



The Pakistan Credit Rating Agency Limited

**Rating Report**

**Bulleh Shah Packaging (Pvt.) Limited**

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**Rating History**

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
05-Sep-2022	AA-	A1	Stable	Initial	-

**Rating Rationale and Key Rating Drivers**

Bulleh Shah Packaging (Private) Limited ‘BSP’ or ‘The Company’) ratings reflect the strong sponsor's profile, established market position, and adequate financial profile of the Company. The Company is a wholly-owned subsidiary of Packages Limited. The assigned rating takes into account the good governance framework, strong control environment, and qualified and experienced management team. BSP is predominately manufacturing i) Corrugated boxes and ii) Paper & Paper boards. The Company’s market share in the overall industry (Paper & Board) is almost ~15%. Liquid packing board (falls under the purview of paper & Board) - the Company is the sole manufacturer in this segment, and Corrugated board – BSP is the major supplier and holds 16% market share. The production utilization of the Company is directly linked with foods and consumer products. During CY21, the utilization level remained on the higher side Corrugator ~98% and paper and board 87%. In order to cater to growing demand and capture market share of imported paperboard BSP has performed BMR on its paper and board mill to enhance the capacity utilization further.

The assigned ratings also incorporate the consistent growth in sales and higher margins. During CY21, the top line of the Company has increased by 26%, the major contribution is made by corrugated boxes 35% followed by liquid packaging board 18%. The profit after tax of the Company has increased by 19%. Resultantly, the cash flows have also been improved by 20%. Assessment of financial risk profile incorporates the outstanding insurance claim receivable amounting PKR 3.4bln, due to fire incidence in Feb'22. On the other side, leverage indicators continue to remain elevated on account of higher utilization of short-term and long-term borrowings for funding working capital requirements and performing BMR work on its paper and board mill respectively. Going forward, the impact of higher finance costs & overheads on profitability is expected to be offset by an improvement in margins and an increase in the topline. However, the Company has been managing its energy requirements by using a mix of Biomass, Gas, and supply from WAPDA. Going forward, short-term borrowing is expected to be lowered considering the receipt of an insurance claim. Moreover, The sponsor's business acumen and strong connections bode well for the rating.

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

**Disclosure**

<b>Name of Rated Entity</b>	Bulleh Shah Packaging (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Paper and Packaging(Nov-21)
<b>Rating Analysts</b>	Madiha Sohail   madiha.sohail@pacra.com   +92-42-35869504



## Profile

**Legal Structure** Bulleh Shah Packaging (Private) Limited 'BSP' or 'The Company' was incorporated as a private limited company on September 16, 2005 under the Companies Act, 2017. The Company's primary object is to carry on the business of manufacture and sale of paper & paper board of all kind and corrugated boxes.

**Background** The Company was established in new green project incorporated as a separate entity under the name of Bulleh Shah Paper Mills (BSPM). In September 2012, joint venture between Stora Enso (35%) and Packages Limited (65%) was established and the name has been changed to Bulleh Shah Packaging (Pvt.) Ltd. Lately, in 2017 Stora Enso took an exit making the Company wholly owned by Packages Limited.

**Operations** Bulleh Shah Packaging (Private) Limited is engaged in the manufacturing and sale of Corrugated boxes, Paper, paper board and Other products of paper. The Installed capacity of paper & paper board is 265,000 MT per annum, while that of corrugated box is 96,000 MT per annum.

## Ownership

**Ownership Structure** Bulleh Shah Packaging (pvt.) limited is 100% owned subsidiary of Packages Limited.

**Stability** Packages Limited is the flagship investment holding company of the Ali Group which has a history spanning over a period of more than 65 years. Packages' investment book comprises entities engaged in the manufacturing and sale of inks, flexible packaging material, paper, paperboard, and corrugated boxes, biaxially oriented polypropylene film and cast polypropylene film, production and sale of ground calcium carbonate products, entities engaged in insurance, power generation, real estate segment of the economy and recently diversifying into manufacturing of corn-based starch.

**Business Acumen** The Group is ranked amongst the leading industrial groups of the country with interests in paper and paperboard, packaging, financial institutions, education, and real estate sectors. Packages Limited has significant successful joint ventures with international conglomerates and long standing relationship with various multinational companies.

