



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
03-May-2023	BBB	A2	Stable	Maintain	-
14-Sep-2022	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Salman Paper Products Private Limited ('SPPPL' or the 'Company') is involved in the business of import, 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 in establishing its brand name amongst the leading importers of paper and related products in the southern markets with an average market share of ~25% during FY22. The CEO/owner - Mr. Aslam Jilani has an extensive knowledge of business and paper industry trends 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. However, the external auditor is on SBP's panel of auditors and is QCR rated, providing comfort to the assigned ratings.

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 at 65.7% as of FY22 (FY21: 45.2%). Revenue for the Company during FY22 stood at PKR 9,542mln (FY21: PKR 6,418mln) with net profit margin of 1.1% (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. 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-22)
Rating Analysts	Muhammad Azmat Shaheen azmat.shaheen@pacra.com +92-42-35869504

Profile

Legal Structure Salman Paper Products ("SPPL" or "the Company") was incorporated as a Private Limited Company under the Companies Ordinance, 1984 in October 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 remaining 1% shares by Mr. Muhammad Faisal.

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. Mushtaq & Co. Chartered Accountants is the external auditor of the Company. The auditor has expressed an unqualified audit opinion on the financial statements of Salman Paper Products Private Limited for the year ending June 30, 2022. The auditor is on SBP's panel of auditors and is QCR rated.

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 of the total market, while other materials such as tinplate and glass have relatively smaller sizes. Despite, the economic slowdown caused by the global pandemic of COVID-19 and the recent floods in country, 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 48.7% with revenue of PKR 9.5bln at end FY22. The Company generates 76% revenue from direct sales and 24% of revenue through dealers as per FY22 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 3.7% and 1.1% respectively in FY22 (FY21: 5% and 2.3% respectively).

Sustainability Return on equity and return on assets of the Company stood at 19.6% and 6.9% as of FY22 (FY21: 37.9% & 17.1% 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 SPPL'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, SPPL's inventory days stood at 19 days during FY22 (FY21: 8 days) and the trade receivable days at 13 days (FY21: 14 days). While trade payable days were 6 days (FY21: 13 days). Consequently, the net working capital days of the Company is 25 days, which expresses the efficient working capital management.

Coverages The Company's interest coverage ratio has declined from FY21: 9.9x to 3.4x in FY22. The Company's core and total debt service coverage stood at FY22: - 1.4x (FY21: 2.6x). The finance cost has increased by only ~213% during FY22.

Capitalization The Company is leveraged with 65.7% at end of Jun'22 (Jun21: 45.2%). The short-term borrowings remained unchanged during FY22.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Salman Paper Products (Pvt.) Ltd. Paper and Packaging	Jun-22 12M	Jun-21 12M	Jun-20 12M	Jun-19 12M
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A BALANCE SHEET

1 Non-Current Assets	39	17	14	11
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	2,105	848	810	870
a Inventories	927	48	241	149
b Trade Receivables	374	291	186	354
5 Total Assets	2,144	865	824	881
6 Current Liabilities	372	36	463	492
a Trade Payables	313	5	462	492
7 Borrowings	1,164	326	2	2
8 Related Party Exposure	-	49	49	49
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	608	455	310	337
11 Shareholders' Equity	608	455	310	337

B INCOME STATEMENT

1 Sales	9,542	6,418	2,628	4,872
a Cost of Good Sold	(9,189)	(6,098)	(2,523)	(4,634)
2 Gross Profit	353	320	105	238
a Operating Expenses	(35)	(19)	(17)	(17)
3 Operating Profit	319	301	88	220
a Non Operating Income or (Expense)	(1)	(5)	-	-
4 Profit or (Loss) before Interest and Tax	317	295	88	220
a Total Finance Cost	(97)	(31)	(59)	(43)
b Taxation	(116)	(120)	(56)	(73)
6 Net Income Or (Loss)	104	145	(27)	104

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	(136)	79	34	149
b Net Cash from Operating Activities before Working Capital Changes	(206)	48	(25)	106
c Changes in Working Capital	(650)	(4)	74	(20)
1 Net Cash provided by Operating Activities	(856)	45	49	86
2 Net Cash (Used in) or Available From Investing Activities	(26)	(4)	(5)	(3)
3 Net Cash (Used in) or Available From Financing Activities	838	(0)	(0)	2
4 Net Cash generated or (Used) during the period	(44)	40	44	85

D RATIO ANALYSIS

1 Performance				
a Sales Growth (for the period)	48.7%	144.2%	-46.1%	74.3%
b Gross Profit Margin	3.7%	5.0%	4.0%	4.9%
c Net Profit Margin	1.1%	2.3%	-1.0%	2.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-8.2%	1.2%	4.1%	2.7%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh	19.6%	37.9%	-8.3%	36.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	31	22	65	68
b Net Working Capital (Average Days)	25	8	-2	27
c Current Ratio (Current Assets / Current Liabilities)	5.7	23.8	1.7	1.8
3 Coverages				
a EBITDA / Finance Cost	3.4	9.9	1.5	5.1
b FCFO / Finance Cost+CMLTB+Excess STB	-0.1	0.2	0.6	3.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-5.0	7.8	-2.0	0.5
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	65.7%	45.2%	14.1%	13.2%
b Interest or Markup Payable (Days)	101.6	0.0	0.0	0.0
c Entity Average Borrowing Rate	18.5%	14.3%	115.8%	86.4%

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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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)

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