



The Pakistan Credit Rating Agency Limited

## Rating Report

### Pakistan Synthetics Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Apr-2022	A-	A2	Stable	Upgrade	-
06-Aug-2021	BBB+	A2	Stable	Maintain	-
07-Aug-2020	BBB+	A2	Stable	Maintain	Yes
07-Feb-2020	BBB+	A2	Stable	Maintain	-
09-Aug-2019	BBB+	A2	Stable	Maintain	-
11-Feb-2019	BBB+	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect Pakistan Synthetics Limited's ("Pakistan Synthetics" or the "Company") established presence in the PET packaging industry through the provision of an integrated packaging solution to its customers. PSL is one of the market leaders in the caps and closures with a market share of ~60%. Over the period, the Company has established a suitable business profile and is now increasing its footprints in PET preform. The demand for the PET packaging industry's products has increased as the beverage industry saw an improved uplift of stock. During Covid-19 pandemic, the industry faced challenges including low demand, build-up of inventory and receivables, and lower capacity utilization. However, the Company largely maintained its top line during FY21 and improved its profitability. Post pandemic, the Company managed to earn healthy cash flows during the year and has shown significant growth by 3x as compared to FY20. Furthermore, the Company has successfully managed to convert its losses into profits and reported net profit after tax of PKR 748mln (FY20: PKR (99)mln). The main contributor to profitability was the improved revenue base and decreased finance cost on the back of repayment of long-term debt and the downward trend of policy rates, and subsidized loan (ITERF) during FY21. Resultantly, the coverages of the Company have also improved by significant margins. The Company has also managed to reduce its leveraging by injection of equity through the right issue. While the long-term debt is related to expansion activities. The revenue base of the Company has also increased by 10% since Jun'20. However, keeping in view the optimum capacity utilization of resin and caps further improvement in revenue is primarily expected from PET Preform. As the Company is also planning to expand the Pet Preform product line, after the successful expansion of 500ml PET bottles. The coverages improved on the back of better cashflows and profitability. The working capital has also improved on the back of better inventory management and speedy recovery from receivables. The ratings also take comfort from strong sponsor support as demonstrated in the past.

The ratings are dependent on the management's ability to strengthen the Company's position in the industry, sustain optimal production and margins. The reduction of the asset-liability mismatch remains imperative. The increase in profitability and/or coverages may have a positive impact on ratings. Sponsor support will remain important.

#### Disclosure

<b>Name of Rated Entity</b>	Pakistan Synthetics Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Paper and Packaging(Nov-21)
<b>Rating Analysts</b>	Madiha Sohail   madiha.sohail@pacra.com   +92-42-35869504



## Profile

**Legal Structure** Pakistan Synthetics Limited (Pakistan Synthetics or 'the Company') is incorporated as a public limited company.

**Background** Pakistan Synthetics was founded as a private limited company in 1984 and converted to a public limited company in 1987. The Company currently produces PET Resin, PET Preform, Plastic Caps and Metal Crowns. Initially, the Company also produced Polymer Staple Fibre. However, its production was discontinued in 2015

**Operations** The Company produces Plastic Closures, Metal Crowns, PET Resin and PET Preforms with respective capacities of ~558,570 cartons per annum, 28,000MT per annum and ~31,000 octa bins per annum. The Company's manufacturing facilities are located in Hub, Baluchistan and Port Qasim, Karachi. The registered office is located in West Wharf, Karachi

## Ownership

**Ownership Structure** The majority stake of Pakistan Synthetics lies with the Haji Karim family, who owns ~73% of total shares. Mr Yaqoob Haji Karim (~20%) and Mr Noman Yaqoob (~21%) are two of the company's largest stakeholders. Approximately ~15% of the stake resides with the general public.

**Stability** The ownership structure is stable as the Haji Karim family holds majority shares since inception. They have vast experience in the textile and plastic packaging Industry

**Business Acumen** Pakistan Synthetics is a successful venture of Al-Karam Group. The Group is ranked amongst the leading industrial groups of the country with interests in textile, financial institutions, consumables and consumer product sectors. The flagship company of the group is Al-Karam Textile

**Financial Strength** Pakistan Synthetics is owned by a strong business group. The sponsors have recently made an equity injection through participation in the right issue. The contribution by the sponsoring family amounted to PKR 371mln out of the total equity injection of PKR 505mln. This shows the willingness of the sponsors to provide financial support to the Company in time of need.

