



The Pakistan Credit Rating Agency Limited

Rating Report

Salman Paper Products (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
14-Sep-2022	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Salman Paper Products Private Limited ('SPPPL' or 'The Company') has been established in 2005. The Company is involved in the business of imports, sizing and trading of paper and related products from various countries. The light asset and high turnover base model of business has provided strength to the Company to establish its brand name amongst the leading importers of paper and related products in the south market. The average market share of the Company stood at ~25% during FY22. The CEO/owner - Mr. Aslam Jilani has an extensive knowledge of industry trends and Paper business with overall 30 years of experience. While the Management has a well understanding of business and operational efficiencies. 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. Going forward, the Company is planning to improve the transparency by appointing QCR rated auditors.

The financial risk profile of the Company is considered good, with sufficient cashflows and a well-managed working capital cycle. The Company has availed a non-funded facility from a financial institution to import key finished goods items. The leveraging of the Company lies on the lower side providing a cushion to the assigned ratings. Revenue for the Company during 9MFY22 stood at PKR 7bln (FY21: PKR 6.4bln) with net profit margin of 2.5% (FY21: 2.3%). The Company's revenues are showing growth period on period with the increasing customer base. The Company structure is not complex making management of operations an easy and timely task with one head office and two production offices. MIS systems are missing due to simpler organization structure. Being part of group wherein tacit intergroup cooperation exists, bodes well to the rating.

The ratings are dependent on the Company'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	Salman Paper Products (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-21)
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Profile

Legal Structure Salman Paper Products ("SPPL" or "the Company") was incorporated as a Private Limited Company under the Companies Ordinance, 1984 in Oct' 2011.

Background In 2005, Salman Paper Products was established as Jilani Enterprises and in 2011 Jilani Enterprises was renamed to Salman Paper Products Private Limited. The Company is primarily engaged in the import, cutting and sizing, printing and trade of paper in the local market.

Operations Salman Paper Products deals in four products; namely: Art cards, Packaging board, Stickers, and Printer paper. The Company imports the paper from China, Malaysia, and Indonesia and sells to northern, central, and southern regions of Pakistan. Customers of the Company are divided into direct customers and dealers (who resell to other customers). Among the dealers 4 are located in the central region, 2 are located in the northern, and 2 dealers are in the southern region of Pakistan.

Ownership

Ownership Structure The Company is privately owned by two shareholders -Majorly by Mr. Muhammad Aslam Jilani: 99% shares and Mr. Muhammad Faisal:1% shares.

Stability Being part of a group wherein tacit intergroup cooperation exists, bodes well to the rating.

Business Acumen Mr. Aslam Jilani has extensive knowledge of business processes and industry trends, accumulated through vast association experience of more than 20 years in the sector.

Financial Strength The light asset and high turnover base model of business has provided strength to the Company to establish its brand name amongst the leading importers of paper and related products in the south market.

Governance

Board Structure The BoD of the Company comprises of 2 members who are also owners. Mr. Muhammad Aslam Jilani is the CEO/Director and Mr. Muhammad Faisal is the non-executive director of the Company.

Members' Profile The CEO/Director - Mr. Muhammad Aslam Jilani with his extensive experience of more than 20 years, looks after the management side of the business. He has developed excellent business relationships with buyers and suppliers.

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. Sajid & Co. Chartered Accountants is the external auditor of the Company. The auditors have expressed an unqualified audit opinion on the financial statements of Salman Paper Products Private Limited for the year ending June 30, 2021. 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 The Company has a lean organizational structure divided into various functional departments. Currently, the organizational structure is divided into four main functions namely; 1) Sales & Marketing 2)Purchase 4) Accounts & Finance, and 5) Collection & Recovery.

Management Team The management team is comprised of both owners/directors (Mr. Muhammad Aslam Jilani as the CEO/Director and Mr. Muhammad Faisal as second Director). Mr. Faisal Iqbal is the chief operating officer of the Company and looking after major operations of the Company.

Effectiveness The Company structure is not complex making management of operations an easy and timely task. The BoD/Senior management holds major control of operations.

MIS The Company's MIS generates Balance Sheets, Profit and Loss, and Cash flow statements on a monthly basis for the Board.

Control Environment SAP Business one is installed that provides insight into the operations of the Company and departmental performance as well. Reports are generated and shared showing benchmarks and achievements from each department in given periods.

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, while other materials such as tinplate and glass have relatively smaller size. Despite, the economic slowdown caused by the global pandemic of COVID-19, demand for the segment remained almost consistent as it falls in the supply chain of various essential products and industries. The segment's direct costs consist largely of imported materials (~100%). Therefore, volatility in exchange rates and international price trends has an impact on costs.

Relative Position Among the imports of Bleach Board, Offset Paper and Art Card, SPPL has an average of 22% share of total imports of these goods in Pakistan.

