



The Pakistan Credit Rating Agency Limited

Rating Report

Nishat Paper Products Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
17-Feb-2022	A	A1	Stable	Maintain	-
17-Feb-2021	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Nishat Paper Products Co Ltd.'s ("NPPCL" or the "Company") ratings reflect the strong sponsor profile, emerging market position and adequate financial profile of the Company. The Cement sector's dispatches have recorded splendid growth and surged by 21% in FY21 as demand in the domestic market accelerated. Industry-wide exports have also gone up as a new export window is created in the Bangladesh market. The industry's future demand outlook is positive, in view of the infrastructure projects in the pipeline. Furthermore, the industry is also diverging more towards PP bags as these are less costly compared to KP bags. The production of packaging sector is directly linked with the cement demand of the Industry. Currently, the Company has production capacity of 220mln bags/annum. The Company is also in the process of evaluation of plan to install its first PP line. This expansion will be supported by the Company's after tax reserves and borrowing from bank, adhering to the policy of keeping total debt to equity ratio below 70%. The expansion would support the Company in competing with other players and strengthening the existing market share. During FY21, the utilization capacity of the the kraft paper plant remained at an average of 60%. The Company's raw material procurement is entirely met by imports. Being the subsidiary of DG Khan cement, NPPCL derives strength and economies of scale from the parent company, which bodes well for the ratings. Further, the ratings assigned to NPPCL also draw support from the strong sponsor's profile. The Company's margins showed an improvement - both at gross and operating levels -since last year and resulting in net profit for FY21. Stable raw material cost coupled with predictable exchange rate volatility translates into better gross margins. The Company has leveraged capital structure. The long term debt is related to expansion activities, whereas short term debt has increased substantially pursuant to slow movement in receivables due to recent crises in cement sector. Going forward, improvement in profitability for timely repayment of debt remains vital.

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. Any significant decrease in margins and coverages will impact the ratings.

Disclosure

Name of Rated Entity	Nishat Paper Products Company 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)
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Profile

Legal Structure Nishat Paper Products Company Ltd("NPPCL" or the "Company") is a Public Limited Company incorporated under the repealed Companies Ordinance 1984, on 23 July, 2004.

Background Nishat Paper Products Company Ltd was a Joint venture project of Nishat with Shuaiba Paper Products Company Ltd. Kuwait (Shuaiba). The Primary purpose of the project was the vertical integration in Cement business for supply of paper sacks for cement packaging. D G Khan Cement Company Ltd. (DGKCC) and Shuaiba entered into an agreement on 12th June 2004 for setting up a paper sack plant in Pakistan, but later in June 2008, Nishat acquired the stake from Shuaiba Paper. Now NPPCL is subsidiary of D.G. Khan Cement Company Ltd.

Operations The Company is engaged in the manufacturing and sale of paper packaging material with annual production capacity of 220 million bags. The plant is situated adjacent to D.G. Khan Kairpur cement unit, in District Chakwal, in close proximity of some other big cement producers.

Ownership

Ownership Structure NPPCL shareholding is primarily vests with DG Khan Cement (55%) and Nishat Mills Ltd (25%). Among the sponsoring family, major ownership is with Mrs. Naz Mansha 6%, Mr Umer Mansha and Mr Hassan Mansha 4% each. Nishat Mills Ltd has 25% of shareholding in DG Khan Cement. Thus ultimate shareholding remained with Nishat Group.

Stability Nishat being largest and most diversified Industrial house in South East Asia, with assets base over PKR 300 bln. Whereas, DG Khan cement is one of the largest cement players in the industry.

Business Acumen Nishat is considered at par with multinationals operating locally in terms of its quality of products, services and management skills. The sponsors through their vast experience, have become reliable partner for the packaging industry. Mian Mansha, man behind the whole setup of Nishat Group, has a long success story which provides a strong base for the NPPCL.

Financial Strength The Financial strength of the sponsors is sufficient to support the Company in the times of crises. DG Khan Cement is AA-/A1+rated by PACRA. DG Khan Cement has PKR~138bln assets and PKR~66bln equity with a revenue of PKR~73.5bln during FY21.

Governance

Board Structure The Board consists of seven members. There is also a female representation on the board. There are four executive directors, two non-executive directors on Board. But no Independent representation.

