The Pakistan Credit Rating Agency Limited

Rating Report

MACPAC Films Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-Dec-2022	BBB	A2	Stable	Maintain	-
17-Dec-2021	BBB	A2	Stable	Upgrade	-
05-Oct-2021	BBB-	A3	Stable	Maintain	-
05-Oct-2020	BBB-	A3	Stable	Maintain	-
08-Oct-2019	BBB-	A3	Stable	Downgrade	-
08-Apr-2019	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect MACPAC Films Limited's ("MACPAC" or the "Company") established position within the Biaxially Oriented Polypropylene (BOPP) segment of the industry. Over the period, the Company has established a suitable business profile and is now increasing its footprints in the Cast Polypropylene (CPP) segment of the industry. Both are bi-products of petrochemical of which price is linked to oil and gas prices. The raw material of the finished product is ~100% imported hence, exposed to exchange rate risk. As per management representation, the Company approximately holds 11% market share. The production utilization of the Company is directly linked with foods and consumer products. During FY22, the utilization level remained on the higher side at ~82% (FY21: ~72%).
The Company has maintained healthy margins and profitability despite its raw material being sensitive to exchange rate volatility and inflated commodity prices. The total sales volume of the Company increased by ~15% during FY22. The top line of the Company increased by ~38% during the period. The Company has generated a topline of ~ PKR 4,174mln in FY22 as compared to ~PKR 3,025mln in FY21. In FY22, MACPAC Films Limited generated a humble bottom line of ~PKR 184mln (FY21: ~PKR 187mln). The long-term prospects of the Company are linked with demand and expansion in the local packaging business. The main contributor towards profitability was the improved revenue base due to volumetric sales growth. Resultantly, the coverage of the Company has also improved by significant margins. The Company has a low-leveraged capital structure where the long-term debt was related to expansion activities. Currently, MACPAC is in the phase of minimizing its debt and has managed to reduce its borrowings both long and short-term through effective working capital management.

The ratings are dependent upon the company’s ability to sustain its healthy business profile amidst strong competition, herein, effective and prudent management of financial risk indicators remain important. Moreover, upholding of governance framework is vital.

Disclosure

Name of Rated Entity	MACPAC Films 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)
Rating Analysts	Muhammad Atif Chaudhry | Atif.Chaudhry@pacra.com | +92-42-35869504

Profile

Legal Structure MACPAC Films Limited was incorporated as a Public Limited Company in 1993. The Company is listed on Pakistan Stock Exchange.

Background The Company started commercial production of Biaxially - Oriented Polypropylene (BOPP) films in 1995. In 2003, the Company set up a new plant for Cast Polypropylene (CPP) films to diversify its existing product range. After a fire incident in 2007, the Company had to halt the manufacturing of the CPP line. In 2014, the Company was able to install a Metalizer plant for BOPP films, which started its commercial production in 2015. In 2017, the Company started to reinstall the CPP manufacturing line which became commercially operational in Jan-19.

Operations MACPAC Films Limited is considered to be the pioneer of Biaxially - Oriented Polypropylene (BOPP) and Cast Polypropylene (CPP) films in Pakistan, with rich experience and strong brand identity. Keeping in view the market dynamics for transparent, matte, pearlized and metallized films; the Company produces them in different varieties and thicknesses - ranging from 10 to 40 microns.

Ownership

Ownership Structure MACPAC Films is primarily owned by the Elahi family (53.96%). Among the sponsoring family, major ownership vests with Mr. Ehtesham Maqbool Elahi (16.6%), Mr. Shariq Maqbool Elahi (15.45%) and Mr. Habib Maqbool Elahi (15.45%). Munshi family has an ownership stake of 15.35% in the Company. The GoP through Employees Old Age Benefit owns a 7.87% stake in MACPAC. The Company has a free float of 32.62%.

Stability Ownership of the business is seen as stable as the major ownership vests with the Elahi family. The second generation of the family has been fully inducted into the business since many years.

Business Acumen The sponsors through their vast experience, have become reliable partners for the packaging industry, by making the Company consistently comply with the standards of high quality.

Financial Strength MACPAC Films is a stable business entity. The Company's sister concern Toyo Packaging (Pvt.) Limited also has a broad portfolio of customers. This strong forward integration strengthens the customers bond and gives a competitive edge through strong supply chain support.

Governance

Board Structure MACPAC Films BoD comprises two Independent Directors, three Non-Executive Directors and two Executive Directors.

Members' Profile The BoD, with the diversified background and expertise of its members, is a key source of oversight and guidance for the management. Board's Chairman, Mr Naeem Munshi (Non – Executive Director) has been associated with the Company since its inception.