Revenues Revenue of the Company is divided into three geographic regions; north, central and south. FY21 shows revenue numbers around PKR 6.4bln and a steady growth rate of 9.1% with revenue of PKR 7bln in 9MFY22. The Company generates 76% revenue from direct sales and 24% of revenue through dealers as per 9MFY22 accounts. In terms of the geographical distribution of revenues, the south holds majority of revenue base (65% to 71%) in the Company.

Margins The gross profits and net profit margin were reported at 5% and 2.5% respectively in 9MFY22 (FY21: 5% and 2.3% respectively).

Sustainability Return on equity and return on assets of the Company stood at 43.2% and 26.7% as of 9MFY22 (FY21: 39.3% & 21.4% respectively). In future, the Company plans to import a cutting and transforming plant for paper cups of worth PKR 1.5bln.

Financial Risk

Working Capital SPPPL's working capital management is supported through short-term running finance facilities obtained from four different banks. Considering the raw material lead time and high product demand, SPPPL's inventory days stood at 2 days during 9MFY22 (FY21: 8 days) and the trade receivable days at 12 days (FY21: 14 days). While trade payable days were 13days (FY21: 23days). Consequently, the net working capital days of the Company is 1 day, which expresses the highly efficient working capital management.

Coverages The Company's interest coverage ratio has significantly improved from FY21: 9.9x to 9MFY22: 13.5x. While the Company's core and total debt service coverage stood at 9MFY22: 7.8x (FY21: 2.6x) which is on good side. The finance cost has decreased by only 17.4% during 9MFY22.

Capitalization The Company is low leveraged with 6.4% at end of Mar'22 (Dec21: 10.0%). The short-term borrowings remained unchanged during 9MFY22.



Salman Paper Products (Pvt.) Ltd. Corporate	Mar-22 9M	Jun-21 12M	Jun-20 12M	Jun-19 12M	Jun-18 12M
A BALANCE SHEET					
1 Non-Current Assets	15	16	14	11	9
2 Investments	-	-	-	-	-
3 Related Party Exposure	-	-	-	-	-
4 Current Assets	962	849	810	870	881
a Inventories	49	48	241	149	576
b Trade Receivables	336	291	186	354	54
5 Total Assets	977	865	824	881	890
6 Current Liabilities	311	360	463	492	605
a Trade Payables	311	359	462	492	604
7 Borrowings	2	2	2	2	-
8 Related Party Exposure	41	49	49	49	49
9 Non-Current Liabilities	-	-	-	-	-
10 Net Assets	623	455	310	337	237
11 Shareholders' Equity	623	455	310	337	237
B INCOME STATEMENT					
1 Sales	7,059	6,418	2,628	4,872	2,795
a Cost of Good Sold	(6,706)	(6,098)	(2,523)	(4,634)	(2,668)
2 Gross Profit	353	320	105	238	127
a Operating Expenses	(16)	(19)	(17)	(17)	(15)
3 Operating Profit	337	301	88	220	112
a Non Operating Income or (Expense)	-	-	-	-	-
4 Profit or (Loss) before Interest and Tax	337	301	88	220	112
a Total Finance Cost	(25)	(31)	(59)	(43)	(20)
b Taxation	(137)	(120)	(56)	(73)	(40)
6 Net Income Or (Loss)	175	150	(27)	104	52
C CASH FLOW STATEMENT					
a Free Cash Flows from Operations (FCFO)	195	79	34	149	73
b Net Cash from Operating Activities before Working Capital Changes	170	48	(25)	106	53
c Changes in Working Capital	(152)	(4)	74	(20)	(56)
1 Net Cash provided by Operating Activities	18	45	49	86	(3)
2 Net Cash (Used in) or Available From Investing Activities	-	(4)	(5)	(3)	(1)
3 Net Cash (Used in) or Available From Financing Activities	(8)	(0)	(0)	2	-
4 Net Cash generated or (Used) during the period	9	40	44	85	(4)
D RATIO ANALYSIS					
1 Performance					
a Sales Growth (for the period)	46.7%	144.2%	-46.1%	74.3%	--
b Gross Profit Margin	5.0%	5.0%	4.0%	4.9%	4.5%
c Net Profit Margin	2.5%	2.3%	-1.0%	2.1%	1.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	0.6%	1.2%	4.1%	2.7%	0.6%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh	43.2%	39.3%	-8.3%	36.3%	21.9%
2 Working Capital Management					
a Gross Working Capital (Average Days)	N/A	N/A	N/A	N/A	N/A
b Net Working Capital (Average Days)	-1	-10	-29	-26	-72
c Current Ratio (Current Assets / Current Liabilities)	3.1	2.4	1.7	1.8	1.5
3 Coverages					
a EBITDA / Finance Cost	13.5	9.9	1.5	5.1	5.6
b FCFO / Finance Cost+CMLTB+Excess STB	7.8	2.6	0.6	3.4	3.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.2	1.1	-2.0	0.5	0.9
4 Capital Structure					
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	6.4%	10.0%	14.1%	13.2%	17.1%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	72.3%	60.1%	115.8%	86.4%	41.3%

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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2) Conflict of Interest

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- 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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- (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).
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- (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)
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- (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)
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- (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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