



The Pakistan Credit Rating Agency Limited

Rating Report

Meezan Plastic Industries (Pvt.) Limited

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Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 23-Jun-2023 | BB | A3 | Stable | Maintain | - |
| 24-Jun-2022 | BB | A3 | Stable | Initial | - |

Rating Rationale and Key Rating Drivers

Meezan Plastic Industries (PVT) Limited (“the Company” or “MPI”) ratings reflect an emerging business profile in the packaging industry. The Company manufactures and sells different types of BOPP / OPP (Biaxially Oriented Polypropylene) packaging material for food and non-food products through company-operated sales points located in Faisalabad and Lahore. The local packaging industry is fragmented and dominated by a large unorganized segment. The product demand is high due to the growing population, urbanization, and the e-Commerce revolution. Meezan Plastic Industries (Pvt.) Limited is owned and managed by close family members and lacks formal succession planning. The governance structure is considered weak due to the absence of a formal board structure, board committees, and independent oversight, furthermore, external auditors are not QCR rated and denote room for improvement. The Management has a well understanding of business and operational efficiencies being monitored through budgets, forecasts, and projections. The price of company’s major raw materials is correlated to international oil prices, and therefore, volatility in oil prices and fluctuating exchange rates depict significant risk. On the other import restrictions, high inflation, and policy rates slowed down the sector growth. Despite all macroeconomic turbulence and operational challenges, the topline of the company registered ~16% growth in FY22 and stood at ~PKR 2.9bln, and margins remained sustained at levels. The company was able to pass cost escalations to the customers. The financial risk profile of the Company is considered good, with sufficient cashflows and an adequate working capital cycle. The operations of the Company are managed through internally generated cash flows and there is no plan to obtain short-term and long-term borrowing facilities in the future. The Company has availed a non-funded facility from a financial institution to import key raw materials.

The ratings are dependent on the firm’s ability to sustain its position amidst changing business environment and management’s ability to run the operations of the Company optimally. With the upcoming growth in firm’s business & volumes; prudent financial discipline and implementation of a stringent control environment shall remain imperative.

Disclosure

| | |
|------------------------------|--|
| Name of Rated Entity | Meezan Plastic Industries (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) |
| Rating Analysts | Kanwal Ejaz kanwal.ejaz@pacra.com +92-42-35869504 |



Profile

Legal Structure Meezan Plastic Industries Private Ltd ("MPI") was established as a private limited company in June 2018.

Background Meezan Plastic Industries (Pvt.) Limited was incorporated in Azad Kashmir under the Companies Ordinance 1984 as (Private) Limited Company in June 2018. The registered office of the company is situated at Small Industrial Estate, Bhimber, Azad Kashmir.

Operations Meezan Plastic Industries (Pvt.) Limited caters to the unsegmented packaging market, the principal activity of the company is to manufacture BOPP / OPP plastic bags used in the cloth and jewellery market. MPI introduced BOPP / OPP bags in the cloth market. The sale point of Meezan Plastic is in Lahore and Faisalabad. The company has two manufacturing units, one is a manufacturing unit, whose Annual Production capacity is 14.4mln KG bags and the other one is a printing unit (Flexo machine), having an annual production capacity of 35 tons.

Ownership

Ownership Structure Meezan Plastic Industries is owned by two brothers Mr. Hafiz Muhammad Atif (70%) and Mr. Yasir Amin (30%).

Stability They have no succession planning at the moment regarding the transfer of shares in the future.

Business Acumen A family-owned business is run by two professionals, who have adequate industry experience and carry extensive knowledge of packaging sectors.

Financial Strength The sponsoring family has various investments in real estate and has other allied concerns which, in case of need, would provide a financial cushion to continue operating efficiently.

Governance

Board Structure The overall control of the company vests in the two-member board of directors (BoD) and both members have executive roles.

Members' Profile The CEO, Mr. Hafiz Muhammad Atif besides the general oversight looks after the management side of the business. He has developed excellent business relationships with buyers and suppliers. Mr. Yasir Amin is a director and he is also managing all the affairs of the company.

Board Effectiveness The Board has only two members and in comparison, to established corporates, the governance model is weak and needs improvement. There are no board committees in place.