Members' Profile The Board, with a diversified background and expertise of its members, is a key source of oversight and guidance for the management. The Chairman, Mian Raza Mansha, also holds the position of CEO in the company. He has been associated with the Company since last 16 years.

Board Effectiveness The minutes of the Board meetings are well documented. The Board has no formal committees to assist the board. The quality of minutes reflects the involvement of all directors in the agenda items. Total four meetings were held during the outgoing year and attendance was well sufficient in the meetings.

Financial Transparency M/s KPMG Taseer Hadi & Co. are the external auditors of the company. They have expressed an unqualified opinion on the financial reports for FY21. The firm is QCR rated by ICAP and is in the A Category of SBP's panel of auditors.

Management

Organizational Structure To perform well, NPPCL has structured and organized its organogram as per the operational needs. The Company operates through Procurement, Sales and Marketing, Finance and Accounting, production and Technical department and Administration Departments.

Management Team The Company has a set of experienced & professional management. The Company's CEO, Mian Raza Mansha has more than 24 years diversified professional experience in various business sectors including Banking, Textile, Power, Cement, Insurance, Hotels, Properties, Natural Gas, Agriculture, Dairy etc. He received his Bachelor degree from the University of Pennsylvania, USA. Currently he is on the Board of ten other companies.

Effectiveness Management's effectiveness and efficiency can be ensured through the presence of management committees. At NPPCL, management committees are not in place. Thus, indicating a room for improvement.

MIS NPPCL manufacturing facilities in Chakwal is connected with the Company's Head Office in Lahore through an ERP(Oracle based customized system). To facilitate the management, various reports related to Finance, Sales, HR, Production and Import are generated on daily and monthly basis. Other customized reports can be generated on ad hoc basis. Frequency of these reports may alter as per the managements requirement.

Control Environment The Company has an internal audit function in place, with effective mechanism for identification, assessment and reporting of all types of risks arising out of the business operations. This function is necessary to 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 Pakistan's packaging industry consists of four major segments, paper, plastic, tinplate and glass. Paper and plastic segments occupy the major share in total market. NCCPL operates under paper segment of the Industry. The demand of this segment is directly correlated with cement production. The segment's direct costs consist largely of imported raw materials (~75%). Therefore, volatility in exchange rates and international price trends has an impact on costs. The international price of major raw material has significantly increased due to Covid-19 pandemic. Henceforth, the industry is also focusing on pp bags as these are less costly compared to KP bags. The average margins of the paper packaging industry have shown a positive trend since FY18, with average gross margins rising from 13% in FY18 to 17% in FY21.

Relative Position NPPCL is one of the main players in the industry. Large market players in the paper segment are Cherat Packing Ltd (production capacity 595mln bags/annum), Thal Ltd (production capacity 356mln bags/annm). The utilization capacity of the plant is ~50% which is highest among all three big industry players.

Revenues The Company generates revenue by selling paper sacks to cement manufactures. Major customers are DG Khan Cement, Best Way cement, Lucky Cement, Attock Cement, Kohat Cement, and Maple leaf Cement. Top 3 Customers are generating more than 80% of the total revenue. DG Khan Cement contributes above 50% of total revenue. During FY21, the Company generated a revenue of PKR 4bln vs PKR~4.3bln during FY20, showing slight decrease of 7% YoY.

Margins Kraft paper and Chemical wood pulp is one of the main raw materials in production of paper packaging. Approximately 95% of raw material is imported across the world. The variation in exchange rate has a significant impact on the cost part. The Company production is demand based, the decrease in overall revenue due production resulted in decreased cost of sales. The per unit price of Kraft paper led to an increase in the Company's gross margins (FY21: 25% vs FY20: 16%). While Net Margin increased to 13% FY21 vs 3.1% FY20.

Sustainability The Company is a subsidiary of DG Khan Cement and came into existence as a result of vertical integration into supply chain line. The main purpose of the Company is to supply packaging material to the parent Company.

Financial Risk

Working Capital The Company's working capital management is supported through short-term running finance facility obtained from a consortium of banks. NPPCL inventory days stood at 66 days during FY21 (FY20: 97 days), the receivable days significantly increased to 153 days (FY:20 106 days), this is due to overall conservative market condition. Resultantly, the net working capital days increased to 220 days during FY21 (FY20: 202 days)

Coverages In line with the Company's operations, total debt to equity ratio remained under 65%. Free cash flows of the Company increased but still remained below STB and current portion of long term borrowings and stood at FY21 – FCFO: PKR 787mln, STB: PKR 1,972mln and CMLTD: PKR 844mln. The Company's interest coverage, during FY21 stood at 4x vs FY20 1.5x. The financing cost has decrease during FY21 PKR~195mln (FY20 PKR~447mln).