**Financial Strength** Packages has a consolidated asset base of ~ PKR 118bln supported by ~ PKR 59bln of equity and generated a turnover of ~PKR 82bln during CY21.

## Governance

**Board Structure** The Company has a seven members board comprising one independent directors, five non-executive directors and one executive directors (including the CEO). The board is chaired by Mr. Syed Hyder Ali. Apt Board size and presence of independent oversight supplements good governance framework.

**Members' Profile** The BoD, with a well-diversified background and relative expertise of its members, is a key source of oversight and guidance for the management. The Chairman of the Board Mr. Syed Hyder Ali is a seasoned business professional and carries a track record of successful business ventures with him. All other members are professionally qualified with extensive experience and diversified skill mix.

**Board Effectiveness** The Board met six times during FY21, with the majority attendance to discuss pertinent matters. The minutes of the meetings are documented properly. To ensure effective governance, the Board has formed three committees, namely, (i) Audit Committee (ii) Executive Committee (iii) Human Resource and Remuneration Committee Both committees are chaired by non-executive directors.

**Financial Transparency** M/s A.F. Ferguson & Co, are the external auditors of the Company. They gave an unqualified opinion on the Company's financial statements for the year ended Dec 31, 2021. The board has also established an internal audit department.

## Management

**Organizational Structure** The Company has established a well-defined management structure divided into functional departments with clear lines of responsibilities.

**Management Team** The Company's CEO, Mr. Asghar Abbas has joined Packages Limited in 1998 and developed strategic and functional level expertise in packaging business over the years while serving at various positions in different companies of the Packages Group.

**Effectiveness** The experience of the sponsors along with a professional management team has helped the Company to streamline their operations and cut down on their costs. The production facilities have minimal wastage which is effectively managed through re-cycling and re-using in the process 250 tons of paper per day.

**MIS** To generate MIS and operational reports, ERP software, SAP ECC6 is used.

**Control Environment** To ensure operational efficiency, the Internal Audit Function is in place that identifies and reports risks. The audit committee reviews the internal audit department reports and planned activities.

## 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. The paper packaging segment has remained relatively stable in recent years. Despite, the economic slowdown caused by the COVID-19 pandemic, 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 (~75%). 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** The Company's market share in the overall industry (Paper & Board) is almost ~15%. Liquid packing board (falls under the purview of paper & Board) - the Company is the sole manufacturer in this segment, and Corrugated board - BSP is the major supplier and holds 16% market share.

**Revenues** The Company generates revenue from the sale of Paper & Board and corrugated Board in the local market as well as through exports. During CY21, the topline of the Company has been increased by ~26% and stood at PKR 43bln (CY21: PKR 34bln). The sales are majorly made to B2B customers. Corrugated boxes and folding boxes are the major contributors to revenue generation.

**Margins** While the GP Margin has meagerly increased to CY21: 18.3% (CY20: 18%). While the operating profit margin has been increased from CY20: 14.7% to CY21: 15.6% (3MCY22: 16.1%). The main reason for the increasing profitability ratios is increasing the sales volume considering the high demand of the products in the industry. While the sales prices are also increased in line with the increasing cost of raw materials and exchange rates. The Company posted a net profit of CY21: ~PKR 3.1bln (3MCY22: PKR 823mln, CY20: ~PKR 2.6bln).

**Sustainability** The products of the Company are highly demanded in the market. BSP has recently done BMR in paper machine to meet the increasing demand for the product. Going forward, further BMR is also expected to enhance the production capacity of corrugated boxes.

## Financial Risk

**Working Capital** BSP's working capital management is supported through a short-term running finance facility obtained from a consortium of banks. Considering the raw material lead time and high product demand, the inventory days of the Company remained on the higher side CY21: 96days (3MCY22: 106days, CY20: 92days). The trade receivables days almost remained the same at ~30days during CY21 (3MCY22: 36days, CY20: 32days). While trade payable days also remained the same at ~40days during CY21 (3MCY22: 51days, CY20: 42days). The average net working capital days were clocked in at 86days during CY21 (3MCY22: 90days, CY20: 82days)

**Coverages** The Company's interest coverage ratio has increased from CY20: 4.6x to CY21: 8.3x, 3MCY22: 6.9x. While the Company's core and total debt service coverage stood at CY21: 2.2x (CY20: 2.5) which is still on the lower side.