Board Effectiveness The minutes of the BoD meetings are well documented. To ensure effective governance, the Board has formed two committees, namely Audit Committee and Human Resource and Remuneration Committee.

Financial Transparency The Audit Committee ensures the accuracy of the Company's accounts and internal controls. MACPAC Films' external audit of June 22 was completed by M/s KPMG Taseer Hadi & Co. and they expressed an unqualified opinion on the financial reports for FY22.

Management

Organizational Structure To perform well, MACPAC Films has a structured and organized organogram. The Company operates through Supply Chain, Sales and Marketing, Finance, Internal Audit, Human Resource, Information Technology and Administration.

Management Team MACPAC Films Limited has a set of experienced & professional management. The Company's CEO, Mr. Najam ul Hassan is associated with MACPAC Films since 2017. He has extensive experience of two decades in different sectors and also served as COO of the company.

Effectiveness Management's effectiveness and efficiency is being ensured through the presence of management committees. At Macpac, management committees are in place, in line with best industry practices.

MIS MACPAC Films manufacturing facilities in Port Qasim are connected with the Company's Head Office in Karachi through an ERP. To facilitate the management, various reports related to Finance, Sales, HR, Production and Import are generated on a daily and monthly basis.

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. This function provides support, guidance and monitoring of the internally placed SOPs along with conducting Gap Analysis for evaluating already placed policies and procedures.

Business Risk

Industry Dynamics A major challenge faced by the sector is prices and availability of raw materials specifically polymers such as polypropylene, & polyethene. The packaging industry uses variants of Polymer Resin to manufacture BOPP and CPP films. Polymers' prices are largely a function of global crude oil prices, demand-supply dynamics and exchange rate volatility. The recent market dynamics of the cost base of raw materials for the company represented a rising trend since FY22. This coupled with the significant depreciation of the currency would be expected to lead to higher raw material prices and thus create pressure on margins going forward. If the cost of raw material with predictable exchange rates sustain, it will produce better profitability and margins for the industry in future.

Relative Position MACPAC Films holds a moderate market share of 11% in the BOPP and CPP films segment.

Revenues The Company generates revenue through the sale of BOPP and CPP films in the local market. BOPP comprises ~68% while CPP contributes ~32% of total revenue during FY22. The Company's topline shows an increasing trend. During FY22, the Company generated a topline of PKR 4.174bln vs PKR 3.025bln during FY21, showing an increase of ~38% in revenue. This is mainly due to the increase in demand which is partially contributed by macroeconomic conditions in the country. The Company makes sales directly to B2B customers and the top ten customers generally account for ~50% of revenues.

Margins In FY22, the gross margin and operating profit margin both decreased as compared to FY21. The GP margin decreased from ~16.4% in FY21 to ~ 14.6% in FY22 while the OP margin decreased from ~ 10.5% to ~ 9.6% during the same period. The main reason for the decreasing profitability ratios is attributable to the rise in the cost of raw materials due to inflation as well as exchange rate fluctuations. Consequently, the net profit margin also decreased from ~ 6.2% to ~ 4.4% during the same period. The Company posted a net profit of ~PKR 184mln in FY22(FY21: ~PKR 187mln).

Sustainability MACPAC Films competitive position has been improved due to increasing the sales volume by ~ 15.46% during FY22. Going forward, growth in demand is anticipated in packaged milk segment in the unorganized market. To meet this growth, the Company also implemented strategies to increase efficiencies and increase investments in research and development.

Financial Risk

Working Capital In FY22, the Company's inventory days increased to ~73 days from ~57 days in FY21. Higher inventory days may be attributable to an increase in production to capture the market and also due to an increase in raw material inventory days because MACPAC Limited has imported raw materials in huge quantities due to the rise in raw material prices and currency rate fluctuations. But consequently, material handling costs will also rise. Meanwhile, trade receivable days also increased to ~48 days from ~37 days, but trade payable days decreased to ~37 days from ~39 days during the same periods. Consequently, the Company's net working capital days also increased to ~84 days from ~55 days at end of FY22, decreasing from ~15 days at end-FY21. The increase in net working capital days shows weak working capital management.

Coverages In FY22, the Company's FCFO's stood at ~PKR 426.58mln decreasing from ~PKR 522.11mln in FY21. The FCFO/Finance cost also showed a decrease from ~6.45x of coverage at end of FY21 to ~ 5.67x at end of FY22; however, this is still a healthy coverage level for the Company. While the Company does take on both short-term and long-term financing from financial institutions, the strategy is to keep the Company mainly equity-focused, thus the finance cost is planned to be on a manageable scale moving forward.

