The Pakistan Credit Rating Agency Limited

Rating Report

Pakistan Aluminium Beverage Cans Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Nov-2022	A+	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan Aluminium Beverage Cans Limited ("PABC" or the "Company") is the sole producer of aluminium based beverage cans in Pakistan. The demand of aluminium cans is directly linked with consumption of beverage drinks which is always in increasing trend. The business model of PABC is that of B2B and directly supplies aluminium cans to beverage producers. High entry barrier and time for installation of production plant has provided strength to the Company to establish its brand name and capture entire market share of Pakistan along with major share of clients in Afghanistan and other countries. The CEO - Mr. Azam Sakrani has an extensive knowledge of the industry with overall 30 years of experience and the chairman - Mr. Simon Michael Gwyn Jennings has an overall 40 years of experience in global packaging industry. The governance structure is considered strong being fully compliant according to CCG guidelines, having sufficient number of board meetings and detailed minutes of meetings. Furthermore, external auditors are category-A with satisfactory QCR rating. The Company has recently increased its rated production capacity from 700mln cans to 950mln cans p.a. PABC has financed and installed on-grid solar system as well fulfilling major energy needs of the Company. Going forward, the Company is planning to enhance its rated capacity to 1,200mln cans p.a. by Jul'23 and improve market share for aluminium beverage cans in Pakistan and abroad by adding leading brands to its clientele.
The financial risk profile of the Company is considered strong, with sufficient cashflows and a well-managed working capital cycle. The Company has availed both short-term and long-term facilities from financial institutions to import aluminium-based raw material. The leveraging of the Company amounts to ~48% as on Jun'22. Revenue for the Company during 1HCY22 stood at PKR 6.5bln (1HCY21: PKR 3.8bln) with 32% of revenue being generated from international clients and the net profit margin of 24.2% (1HCY21: 20.9%). The Company’s revenues have shown periodic growth with 80% in last six months, enhancing customer base. MIS systems adopted are SAP business one module. Being part of well-established and stable Liberty Group and Soorty Enterprises after recent listing bodes well to the rating.

The ratings are dependent on the Company’s ability to sustain its market position 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	Pakistan Aluminium Beverage Cans 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)
Rating Analysts	Madiha Sohail | madiha.sohail@pacra.com | +92-42-35869504

Profile

Legal Structure Pakistan Aluminium Beverage Cans Limited (PABC or the "Company") is a Public Listed Company. The Company got registered in 2014 and started its commercial production in September, 2017 as the first and only aluminum beverage cans manufacturer in Pakistan. The company has following certifications: ISO 9001, 2015 QMS, FSSC 22000 (V5.1) Food Safety and PFA License. The company is in process of getting certification of Halal.

Background PABC was set up to address a captive customer base, capitalizing on land connectivity of Pakistan and Afghanistan. Ashmore Investment Management Limited & Liberty Group joined hands in 2015 to execute the project.

Operations The Company deals in B2B structure and deals with both local and international customers. The production facility is built on a 20.9 acre of land in Special Economic Zone, Faisalabad with a rated capacity to produce 950 million cans per annum, due to which it enjoys 10–year tax holiday under Special Economic Zones Act, 2012. The strategic location of PABC's plant has been proven to be instrumental in its success, allowing cost advantage due to close proximity of PABC's plant with key beverage bottlers in Pakistan & Afghanistan.

Ownership

Ownership Structure Hamida Salim Mukaty and Muhammad Salim Mukaty holds a 42% and 12% stake in the Company respectively. Soorty Enterprises (Pvt) Limited and Jubilee Life Insurance Company Limited respectively holds a 20% and 4% shareholding in the Company.

Stability Ms. Hamida Salim Mukaty is part of the Liberty Group and the initiator of SINA healthcare trust. Soorty Enterprises is one of the oldest denim manufacturers in Pakistan having 6.5mln meter/month fabric rated capacity in LEED Platinum Denim Mill.

Business Acumen The owners are mostly business personnel with extensive years of experience from SINA healthcare trust and Soorty enterprises having an average 42 years of business experience.

Financial Strength The liberty group has many projects underway as given below: Liberty Wind Power One (Pvt.) Limited, Engro PowerGen Thar (Pvt.) Limited, Steel Plant and Hydro Power projects. The Soorty Enterprises has been in industry since last 42 years. The Mukatys and the Soortys having major stake in the Company extends financial benefits in times of need as well.

Governance

Board Structure The BoD of PABC comprises of 7 members with chairman as non-executive director. There are a total of four non-executive directors, two independent directors and one executive director as the CEO. The board structure is fully compliant as per CCG guidelines including one female director in the board as well.