Financial Transparency The absence of an internal audit function further creates room for improvement in the corporate governance framework. M/S Zafar & Co. Chartered Accountants are the external auditor of the Company. The auditors have expressed an unqualified audit opinion on the financial statements of Meezan Plastic Industries Pvt. Limited for the year ended June 30, 2022. The firm is not on SBP's panel of auditors and is Non-QCR rated, therefore there is room for improvement in the corporate governance framework.

Management

Organizational Structure Meezan Plastic Industries Pvt. Limited has a lean organizational structure divided into various functional departments. Currently, the organizational structure is divided into five main functions namely; 1) Sales & Marketing 2) Production 3) Purchase 4) Accounts & Finance, and 5) Collection & Recovery.

Management Team Meezan Plastic Industries Pvt. Limited has an organizational structure with an experienced management team and a balanced mix of professionals. The top Management includes four key professionals. Mr. Hafiz Muhammad Hamid, General Manager, holds a Ph.D. degree and has been associated with the company for the past 3 years. Mr. Sheikh Muhammad Bilal, Production, Planning & Control Manager, has been associated with the company for the past 3 years. Mr. Muhammad Nasir, Marketing Manager has been associated with the company for the past 3 years. Mr. Muhammad Azam Chief Accountant holds a degree in MBA Finance and has been associated with the company for the past 3 years.

Effectiveness All members of the management team are qualified and experienced individuals and carry an adequate experience in the plastic industry. They have no formal management committee as the board itself is involved in the day-to-day operations of the company. However, meetings are conducted by the Head of departments and the frequency of the meetings depends on the business activities.

MIS The company's MIS generates Balance Sheets, Profit and Loss, and Cash flow statements on a weekly basis for the Board. The MIS generated Sales reports are reviewed by the top management on a daily basis.

Control Environment The company uses Microsoft Office (licensed) including Excel, Word, and Outlook for its functioning. For internal MIS Reporting to senior management and reports are generated on a weekly, monthly, quarterly, and annually as per the management perusal.

Business Risk

Industry Dynamics A major challenge faced by the sector is the 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 global BOPP bags market is poised to expand at around 4% to 5% CAGR between 2022 and 2032. The overall sales of BOPP bags are estimated to reach US\$ 28bln by 2032. Increasing young population, urbanization, per-capita income, consumer consciousness, and e-commerce revolution are driving the demand for the packaging sector. In Pakistan, the use of BOPP films on a per-capita basis remains much lower at 0.28 kg against 1.38 kg in the world.

Relative Position Overall this industry is highly fragmented and mostly divided into unorganized sectors. While the remaining market share is divided into major players like Cherat Packaging Limited, Pakistan Synthetics Limited, and Nishat Paper Products Company Limited. The company is an emerging player in the fragmented packaging sector.

Revenues During FY22, the company's topline clocked in at ~PKR 2,907mln (FY21: PKR 2,502mln) depicting an increase of ~16%. MPI's income stream is derived from sales BOPP / OPP (Biaxially Oriented Polypropylene) Bags.

Margins Gross profit margins clocked in at ~9.6% FY22 (FY21: ~9.3%, FY20: ~7.6%). The company performed well in FY22 with a net profit margin reaching ~4.3% (FY21: ~4.2%, FY20: ~6%). The company's focal point of the strategy lies in controlling its administrative expenses in order to keep its bottom-line margins intact.

Sustainability MPI's management furnished reliable forecasts which reflect the strategy of the management and the viability of the design path to reach the goal. As per management, the Plastic Bags used for Packing Materials, like shirts, cloth, and bedsheets will remain in an increasing trend, as there is a rising demand for these products.

Financial Risk

Working Capital For working capital needs, which is a function of inventory and receivables, MPIs relies on internal cash flows. Gross working capital days have reached to ~60 days at the end of FY22, though net working capital days have reached to ~50 days in FY22.

Coverages During FY22, Meezan Plastic Industries operating cashflows (FCFO) increased to PKR ~127mln (FY21: PKR ~107mln) on account of higher revenues & profits.

Capitalization Equity base of the Company has grown from PKR ~124mln to PKR ~250mln due to profit retention. The company does not have any long-term and short term funded facilities. However, the company possesses a non-funded facility amounting to PKR 500mln.