Capitalization MACPAC Films has a low-leveraged structure, with long-term liabilities being ~16% of equity at end of FY22 and ~28% of equity at end of FY21. Its gearing ratio has decreased from ~31.4% at the end of FY21 to ~26.4% at the end of FY22, while it has remained at ~41.6% in FY20, indicating that while the Company does have debt, it is not increasing its debt ratio currently and is instead relying more on organic growth.

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Financial Summary
PKR mln

MACPAC Films Limited Paper & Packaging	Jun-22 12M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	1,969	1,929	1,949	1,423
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	79	112
4 Current Assets	2,078	1,283	945	961
a Inventories	*1,063*	*609*	*329*	*376*
b Trade Receivables	*655*	*433*	*179*	*325*
5 Total Assets	4,047	3,211	2,974	2,496
6 Current Liabilities	1,720	948	750	858
a Trade Payables	*594*	*244*	*396*	*595*
7 Borrowings	565	638	861	830
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	185	230	152	156
10 Net Assets	1,577	1,395	1,212	653
11 Shareholders' Equity	1,577	1,395	1,212	653
B INCOME STATEMENT				
1 Sales	4,174	3,025	2,165	2,415
a Cost of Good Sold	*(3,563)*	*(2,531)*	*(2,108)*	*(2,312)*
2 Gross Profit	611	495	57	103
a Operating Expenses	(209)	(177)	(115)	(119)
3 Operating Profit	402	318	(58)	(15)
a Non Operating Income or (Expense)	*(46)*	*47*	*53*	*(97)*
4 Profit or (Loss) before Interest and Tax	357	366	(4)	(112)
a Total Finance Cost	*(94)*	*(92)*	*(157)*	*(89)*
b Taxation	*(78)*	*(87)*	*99*	*(33)*
6 Net Income Or (Loss)	184	187	(63)	(234)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*427*	*522*	*78*	*(16)*
b Net Cash from Operating Activities before Working Capital Changes	*336*	*422*	*(71)*	*(100)*
c Changes in Working Capital	*10*	*(205)*	*54*	*86*
1 Net Cash provided by Operating Activities	346	217	(16)	(14)
2 Net Cash (Used in) or Available From Investing Activities	(173)	(97)	(15)	(405)
3 Net Cash (Used in) or Available From Financing Activities	(110)	(123)	6	438
4 Net Cash generated or (Used) during the period	63	(3)	(25)	19
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	38.0%	39.7%	-10.4%	13.7%
b Gross Profit Margin	14.6%	16.4%	2.6%	4.3%
c Net Profit Margin	4.4%	6.2%	-2.9%	-9.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sa	10.5%	10.5%	6.1%	2.9%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Asse*	13.0%	13.9%	-5.6%	-37.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	121	93	102	128
b Net Working Capital (Average Days)	84	55	18	44
c Current Ratio (Current Assets / Current Liabilities)	1.2	1.4	1.3	1.1
3 Coverages				
a EBITDA / Finance Cost	6.8	6.2	1.0	1.3
b FCFO / Finance Cost+CMLTB+Excess STB	2.0	2.4	0.1	0.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Co	0.6	0.7	-10.5	-8.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	26.4%	31.4%	41.5%	56.0%
b Interest or Markup Payable (Days)	54.4	34.9	42.3	38.0
c Entity Average Borrowing Rate	11.8%	11.2%	16.4%	13.1%

Credit Rating

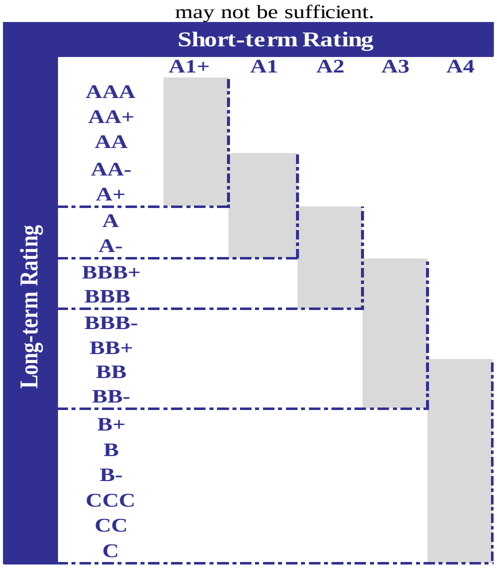
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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 | 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)

Proprietary Information