The Pakistan Credit Rating Agency Limited

Rating Report

Popular Aseptic Packaging (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Nov-2022	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Popular Aseptic Packaging (Pvt.) Limited ("the Company") ratings reflect the strong sponsor's profile, growing market position, and adequate financial profile of the Company. The sponsor's family has vast experience in packaging and engaged in this business since 2012. The Company is predominately manufacturing seven-layer aseptic packaging for the Popular Food and Juice. The demand for the product is derived mainly from the food industry. The raw material of the finished product is ~100% imported hence, exposed to exchange rate risk. As per management representation, the Company approximately holds 12% 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 ~60% (FY21: ~52%). In order to cater the growing demand and capture market share, the Company has performed BMR on its seven-layer aseptic packaging plant to enhance the capacity utilization by approximately three times in FY22.
The internal audit department is operating under the direct supervision of directors. On the financial profile side, during FY22 ~98% topline of the Company is generated from the sales to its associated companies which shows the high captive buying and low level of credit risk. The Company has generated a topline of ~ PKR 3,402mln in FY22 as compared to ~PKR 3,001mln in FY21. In FY22, Popular Aseptic Packaging (Pvt.) Limited generated a humble bottom line of ~PKR 23mln (FY21: ~PKR -52mln). The main reason for the net loss in FY21 was a significant increase in finance costs and deferred tax expenses. Going forward, the Company is expecting healthy growth in sales volume which will ultimately be converted into profits and increased market share. While the equity of the Company stood at ~PKR 1,432mln at the end of FY22(FY21: ~PKR 1,410mln). On the other side, leverage indicators continue to remain elevated on account of higher utilization of short-term and long-term borrowings for funding working capital requirements, performing BMR work on its seven-layer aseptic packaging plant, and related party exposure. Going forward, the impact of higher finance costs & overheads on profitability is expected to be offset by an improvement in margins and an increase in the top line.

The ratings are dependent upon the management's ability to improve margins while sustaining its market share. Prudent management of the working capital, and maintaining sufficient cash flows and coverages are imperative for the ratings. Any significant decrease in margins and coverages will impact the ratings.

Disclosure

Name of Rated Entity	Popular Aseptic Packaging (Pvt.) 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)
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Profile

Legal Structure Popular Aseptic Packaging (Pvt) Limited 'The Company') was incorporated as a private limited company in 2012, and a manufacturing concern that is involved in the production of seven layer aseptic packaging for dairy and beverages industry.

Background The Popular Group is principally engaged in the manufacturing, servicing, trade, and export of foods, juices, textiles, safety matches, and other products across different industries. However, in 2012, the group diversified into printing and packaging, resulting in the formation of a separate business called Popular Aseptic Packaging.

Operations Popular Aseptic Packaging (Pvt) Limited is involved in the production of seven layer aseptic packaging for dairy and beverages industry. The Company provides aseptic packaging material for milk & juice packaging. The annual aggregate capacity of the plant is 5,500mln packs and the actual capacity utilization is 3,300mln packs for FY22. The actual capacity utilization of the plant is ~60% (FY21: ~52%).

Ownership

Ownership Structure Popular Aseptic Packaging (Pvt) Limited is partly owned by family members by directly holding ~57% shares in the Company. Remaining ~43% shares are held by Popular Foods (Pvt.) Limited which is wholly owned by Popular group.

Stability The ownership structure is stable as owners have vast experience in the packaging industry while having a personal stake in the business and their plan to keep a low-leveraged capital structure keeps financial risk low.

Business Acumen Over the years, Popular Group has expanded into diversified businesses through organic growth and acquisition. Today, Popular Group has an inclined interest in the manufacturing segment that includes fruit juices, sugar, cement, match, packaging and textile. In the services sector, the Group is represented by a Modaraba Company (listed), security services and a trading company.

Financial Strength Popular Aseptic Packaging (Pvt) Limited's net assets stood at ~PKR 1.4bln with a turnover of ~PKR 3.4bln during the FY22 representing sound support for the Company when needed.

Governance

Board Structure Popular Aseptic Packaging (Pvt) Limited has eight members board two non-executive directors, and six executive directors (Including CEO). The board is chaired by Mr. Imamuddin Shouqeen the CEO of the Company. The BoD has no independent directors or sub-committees of BoD.

Members' Profile Mr. Imamuddin Shouqeen, Chairman of the Board, has over 41 years of experience in business and is Chairman of PGI. He is an elected member of Senate.

