1.6	2.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	57.0%	51.9%	55.6%	52.9%
b Interest or Markup Payable (Days)	0.0	11.6	86.8	93.8
c Entity Average Borrowing Rate	7.6%	13.9%	10.9%	7.0%

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):

Entities

a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk 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.
(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