Capitalization The Company has a leveraged capital structure. Gearing ratio stood at ~62% during FY21 (FY20: 69%). This was largely due to increase in short term borrowing comprises ~59% of total borrowings during FY21 (FY20: 60%).



The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Nishat Paper Products co Ltd Paper and Packing	Jun-21 12M	Jun-20 12M	Jun-19 12M	Jun-18 12M	Jun-17 12M
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A BALANCE SHEET

1 Non-Current Assets	1,399	1,441	1,501	1,556	677
2 Investments	-	-	0	0	0
3 Related Party Exposure	173	144	144	154	116
4 Current Assets	4,372	3,598	3,821	2,109	1,067
a Inventories	683	766	1,496	842	412
b Trade Receivables	1,715	1,630	844	552	414
5 Total Assets	5,944	5,183	5,466	3,819	1,860
6 Current Liabilities	309	404	493	349	352
a Trade Payables	25	14	16	32	17
7 Borrowings	3,321	3,060	3,360	2,000	157
8 Related Party Exposure	-	-	-	-	-
9 Non-Current Liabilities	268	195	209	132	168
10 Net Assets	2,046	1,524	1,404	1,337	1,183
11 Shareholders' Equity	2,046	1,524	1,404	1,337	1,183

B INCOME STATEMENT

1 Sales	3,980	4,273	4,057	2,994	2,484
a Cost of Good Sold	(2,986)	(3,588)	(3,567)	(2,663)	(1,897)
2 Gross Profit	994	685	490	332	587
a Operating Expenses	(31)	(14)	(14)	(14)	(26)
3 Operating Profit	963	671	475	317	561
a Non Operating Income or (Expense)	(52)	(41)	(53)	(43)	(19)
4 Profit or (Loss) before Interest and Tax	911	630	422	274	542
a Total Finance Cost	(197)	(449)	(298)	(53)	(28)
b Taxation	(189)	(50)	(65)	33	(174)
6 Net Income Or (Loss)	525	131	59	254	339

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	697	656	235	10	353
b Net Cash from Operating Activities before Working Capital Changes	697	232	9	(12)	325
c Changes in Working Capital	219	80	(1,355)	(789)	232
1 Net Cash provided by Operating Activities	916	312	(1,345)	(800)	558
2 Net Cash (Used in) or Available From Investing Activities	(31)	(11)	(13)	(960)	(88)
3 Net Cash (Used in) or Available From Financing Activities	(95)	(132)	223	421	(203)
4 Net Cash generated or (Used) during the period	790	169	(1,135)	(1,339)	266

D RATIO ANALYSIS

1 Performance					
a Sales Growth (for the period)	-6.9%	5.3%	35.5%	20.5%	--
b Gross Profit Margin	25.0%	16.0%	12.1%	11.1%	23.6%
c Net Profit Margin	13.2%	3.1%	1.5%	8.5%	13.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	23.0%	17.2%	-27.6%	-26.0%	23.6%
e Return on Equity / Net Profit Margin * Asset Turnover * (Total Assets/Share)	27.4%	8.4%	5.0%	25.6%	28.7%
2 Working Capital Management					
a Gross Working Capital (Average Days)	220	202	168	151	107
b Net Working Capital (Average Days)	218	201	166	148	104
c Current Ratio (Current Assets / Current Liabilities)	14.2	8.9	7.7	6.0	3.0
3 Coverages					
a EBITDA / Finance Cost	4.2	1.5	1.6	5.9	21.2
b FCFO / Finance Cost+CMLTB+Excess STB	0.7	0.7	0.4	0.0	3.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.7	5.9	-15.5	-24.7	0.3
4 Capital Structure					
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	61.9%	66.8%	70.5%	59.9%	11.7%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	6.1%	13.9%	11.0%	4.8%	16.9%

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+	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	
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):

<p>Entities</p> <ul style="list-style-type: none"> 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 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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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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- (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)
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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.
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- (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)
- (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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