The Pakistan Credit Rating Agency Limited

Rating Report

Salman Paper Products (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Apr-2024	BBB	A2	Stable	Maintain	-
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), a key player in the import and trade of paper & board, operates under a lean business model with high turnover. This approach has bolstered the company's reputation as a top importer of paper and related products, particularly in the southern markets. Mr. Aslam Jilani CEO/director of Salman Paper Products Private Limited, embodies the pivotal figure in its operations, who brings over three decades of industry experience to the table. With only two members on the Board, SPPPL's governance model appears weak in comparison to established corporations and requires enhancement. Currently, there are no board committees established. Moreover, to ensure operational efficiency through the identification, assessment, and reporting of all types of risk arising out of the business operations, the Company lacks an internal audit function that operates under the direct supervision of directors. However, the external auditor is on SBP's panel of auditors and is QCR-rated, providing comfort to the assigned ratings. The management team demonstrates strong operational expertise and a keen understanding of industry trends. The demand for the product is derived mainly from paper and paper board consumers. The strong customer base of the Company bodes well for the assigned rating. The industry-wise volumetric decrease in sales has been reported but the selling prices have absorbed the impact to much extent. The reduced demand for products has led to a decline in actual plant production. The plant has the capacity to produce ~31,000 MT/annum annually, but its utilization capacity dropped to ~70% in FY23, from ~97% in FY22. In FY23, Salman Paper Products Private Limited achieved a topline of PKR 10,091mln, marking a modest increase of about ~5.8% compared to PKR 9,542mln in FY22 (FY21: PKR 6,418mln). Furthermore, the Company faced challenges with rising paper & board costs due to inflation and exchange rate fluctuations but successfully managed to improve its profit margins by transferring it to the consumers. As a result, the gross profit margin rose from ~3.7% in FY22 to ~5.7% in FY23. This increase contributed to a rise in the net profit margin from ~1.1% to ~1.7% during the same period, despite facing significantly higher finance costs. As a result of these improvements, the company achieved a bottom line of ~PKR 171mln in FY23, compared to ~PKR 104mln in FY22. The product demand is expected to come full circle once the macro-level fundamentals improve. The Company has a moderately leveraged capital structure primarily relying on short-term debt for managing its working capital needs.

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 essential for the ratings. Any significant change in margins and coverages will impact the ratings.

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(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Paper and Packaging(Nov-23)
Rating Analysts	Muhammad Atif Chaudhry | Atif.Chaudhry@pacra.com | +92-42-35869504

Profile

Legal Structure Salman Paper Products (Pvt.) Limited ("SPPPL" 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 (Pvt.) Limited 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 Ownership structure is stable as owners have vast experience in the packaging industry while having a personal stake in business. Being part of a group wherein tacit intergroup cooperation exists, bodes well to the rating.

Business Acumen Mr. Aslam Jillani 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 2nd 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. At Salman Paper Products (Pvt.) Limited, absence of management committees are indicating the room for improvement.

Financial Transparency M/s Mushtaq & Co. Chartered Accountants are the external auditors of the company. They have expressed an unqualified opinion on the financial reports of Salman Paper Products (Pvt.) Limited for period ending Jun-23. The firm is QCR rated by ICAP and is in the "B" Category of SBP's panel of auditors. The absence of an internal audit function further creates room for improvement in the corporate governance framework.

Management

Organizational Structure Salman Paper Products (Pvt.) Limited has developed a defined organizational structure keeping in mind the Company's operational needs. 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 experience of the sponsors along with a professional management team has helped the Company to streamline its operations. However, Management's effectiveness and efficiency can be ensured through the presence of management committees. At Salman Paper Products (Pvt.) Limited, absence of management committees are indicating the room for improvement.

MIS To generate MIS and operational reports, the ERP software, SAP Business is being used.

Control Environment For identification, assessment, and reporting of all types of risk arising out of the business operations because there is no internal audit department in place to ensure operational efficiency which operates under the direct supervision of directors.

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. Despite, the economic slowdown caused by several issues, 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 raw materials. Chemical wood pulp is one of the main raw materials in the production of paper packaging. Therefore, volatility in exchange rates and international price trends has an impact on costs.

Relative Position Salman Paper Products (Pvt.) Limited maintains a strong market presence in Pakistan for importing Art cards, Packaging board, Stickers, and Printer paper, and also hold's a significant share in these product categories.

Revenues The Company's top line shows an increasing trend due to an increase in sale price but the increase in prices of products has impacted demand. Though, an industry-wide volumetric decrease in sales has been reported but the selling prices have absorbed the impact to much extent. During FY23, the Company generated a top line of ~PKR 10,091mln (FY22: ~PKR 9,542mln, FY21: ~PKR 6,418mln), showing an increase of ~ 6% in revenue.

Margins Paper rolls being used by the Company are 100% imported. So, to maintain the margins, the Company passes on the cost to B2B consumers. In FY23, gross margin and operating profit margin both increased as compared to FY22. The GP margin increased from ~3.7% in FY22 to ~5.7% in FY23 while the OP margin increased from ~3.3% to ~5.2%. Consequently, the net profit margin also increased from ~1.1% to ~1.7% during the same period. The bottom line of the Company clocked in at ~PKR 171mln during FY23 increased from ~PKR 104mln during FY22 (FY21: ~PKR 145mln).

