



The Pakistan Credit Rating Agency Limited

Rating Report

MACPAC Films Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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 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, which causes volatility. Its raw material polypropylene (PP) is totally imported. FY21 is marked the first year after COVID-19 in which the Company has maintained healthy margins and profitability despite its raw material being sensitive to exchange rate volatility, revival can be seen during the year. The key input is dependent on regional supply and demand dynamics as well as the strength of PKR to USD. Revenues growth of the players in the packaging industry became slow due to increased competition but the Company succeeded to maintain its market share of ~11% even in unprecedented times. The revenue of the Company increased by 31.4% during the period. New Cast Polypropylene (CPP) unit achieved 85% capacity utilization during the period and will add in profitability as utilization will increase in future. The long term prospects of the Company are linked with demand and expansion in the local packaging business. The Company managed to earn healthy cash flows during the year and has shown significant growth by 6x as compared to FY20. Furthermore, the Company has successfully managed to convert its losses into profits and reported net profit after tax of PKR 187mln (FY20: PKR (63)mln. The main contributor towards profitability were the improved revenue base and decreased finance cost on the back of repayment of long term debt and the downward trend of policy rates during FY21. Resultantly, the coverages of the Company have also improved by significant margins. The Company has moderate 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 management's ability to improve margins while sustaining its market share. Prudent management of the working capital, maintaining sufficient cash flows and coverages is imperative for the ratings. Materialization of management's strategy of diversification resulting in better margins and profitability is important. Any significant decrease in margins and/or coverages will impact the ratings.

Disclosure

Name of Rated Entity	MACPAC Films Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Paper and Packaging(Nov-21)
Rating Analysts	Muhammad Zain Ayaz zain.ayaz@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, pearled 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 (52%). Among the sponsoring family, major ownership vests with Mr. Ehtesham Maqbool Elahi (15%), Mr. Shariq Maqbool Elahi (16%) and Mr. Habib Maqbool Elahi (16%). Munshi family has an ownership stake of 15% in the Company. The GoP through Employees Old Age Benefit owns a 7.87% stake in MACPAC. The Company has a free float of 28%.

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 20 was completed by M/s EY Ford Rhodes and they expressed an unqualified opinion on the financial reports for FY20. However, the Company in its 25th Annual General Meeting held on Oct 20 approved the appointment of M/s KPMG as external auditors for the year ended June 21.

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, & polyethylene. 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 2HCY20. 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 74% while CPP contributes 26% of total revenue during FY21. The Company's topline shows an increasing trend. During FY21, the Company generated a topline of PKR 3.0bln vs PKR 2.1bln during FY20, showing an increase of ~43% 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 The Company now operates within an improved margin segment of BOPP. Meanwhile, the CPP segment is expected to earn relatively better margins as its production capacity has increased. This led to a reasonable increase in the Company's gross profit margin: FY21: 15.0% vs FY20: 3.0% (FY19: 4.0%) majorly due to the increase in CPP sales and better raw material cost in the period. While the net profit margin during FY21: 6.0% has been stabilized vs -3.0% during FY20 (FY20 :- 10.0%). The trickle-down effect of gross margin combined with greater operational efficiency led to the Company's net profit at PKR 187mln during FY21 vs PKR ~63mln loss during FY20.

Sustainability The Company's CPP plant became operational during Jan'2019. This strengthened MACPAC Films competitive position and also increased the overall capacity by over 40%. The capacity utilization of the CPP plant for June 21 is 85%.

Financial Risk

Working Capital MACPAC Films working capital management is supported through a short-term running finance facility obtained from a consortium of banks. MACPAC Films inventory days stood at 57 days during FY21 vs FY20: 59 days (FY19: 66 days), this is due to high demand. While on account of decreased in trade payable days from 84 days (FY20) to 39 days (FY21), the net working capital days increased to 55 days FY21 vs FY20 18 days. It demonstrates low inventory days and favorable receivable days with more flexible terms of payables translated into the high demand for products.

Coverages MACPAC Films interest coverage, during FY21, stood at 6.2x which was very low during FY20 1x translated into a sufficient debt servicing ability in the short run. The Company's core and total debt service coverage improved to 3.0x during FY21 (FY20: 2.4x). Free cash flow improved due to the payoff of borrowing during FY21 and stood at PKR 522mln vs FY20: PKR 78mln. The finance cost also decreased on account of paying off long term debt and decline in interest cost.