Board Effectiveness The Board has the strength of all members belonging to the same family, increasing their cohesiveness; on the other hand, this decreases the independent oversight that is needed. The Board met three times during FY22, with the majority attending to discuss pertinent matters. To ensure effective governance and oversight, the Board has not formed any Committee.

Financial Transparency The auditors of the Company are Reanda Haroon Zakaria & Company, Chartered Accountants, issued an unqualified opinion for FY21. The firm has been QCR rated by ICAP and are in Category 'B' of SBP panel.

Management

Organizational Structure The Company is headed by the Managing Director (MD) and Chief Executive Officer (CEO) and supported by a team of General Managers for site, factory, finance and marketing. However, the support functions (HR, legal and administration) are shared at Group level and report to the Group's Chairman

Management Team Mr. Imamuddin Shouqeen also leads the management team as the CEO. He has been associated with the Group for the last 30 years and has played a key role in the success of the Company. The CEO is supported by an able and professional team.

Effectiveness The experience of the sponsors along with a professional management team has helped the Company to streamline its operations and cut down on its costs. The production facilities have minimal wastage which is effectively managed through re-cycling and re-using in the process.

MIS The Company has implemented Cosmosoft system, which is fully integrated with the financial systems, except for the inventory module. The system also provides various detailed reports to monitor and control the performance of the Company.

Control Environment The Company has developed an effective mechanism for identification, assessment, and reporting of all types of risk arising out of the business operations because there is an internal audit department in place to ensure operational efficiency which operates under the direct supervision of directors.

Business Risk

Industry Dynamics The Packaging industry comprises of Seven Layer Aseptic Packaging, Corrugated Packaging, Liquefied Packaging, PP Woven Bags, Polyethylene Plain Films, Shrink Film Packaging, Flexible Packaging, Plastic bags Packaging, Kraft Paper Packaging, tinplate, BOPP and CPP films. Paper segments occupy the major share in total market, while other materials such as tinplate and glass have relatively smaller size. Internationally there are three players for aseptic packaging i) Tetra Pak ii) Combi-Blocks iii) International Paper. While locally there are two players in the industry, where Tetra Pak is the leading player occupying ~90% market of the aseptic packaging. The segment's direct costs consist largely of imported raw materials (~75%). Therefore, volatility in exchange rates and international commodity price trends has an impact on costs. While considering the leveraging level of the industry finance cost would remain crucial element of the profitability.

Relative Position During FY22, approximately ~98% topline of the Company is generated from the sales to only one customer which shows the high level of diversification risk. In comparison, during FY21, approximately ~96% of the top line of the Company is generated from sales to intergroup companies.

Revenues Popular Aseptic Packaging (Pvt) Limited generates revenue from the sale of aseptic packaging paper for packaging of juice and milk in the local market as well as through exports. During FY21, the topline of the Company has been increased by ~13.36% and stood at PKR 3,402mln (FY21: PKR 3,001mln).

Margins In FY22, the gross margin and operating profit margin both increased as compared to FY21. GP Margin has increased to FY21: 10.7% (FY20: 10.3%). While the operating profit margin has been increased from FY21: 5.2% to FY22: 5.6%. The main reason for the increasing profitability ratios is increasing the sales volume considering the high demand of the products in the industry. While the sales prices are also increased in line with the increasing cost of raw materials and exchange rates. Consequently, the net profit margin increased from -1.7% in FY21 to 0.7% in FY22. The Company posted a net profit of ~PKR 23mln in FY22 (Net loss in FY21: ~PKR -52mln).

Sustainability Going forward, the Company expects to sustain its profit margins due to consumer product prices will increase. However, lack of diversification exposes the Company to inherent volatility in the food sector

Financial Risk

Working Capital The Company has maintained a weak position on working capital management over the years mainly owing to excessive short-term borrowings which have resulted in a persistent debt mismatch. In FY22, the Company's inventory days decreased to ~47 days from ~55 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 Popular Aseptic 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 are increased to ~40 days from ~34 days but trade payable days are the same at ~13 days during FY22 and FY21. Consequently, the Company's net working capital days stood the same at 75 days in FY22 and FY21.

Coverages The Company's interest coverage ratio remained the same during FY22 and FY21 at ~2.6x; due to higher finance costs. Meanwhile, the core and total operating coverage ratio observed a rise to 0.4x in FY22(FY21: 0.3x) due to a decrease in total borrowing in FY22 at ~PKR 2,206mln (FY21: ~PKR 2,417mln).