## Governance

**Board Structure** The Company's board is comprised of 8 members and is dominated by Haji Karim family. There are three Independent Directors, three Non-Executive Directors and two Executive Directors, including the CEO on the board.

**Members' Profile** The Board's Chairman Mr Khurshid Akhtar is a Non-Executive Director and was appointed during the period to fill the vacancy of Mr Anwar Haji Karim who resigned from directorship in July 2020. All directors have diversified backgrounds and expertise which enables them to provide effective oversight and guidance to the management

**Board Effectiveness** The Board met six times during FY21, with majority attendance to discuss pertinent matters. The minutes of these BOD meetings were well documented. To ensure effective governance, the Board has formed two committees, namely, (i) Audit Committee, and (ii) HR and Remuneration Committee

**Financial Transparency** The Company's external auditors, M/s KPMG Taseer Hadi & Co. Chartered Accountants, have expressed an unqualified opinion on the financial reports for FY21

## Management

**Organizational Structure** The Company has a well-defined organizational structure developed according to operational needs. There are seven departments, which include Plant Operations, Finance, Sales and Marketing among others

**Management Team** The Company's CEO, Mr Yaqoob Haji Karim, has been associated with the Company for over 25 years. He also serves on the boards of Al-Karam Textile Mills (Pvt.) Limited and Amna Industries (Pvt.) Limited. All members of the senior management are experienced and have long associations with the Company, which bodes well for operational efficiency

**Effectiveness** Management committees help improve effectiveness and efficiency by streamlining communication between various department heads. There are no management committees in place, indicating a room for improvement.

**MIS** The Company has recently installed SAP and various modules have already been implemented. The Company was previously operating through a Legacy system and the switch to SAP was made in order to facilitate generation of various types of operational reports required by the management.

**Control Environment** The Company has an internal audit function in place, which provides an effective mechanism for identification, assessment and reporting of all types of risks arising out of the business operations. The Company has numerous certifications including ISO 9001 and Halal certification indicating strong compliance with quality standards.

## Business Risk

**Industry Dynamics** The packaging industry derives its demand from various industries. One of the major sources of demand for plastic packaging is the food and beverage industries. In Pakistan, around units 20.5mln of PET performs octabins are sold on annual basis. In the Plastic crown caps, 528mln units are sold annually. As there are higher margins in the plastic crown and caps segment. Thus, the market is becoming increasingly competitive. Gatron is the major supplier of PET Resins in Pakistan.

**Relative Position** Pakistan Synthetics holds a moderate market share of ~15%-20% in the PET Resin segment. Whereas, in the Plastic Caps and Metal Crowns, the Company is a market leader with an estimated share of 60% and 5%-7% in PET Preform, respectively.

**Revenues** The Company generates revenue from the sale of Plastic caps and Metal crowns, PET Resin and PET Preforms in the local market. PET Resin is the largest segment and has major contribution of 41.6% in total revenue of the Company during FY21. the Company earned a top-line of PKR 7,250mln (FY20: PKR 6,587mln) increased by 10%. During FY21, the gross margin improved to 20% (FY20: 6.9%) on the back of lower raw material prices.

**Margins** In 2QFY22, the gross margin improved to 22% (SPLY:13.5%) while the operating margin improved to 18.7% (SPLY:9.1%) due to favorable cost measures and better inventory management. The Company earned net profit after tax for the period ending on Dec'21, amounting to PKR 564.019mln with a net margin of 12% (SPLY: PKR 108mln).

**Sustainability** Going forward, the Company plans to invest in BMR activities to improve operational efficiency and maintain its market position in PET Preform. The step would support the Company to further strengthen its market share amongst peers.

## Financial Risk

**Working Capital** The Company's inventory days decreased from 84 days in FY20 to 71 days in FY21. The Company's trade receivable days decreased FY21: 48 days (FY20: 51 days). However, the trade payables days increased to FY21: 59 days (FY20: 52 days). Consequently, the Company's net working capital days stood at FY21:60 days (FY20: 82 days).

**Coverages** During FY21, the Company successfully managed the EBIDTA has improved by ~5x to 8.2times. The Company has shown significant growth in its free cash flows, the FCFO to finance cost has improved to 8.3times (SPLY:1.4times).

**Capitalization** Pakistan Synthetics Limited continues to have a moderately leveraged capital structure as at Dec'21. Its gearing ratio has remained at around 50% since Jun'20. This indicates that the Company continues to rely on long term debt. The Company has also distributed dividends at PKR 2.5/Share along with bonus shares in proportion of 1 share for every 10 shares. The Company has also injected fresh equity in form of right shares to pay off the long term debt, this shows the firm commitment of sponsors to support the Company in times of crisis.