Capitalization The Company has a moderately leveraged structure at 31% during FY21 vs 42% during FY20.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

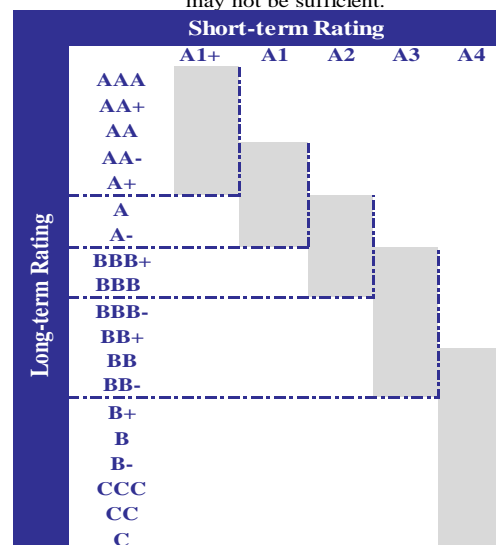
MACPAC Films Limited Paper & Packaging	Sep-21 3M	Jun-21 12M	Dec-20 6M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET					
1 Non-Current Assets	1,923	1,929	1,914	1,949	1,423
2 Investments	-	-	-	-	-
3 Related Party Exposure	-	-	109	79	112
4 Current Assets	1,355	1,283	1,038	945	961
a Inventories	558	609	406	329	376
b Trade Receivables	533	433	406	179	325
5 Total Assets	3,278	3,211	3,062	2,974	2,496
6 Current Liabilities	1,108	948	868	750	858
a Trade Payables	289	244	460	396	595
7 Borrowings	525	638	686	861	830
8 Related Party Exposure	-	-	-	-	-
9 Non-Current Liabilities	221	230	204	152	156
10 Net Assets	1,424	1,395	1,304	1,212	653
11 Shareholders' Equity	1,424	1,395	1,304	1,212	653
B INCOME STATEMENT					
1 Sales	910	3,025	1,442	2,165	2,415
a Cost of Good Sold	(787)	(2,567)	(1,211)	(2,108)	(2,312)
2 Gross Profit	123	458	230	57	103
a Operating Expenses	(42)	(140)	(68)	(115)	(119)
3 Operating Profit	81	318	162	(58)	(15)
a Non Operating Income or (Expense)	(14)	47	17	53	(97)
4 Profit or (Loss) before Interest and Tax	67	365	179	(4)	(112)
a Total Finance Cost	(27)	(91)	(48)	(157)	(89)
b Taxation	(12)	(87)	(39)	99	(33)
6 Net Income Or (Loss)	29	187	92	(63)	(234)
C CASH FLOW STATEMENT					
a Free Cash Flows from Operations (FCFO)	80	522	287	78	(16)
b Net Cash from Operating Activities before Working Capital Changes	64	422	239	(71)	(100)
c Changes in Working Capital	73	(205)	(50)	54	86
1 Net Cash provided by Operating Activities	137	217	189	(16)	(14)
2 Net Cash (Used in) or Available From Investing Activities	(21)	(97)	(31)	(15)	(405)
3 Net Cash (Used in) or Available From Financing Activities	(121)	(123)	(148)	6	438
4 Net Cash generated or (Used) during the period	(5)	(3)	10	(25)	19
D RATIO ANALYSIS					
1 Performance					
a Sales Growth (for the period)	20.3%	39.7%	33.2%	-10.4%	13.7%
b Gross Profit Margin	13.5%	15.1%	16.0%	2.6%	4.3%
c Net Profit Margin	3.1%	6.2%	6.4%	-2.9%	-9.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	16.8%	10.5%	16.5%	6.1%	2.9%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh	8.1%	13.9%	14.3%	-5.6%	-37.8%
2 Working Capital Management					
a Gross Working Capital (Average Days)	107	93	84	102	128
b Net Working Capital (Average Days)	80	55	29	18	44
c Current Ratio (Current Assets / Current Liabilities)	1.2	1.4	1.2	1.3	1.1
3 Coverages					
a EBITDA / Finance Cost	6.2	6.2	5.6	1.0	1.3
b FCFO / Finance Cost+CMLTB+Excess STB	1.6	2.4	1.5	0.1	0.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.1	0.7	1.1	-10.5	-8.1
4 Capital Structure					
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	27.0%	31.4%	34.5%	41.5%	56.0%
b Interest or Markup Payable (Days)	49.4	34.9	68.8	42.3	38.0
c Entity Average Borrowing Rate	10.0%	11.2%	10.4%	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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
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):

Entities

- Broker Entity Rating
- Corporate Rating
- Financial Institution Rating
- Holding Company Rating
- Independent Power Producer Rating
- Microfinance Institution Rating
- Non-Banking Finance Companies (NBFCs) Rating

Instruments

- Basel III Compliant Debt Instrument Rating
- Debt Instrument Rating
- Sukuk Rating

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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

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- (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)

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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)
- (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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