Members' Profile The CEO - Mr. Azam Sakrani has overall 30 years of experience and Chairman – Mr. Simon Michael Gwyn Jennings has 40 years of experience. Mr. Asad Shahid Soorty as a non-executive member is also part of Audit committee. Ms. Hamida Salim Mukaty represents the board as a non-executive director. The overall average experience of the board is 21 years.

Board Effectiveness During the last 12 months period, 4 official board meetings took place of which four members attended all 4 meetings. Whereas, one member was new.

Financial Transparency PABC appoints Kreston Hyder Bhimji & Company Chartered Accountants (Category-A Auditor as per SBP and Satisfactory QCR-Rating) as external auditor. The Company discloses an adequate amount of information in notes of annual reports as required for all listed companies.

Management

Organizational Structure The organization is headed by CEO. The CFO of the Company reports directly to CEO. The departments include Internal Audit, Accounts, Treasury, Taxation, Admin and IT.

Management Team The CEO - Mr. Azam Sakrani has an overall 30 years of experience. The CFO – Mr. Asad Zaidi has an overall experience of 20 years. The Company Secretary - Mr. Iqbal Haroon has an overall experience of 30 years and have been associated with the group for past 10 years. The General Manager/Controller Plant – Mr. Mohamed Moustafa has an overall experience of 15 years and been associated with the company for past 3 years. Head of Internal Audit – Mr. Obaid-Ur-Rehman has an overall experience of 10 years and been associated with the Company for past 5 years.

Effectiveness There are two committees. The audit and risk committee headed by Mr. Muhammad Jawaid Iqbal and the Human resource and Remuneration Committee headed by Mr. Saleem Parekh. The Audit committee formally meets quarterly to discuss underlying agendas.

MIS The Company has outsourced SAP Business One Module as Management Information System which is adequate for normal business processes.

Control Environment The annual accounts are audited for opinion by the external auditors appointed. Independent Internal audit function is established that is led by the Head of Internal Audit and reports directly to audit committee and board of directors of the company as per CCG guidelines. The audit team meets quarterly to discuss underlying agendas.

Business Risk

Industry Dynamics Pakistan's packaging industry consists of four major segments, paper, plastic, tinplate and glass. PABC operates under tinplate/Cans segment of the industry. The demand of this segment is directly correlated with canned beverages production. Most of the segment's direct costs consist of imported raw materials. Therefore, volatility in exchange rates and international price trends has a significant impact on costs. The net margins fell from ~11% to ~6% during the five-year period attributable in large part to fluctuations in raw material prices.

Relative Position PABC is the only producer of Aluminium Beverage Cans in Pakistan and solely fulfills all the local demand.

Revenues In terms of local sales, Pakistan holds 68% share, whereas 27% of the sales are contributed from Afghanistan. The revenues stood at PKR 6,510mln for 1HCY22 as compared to PKR 7,218mln in CY21 projecting an 80% growth in sales. The top ten local customer sales amounted to PKR 4,419mln in 1HCY22 as compared to top ten foreign customer sales of PKR 2,030mln. The Company generated PKR 126mln as non-operating income during 6MCY22 and accounts for 2.1% of profit before interest and taxes.

Margins The Company's cost of sales comprises of 64.4% of total sales during 1HCY22 and gross profits margin of Company stood at 35.6% (1HCY21: 35.2%). Operating profit margin was 27% for 1HCY22 (1HCY21: 25%) and Net Profit Margin was recorded at 24.2% for the same period (1HCY21: 20.9%).

Sustainability Cash conversion efficiency stood at 30.6% at 1HCY22 as compared to 20.6% in 1HCY21. Return on assets and return on equity of the company stood at 23.6% and 60.2% respectively for Jun'22. (Jun'21: 5.5% and 16.9%). Asset turnover for the company was 97.3% as of Jun'22 showing efficient structure (Jun'21: 63%).

Financial Risk

Working Capital The average inventory days of the company stood at 78 for 6MCY22 (CY21: 97days). The trade receivable days stood at 27 (CY21: 25days) bringing the gross working capital days to 105 for 6MCY22 (CY21: 122days). Trade payable days stood at 47 for 6MCY22 (CY21: 22 days) bringing down the net working capital days to 58 (CY21: 100 days). Short term trade leverage stood at -42.5% for Jun'22 (CY21: -10.6%) and short-term total leverage stood at 23.4% for Jun'22 (CY21: 32.7%). The Current ratio of Company stood at 2.0 at Jun'22 (CY21: 3.8).