Pakistan Synthetic Ltd Packaging	Dec-21 6M	Jun-21 12M	Jun-20 12M	Jun-19 12M
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#### A BALANCE SHEET

1 Non-Current Assets	3,251	2,423	2,124	2,363
2 Investments	148	1	1	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	4,121	3,281	2,975	3,571
<i>a Inventories</i>	2,403	1,671	1,149	1,866
<i>b Trade Receivables</i>	945	1,028	877	951
<b>5 Total Assets</b>	<b>7,520</b>	<b>5,705</b>	<b>5,100</b>	<b>5,934</b>
6 Current Liabilities	2,216	1,618	1,297	1,137
<i>a Trade Payables</i>	1,880	1,376	971	907
7 Borrowings	2,451	1,588	2,165	3,570
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	155	153	36	31
<b>10 Net Assets</b>	<b>2,699</b>	<b>2,345</b>	<b>1,602</b>	<b>1,196</b>
<b>11 Shareholders' Equity</b>	<b>2,699</b>	<b>2,345</b>	<b>1,602</b>	<b>1,196</b>

#### B INCOME STATEMENT

1 Sales	5,016	7,251	6,587	7,039
<i>a Cost of Good Sold</i>	(3,916)	(5,799)	(6,127)	(6,367)
<b>2 Gross Profit</b>	<b>1,100</b>	<b>1,452</b>	<b>461</b>	<b>672</b>
<i>a Operating Expenses</i>	(163)	(202)	(176)	(141)
<b>3 Operating Profit</b>	<b>936</b>	<b>1,250</b>	<b>284</b>	<b>531</b>
<i>a Non Operating Income or (Expense)</i>	(67)	(5)	6	(352)
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>869</b>	<b>1,245</b>	<b>290</b>	<b>179</b>
<i>a Total Finance Cost</i>	(77)	(189)	(389)	(329)
<i>b Taxation</i>	(228)	(307)	0	26
<b>6 Net Income Or (Loss)</b>	<b>564</b>	<b>748</b>	<b>(99)</b>	<b>(124)</b>

#### C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	969	1,502	500	554
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	911	1,309	116	230
<i>c Changes in Working Capital</i>	(496)	(297)	301	(418)
<b>1 Net Cash provided by Operating Activities</b>	<b>415</b>	<b>1,013</b>	<b>416</b>	<b>(188)</b>
<b>2 Net Cash (Used in) or Available From Investing Activities</b>	<b>(1,058)</b>	<b>(396)</b>	<b>(122)</b>	<b>(199)</b>
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>711</b>	<b>(389)</b>	<b>(472)</b>	<b>364</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>68</b>	<b>227</b>	<b>(177)</b>	<b>(23)</b>

#### D RATIO ANALYSIS

<b>1 Performance</b>				
<i>a Sales Growth (for the period)</i>	38.4%	10.1%	-6.4%	33.9%
<i>b Gross Profit Margin</i>	21.9%	20.0%	7.0%	9.5%
<i>c Net Profit Margin</i>	11.2%	10.3%	-1.5%	-1.8%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	9.4%	16.6%	12.1%	1.9%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Share</i>	47.5%	33.7%	-5.7%	-10.2%
<b>2 Working Capital Management</b>				
<i>a Gross Working Capital (Average Days)</i>	110	119	134	148
<i>b Net Working Capital (Average Days)</i>	51	60	82	92
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.9	2.0	2.3	3.1
<b>3 Coverages</b>				
<i>a EBITDA / Finance Cost</i>	13.7	8.2	1.5	2.0
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	5.9	3.7	0.9	0.4
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.6	0.5	3.6	4.4
<b>4 Capital Structure</b>				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	47.6%	40.4%	57.5%	74.9%
<i>b Interest or Markup Payable (Days)</i>	34.5	13.5	24.7	27.1
<i>c Entity Average Borrowing Rate</i>	7.1%	8.5%	12.3%	9.3%

**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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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.
AA-	
A+	
A	<b>High credit quality.</b> 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.
A-	
BBB+	
BBB	<b>Good credit quality.</b> 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.
BBB-	
BB+	<b>Moderate risk.</b> 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.
BB	
BB-	
B+	
B	<b>High credit risk.</b> 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.
B-	
CCC	
CC	<b>Very high credit risk.</b> 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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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(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

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- (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)
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- (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)
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- (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)
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- (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)

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- (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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