Sustainability Salman Paper Products (Pvt.) Limited has a well-established brand name in the market, especially in Art cards, Packaging board, Stickers, and Printer paper products.

Financial Risk

Working Capital Salman Paper Products (Pvt.) Limited experienced a rise in inventory days, increasing from ~19 days at end-Jun22 to ~22 days at end-Jun23. Inventory days increased because the Company has imported raw materials in huge quantities due to the rise in raw material prices and currency rate fluctuations. The trade receivable days also increased from ~13 days to ~25 days during the same period. However, the trade payable days increased from ~6 days at the end of FY22 to ~7 days at the end of FY23. Consequently, the Company's net working capital days increased to ~35 days at the end of FY23 from ~25 days at the end of FY22.

Coverages In FY23, the Company's FCFOs stood at ~PKR 463mln increasing from ~PKR (-136)mln in FY22 (FY21: ~PKR 79mln). As result during FY23, FCFO/Finance cost stood at ~ 2.7x increased from ~ (-1.4x) of coverage during FY22 (FY21: ~2.4x). The finance cost stood at ~PKR 173mln increased from ~PKR 97mln (FY21: ~PKR 31mln); however, this is still a good coverage level for the Company.

Capitalization The Company has a moderately leveraged capital structure primarily relying on short-term debt for managing its working capital needs. Its gearing ratio has decreased from ~68.5% at the end of FY22 to ~53.4% at the end of FY23 due to a decrease in short-term borrowing. STB borrowing has decreased to ~PKR 837mln from ~PKR 1,164mln during the same period.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

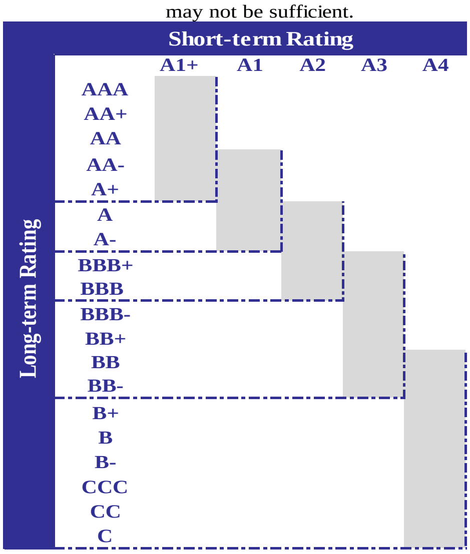
Salman Paper Products (Pvt.) Ltd.	Jun-23	Jun-22	Jun-21	Jun-20
Paper and Packaging	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	64	39	17	14
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,661	2,105	848	810
a Inventories	*268*	*927*	*48*	*241*
b Trade Receivables	*724*	*374*	*291*	*186*
5 Total Assets	1,725	2,144	865	824
6 Current Liabilities	158	372	36	463
a Trade Payables	*58*	*313*	*5*	*462*
7 Borrowings	837	1,164	326	2
8 Related Party Exposure	-	49	49	49
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	730	559	455	310
11 Shareholders' Equity	730	559	455	310
B INCOME STATEMENT				
1 Sales	10,091	9,542	6,418	2,628
a Cost of Good Sold	*(9,520)*	*(9,189)*	*(6,098)*	*(2,523)*
2 Gross Profit	570	353	320	105
a Operating Expenses	*(49)*	*(35)*	*(19)*	*(17)*
3 Operating Profit	521	319	301	88
a Non Operating Income or (Expense)	*(9)*	*(1)*	*(5)*	*-*
4 Profit or (Loss) before Interest and Tax	512	317	295	88
a Total Finance Cost	*(173)*	*(97)*	*(31)*	*(59)*
b Taxation	*(167)*	*(116)*	*(120)*	*(56)*
6 Net Income Or (Loss)	171	104	145	(28)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*463*	*(136)*	*79*	*34*
b Net Cash from Operating Activities before Working Capital Changes	*299*	*(206)*	*48*	*(25)*
c Changes in Working Capital	*52*	*(650)*	*(4)*	*74*
1 Net Cash provided by Operating Activities	351	(856)	45	49
2 Net Cash (Used in) or Available From Investing Activities	(33)	(26)	(4)	(5)
3 Net Cash (Used in) or Available From Financing Activities	(376)	838	(0)	(0)
4 Net Cash generated or (Used) during the period	(58)	(44)	40	44
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	5.8%	48.7%	144.2%	0.0%
b Gross Profit Margin	5.7%	3.7%	5.0%	4.0%
c Net Profit Margin	1.7%	1.1%	2.3%	-1.0%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	5.1%	-8.2%	1.2%	4.1%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	26.6%	20.6%	37.9%	-8.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	41	31	22	59
b Net Working Capital (Average Days)	35	25	8	-5
c Current Ratio (Current Assets / Current Liabilities)	10.5	5.7	23.8	1.7
3 Coverages				
a EBITDA / Finance Cost	3.2	3.4	9.9	1.5
b FCFO / Finance Cost+CMLTB+Excess STB	2.7	-1.4	2.4	0.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	-0.2	1.0	-2.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	53.4%	68.5%	45.2%	14.1%
b Interest or Markup Payable (Days)	77.5	101.6	0.0	0.0
c Entity Average Borrowing Rate	16.9%	17.9%	14.3%	116.2%

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):

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

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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

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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).
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(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(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)

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(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
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(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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