**Capitalization** Bulleh Shah Packaging has a leveraged structure, with long-term liabilities being ~56.5% of equity at end-Mar'22 and ~54% of equity at end-Dec'21. The short-term borrowings has been increased significantly by 1.9times during CY21. As a significant amount of insurance receivables ~PKR 3.4bln is due from the insurance company and the Company has to raise the borrowing to meet its short-term needs.



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Bulleh Shah Packaging (Pvt.) Limited Paper and Packaging	Mar-22 3M	Dec-21 12M	Dec-20 12M
<b>A BALANCE SHEET</b>			
1 Non-Current Assets	18,552	17,802	14,826
2 Investments	6	6	6
3 Related Party Exposure	375	39	15
4 Current Assets	23,219	19,129	12,626
<i>a Inventories</i>	10,577	12,216	7,229
<i>b Trade Receivables</i>	4,032	3,644	2,503
<b>5 Total Assets</b>	<b>42,152</b>	<b>36,975</b>	<b>27,472</b>
6 Current Liabilities	6,879	5,043	4,557
<i>a Trade Payables</i>	6,265	4,806	3,289
7 Borrowings	19,316	16,506	9,797
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	1,082	1,273	557
<b>10 Net Assets</b>	<b>14,876</b>	<b>14,154</b>	<b>12,561</b>
<b>11 Shareholders' Equity</b>	<b>14,876</b>	<b>14,153</b>	<b>12,561</b>
<b>B INCOME STATEMENT</b>			
1 Sales	9,852	36,938	28,813
<i>a Cost of Good Sold</i>	(7,968)	(30,185)	(23,618)
<b>2 Gross Profit</b>	<b>1,884</b>	<b>6,754</b>	<b>5,195</b>
<i>a Operating Expenses</i>	(293)	(979)	(958)
<b>3 Operating Profit</b>	<b>1,590</b>	<b>5,774</b>	<b>4,237</b>
<i>a Non Operating Income or (Expense)</i>	(165)	(559)	(303)
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>1,426</b>	<b>5,215</b>	<b>3,934</b>
<i>a Total Finance Cost</i>	(303)	(860)	(1,209)
<i>b Taxation</i>	(300)	(1,243)	(75)
<b>6 Net Income Or (Loss)</b>	<b>823</b>	<b>3,112</b>	<b>2,650</b>
<b>C CASH FLOW STATEMENT</b>			
<i>a Free Cash Flows from Operations (FCFO)</i>	1,713	6,504	5,101
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	1,326	5,669	3,631
<i>c Changes in Working Capital</i>	(2,809)	(5,590)	(1,315)
<b>1 Net Cash provided by Operating Activities</b>	<b>(1,483)</b>	<b>79</b>	<b>2,316</b>
<b>2 Net Cash (Used in) or Available From Investing Activities</b>	<b>(1,151)</b>	<b>(4,348)</b>	<b>(1,014)</b>
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>-</b>	<b>(2,127)</b>	<b>(1,236)</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>(2,634)</b>	<b>(6,396)</b>	<b>66</b>
<b>D RATIO ANALYSIS</b>			
<b>1 Performance</b>			
<i>a Sales Growth (for the period)</i>	6.7%	28.2%	--
<i>b Gross Profit Margin</i>	19.1%	18.3%	18.0%
<i>c Net Profit Margin</i>	8.4%	8.4%	9.2%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	-11.1%	2.5%	13.1%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shu</i>	22.7%	23.3%	21.1%
<b>2 Working Capital Management</b>			
<i>a Gross Working Capital (Average Days)</i>	141	126	123
<i>b Net Working Capital (Average Days)</i>	90	86	82
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	3.4	3.8	2.8
<b>3 Coverages</b>			
<i>a EBITDA / Finance Cost</i>	6.9	8.3	4.6
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.2	2.2	2.5
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	1.5	1.2	1.7
<b>4 Capital Structure</b>			
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	56.5%	53.8%	43.8%
<i>b Interest or Markup Payable (Days)</i>	86.0	101.3	53.6
<i>c Entity Average Borrowing Rate</i>	6.7%	6.5%	12.2%

**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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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	<b>Good credit quality.</b> 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+	<b>Moderate risk.</b> 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	<b>High credit risk.</b> 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	<b>Very high credit risk.</b> 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.
CC	
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><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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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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(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)

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(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)

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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)

(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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