Capitalization The Company has a leveraged structure, with long-term liabilities being ~32% of the equity in FY22 and ~39% of equity at end of FY21. Its gearing ratio has decreased at end of FY22 being ~61% from at the end of FY21 of being ~63% because the working capital of the entity is being managed with debt and due to rise in working capital its debt is also rising. While the Company does take on both short-term and long-term financing from financial institutions. The short-term borrowings over total borrowings increased from 77.3% in FY21 to 78.8% in FY22.

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Financial Summary
PKR mln

	Jun-22	Jun-21	Jun-20	Jun-19
Popular Aseptic Packaging (Pvt.) Limited				
Paper and Packaging	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	1,750	1,918	1,901	1,752
2 Investments	-	-	-	-
3 Related Party Exposure	872	863	765	178
4 Current Assets	1,417	1,476	1,267	1,150
a Inventories	*425*	*454*	*443*	*424*
b Trade Receivables	*377*	*376*	*176*	*152*
5 Total Assets	4,040	4,257	3,933	3,080
6 Current Liabilities	248	275	185	313
a Trade Payables	*121*	*115*	*96*	*193*
7 Borrowings	2,206	2,417	2,199	1,278
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	153	155	90	37
10 Net Assets	1,432	1,410	1,459	1,453
11 Shareholders' Equity	1,432	1,410	1,459	1,453
B INCOME STATEMENT				
1 Sales	3,402	3,001	2,207	2,368
a Cost of Good Sold	*(3,038)*	*(2,692)*	*(1,931)*	*(2,078)*
2 Gross Profit	364	309	277	291
a Operating Expenses	(172)	(154)	(128)	(120)
3 Operating Profit	192	156	149	170
a Non Operating Income or (Expense)	*12*	*13*	*3*	*(10)*
4 Profit or (Loss) before Interest and Tax	204	169	151	161
a Total Finance Cost	*(149)*	*(159)*	*(99)*	*(62)*
b Taxation	*(33)*	*(62)*	*(51)*	*58*
6 Net Income Or (Loss)	23	(52)	1	157
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*316*	*333*	*271*	*170*
b Net Cash from Operating Activities before Working Capital Changes	*171*	*172*	*176*	*129*
c Changes in Working Capital	*34*	*(154)*	*(771)*	*(46)*
1 Net Cash provided by Operating Activities	205	18	(595)	83
2 Net Cash (Used in) or Available From Investing Activities	-	(188)	(325)	(509)
3 Net Cash (Used in) or Available From Financing Activities	(211)	218	922	428
4 Net Cash generated or (Used) during the period	(6)	48	2	3
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	13.3%	36.0%	-6.8%	3.2%
b Gross Profit Margin	10.7%	10.3%	12.5%	12.3%
c Net Profit Margin	0.7%	-1.7%	0.1%	6.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	10.3%	6.0%	-22.6%	5.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	1.6%	-3.6%	0.1%	10.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	88	88	99	89
b Net Working Capital (Average Days)	75	75	75	59
c Current Ratio (Current Assets / Current Liabilities)	5.7	5.4	6.9	3.7
3 Coverages				
a EBITDA / Finance Cost	2.6	2.6	3.5	4.4
b FCFO / Finance Cost+CMLTB+Excess STB	0.4	0.3	0.4	1.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	6.1	7.0	6.4	6.9
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	60.6%	63.2%	60.1%	46.8%
b Interest or Markup Payable (Days)	71.0	58.7	100.3	136.3
c Entity Average Borrowing Rate	6.4%	6.8%	5.6%	4.8%

Credit Rating

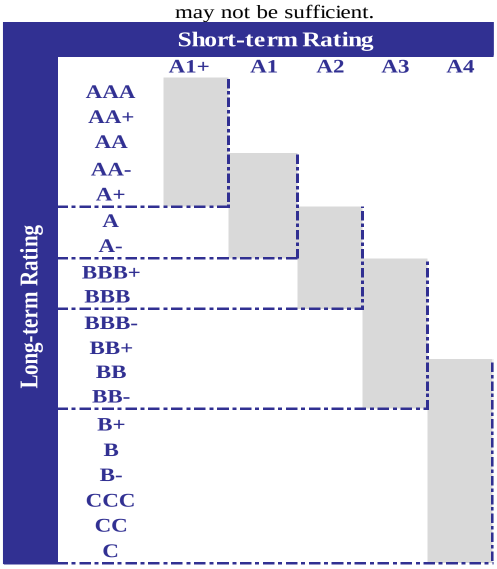
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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