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Financial Summary

PKR mln

| Meezan Plastic Industries (Pvt) Limited Paper and Packaging | Jun-22 12M | Jun-21 12M | Jun-20 12M | Jun-19 12M |
|--|---------------|---------------|---------------|---------------|
|--|---------------|---------------|---------------|---------------|

A BALANCE SHEET

| | | | | |
|---------------------------|-----|-----|-----|-----|
| 1 Non-Current Assets | 5 | 6 | 7 | 8 |
| 2 Investments | - | - | - | - |
| 3 Related Party Exposure | - | - | - | - |
| 4 Current Assets | 588 | 425 | 269 | 285 |
| a Inventories | 102 | 199 | 106 | 67 |
| b Trade Receivables | 456 | 194 | 135 | - |
| 5 Total Assets | 593 | 431 | 276 | 292 |
| 6 Current Liabilities | 343 | 307 | 195 | 281 |
| a Trade Payables | 10 | 151 | 136 | 281 |
| 7 Borrowings | - | - | - | - |
| 8 Related Party Exposure | - | - | - | - |
| 9 Non-Current Liabilities | - | - | - | - |
| 10 Net Assets | 250 | 124 | 80 | 12 |
| 11 Shareholders' Equity | 250 | 124 | 80 | 12 |

B INCOME STATEMENT

| | | | | |
|--|---------|---------|---------|-------|
| 1 Sales | 2,907 | 2,502 | 1,145 | 619 |
| a Cost of Good Sold | (2,628) | (2,269) | (1,058) | (616) |
| 2 Gross Profit | 279 | 233 | 87 | 3 |
| a Operating Expenses | (153) | (126) | (14) | (1) |
| 3 Operating Profit | 126 | 106 | 73 | 2 |
| a Non Operating Income or (Expense) | - | - | - | - |
| 4 Profit or (Loss) before Interest and Tax | 126 | 106 | 73 | 2 |
| a Total Finance Cost | - | - | (5) | - |
| b Taxation | - | - | - | - |
| 6 Net Income Or (Loss) | 126 | 106 | 69 | 2 |

C CASH FLOW STATEMENT

| | | | | |
|---|-------|------|------|-----|
| a Free Cash Flows from Operations (FCFO) | 127 | 107 | 74 | 2 |
| b Net Cash from Operating Activities before Working Capital Changes | 127 | 107 | 70 | 2 |
| c Changes in Working Capital | (129) | (94) | (59) | 2 |
| 1 Net Cash provided by Operating Activities | (2) | 13 | 11 | 5 |
| 2 Net Cash (Used in) or Available From Investing Activities | - | - | - | (8) |
| 3 Net Cash (Used in) or Available From Financing Activities | - | - | - | - |
| 4 Net Cash generated or (Used) during the period | (2) | 13 | 11 | (4) |

D RATIO ANALYSIS

| | | | | |
|---|-------|--------|--------|-------|
| 1 Performance | | | | |
| a Sales Growth (for the period) | 16.2% | 118.4% | 85.1% | -- |
| b Gross Profit Margin | 9.6% | 9.3% | 7.6% | 0.5% |
| c Net Profit Margin | 4.3% | 4.2% | 6.0% | 0.3% |
| d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales) | -0.1% | 0.5% | 1.4% | 0.8% |
| e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)] | 67.4% | 104.1% | 148.7% | 15.4% |
| 2 Working Capital Management | | | | |
| a Gross Working Capital (Average Days) | 60 | 46 | 71 | 39 |
| b Net Working Capital (Average Days) | 50 | 25 | 4 | -126 |
| c Current Ratio (Current Assets / Current Liabilities) | 1.7 | 1.4 | 1.4 | 1.0 |
| 3 Coverages | | | | |
| a EBITDA / Finance Cost | N/A | N/A | N/A | N/A |
| b FCFO / Finance Cost+CMLTB+Excess STB | N/A | N/A | N/A | N/A |
| c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost) | 0.0 | 0.0 | 0.0 | 0.0 |
| 4 Capital Structure | | | | |
| a Total Borrowings / (Total Borrowings+Shareholders' Equity) | 0.0% | 0.0% | 0.0% | 0.0% |
| b Interest or Markup Payable (Days) | N/A | N/A | N/A | N/A |
| c Entity Average Borrowing Rate | 0.0% | 0.0% | 0.0% | 0.0% |

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):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies 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)
- (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)

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