Coverages Financial coverage stood at 10.2 for 1HCY22 showing that the Company can take up 10 times more financial burden. The growth of free cash flows from operations of the company stood at 85.7% at Jun'22. The cash flow interest coverage stood at 10.0 depicting ten times the cash available to cover interest expenses for the company (CY21: 8.8). Debt Payback period amounted to 1.0 year on Jun'22 (Dec'21: 1.7 years). Liquid cover from liquid assets stood at 8.0 as on Jun'22 (CY21: 10.7).

Capitalization The Company's capitalization ratio stood at 47.9% as of Jun'22 (Dec'21: 53.6%). The short-term borrowings stood 29.2% of total borrowings at Jun'22 (Dec'21: 41.3%) increasing the proportion of long-term borrowings of the company. The utilization of short-term facilities stood at 17.5% as of Jun'22 (Dec'21: 25.5%). Interest or Markup Payable stood at 56 days on Dec'21 (Dec'20: 35.8 days). Spread over KIBOR of company as on Jun'22 stood at minus 8.3% (Dec'21: minus 6.9%) which is good as the Company is borrowing below KIBOR rate.

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l Summary
PKR mln

Pakistan Aluminium Beverage Cans Limited Corporate	Jun-22 6M	Dec-21 12M	Dec-20 12M	Dec-19 12M	Dec-18 12M
A BALANCE SHEET					
1 Non-Current Assets	7,142	6,677	6,092	6,333	6,508
2 Investments	-	-	-	-	-
3 Related Party Exposure	12	1	7	6	-
4 Current Assets	7,405	5,489	2,705	2,606	1,539
a Inventories	*1,656*	*2,253*	*1,594*	*1,189*	*738*
b Trade Receivables	*1,336*	*561*	*442*	*415*	*277*
5 Total Assets	14,560	12,167	8,805	8,945	8,047
6 Current Liabilities	2,915	1,442	598	476	437
a Trade Payables	*1,167*	*547*	*334*	*170*	*64*
7 Borrowings	5,290	5,458	4,555	5,471	5,479
8 Related Party Exposure	-	-	-	1	23
9 Non-Current Liabilities	599	547	507	465	389
10 Net Assets	5,756	4,721	3,144	2,533	1,718
11 Shareholders' Equity	5,756	4,721	3,144	2,533	1,718
B INCOME STATEMENT					
1 Sales	6,510	7,230	5,084	4,809	2,057
a Cost of Good Sold	*(4,191)*	*(4,665)*	*(3,542)*	*(3,735)*	*(2,276)*
2 Gross Profit	2,319	2,565	1,542	1,074	(219)
a Operating Expenses	(562)	(316)	(246)	(270)	(291)
3 Operating Profit	1,757	2,249	1,296	804	(510)
a Non Operating Income or (Expense)	*126*	*(392)*	*(174)*	*40*	*6*
4 Profit or (Loss) before Interest and Tax	1,883	1,857	1,121	843	(504)
a Total Finance Cost	*(198)*	*(286)*	*(423)*	*(578)*	*(475)*
b Taxation	*(108)*	*5*	*(87)*	*(118)*	*181*
6 Net Income Or (Loss)	1,577	1,577	611	147	(799)
C CASH FLOW STATEMENT					
a Free Cash Flows from Operations (FCFO)	*1,991*	*2,144*	*1,501*	*1,024*	*(369)*
b Net Cash from Operating Activities before Working Capital Changes	*1,821*	*1,887*	*1,058*	*455*	*(764)*
c Changes in Working Capital	*(659)*	*(79)*	*(353)*	*(534)*	*(797)*
1 Net Cash provided by Operating Activities	1,162	1,808	705	(79)	(1,560)
2 Net Cash (Used in) or Available From Investing Activities	(715)	(865)	(39)	(18)	(38)
3 Net Cash (Used in) or Available From Financing Activities	48	(113)	14	367	255
4 Net Cash generated or (Used) during the period	495	830	681	271	(1,343)
D RATIO ANALYSIS					
1 Performance					
a Sales Growth (for the period)	80.1%	42.2%	5.7%	133.8%	--
b Gross Profit Margin	35.6%	35.5%	30.3%	22.3%	-10.7%
c Net Profit Margin	24.2%	21.8%	12.0%	3.1%	-38.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	20.5%	28.6%	22.6%	10.2%	-56.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	60.2%	40.1%	21.5%	6.9%	-46.5%
2 Working Capital Management					
a Gross Working Capital (Average Days)	81	122	131	99	180
b Net Working Capital (Average Days)	57	100	113	91	169
c Current Ratio (Current Assets / Current Liabilities)	2.5	3.8	4.5	5.5	3.5
3 Coverages					
a EBITDA / Finance Cost	12.0	8.9	4.0	1.9	-0.6
b FCFO / Finance Cost+CMLTB+Excess STB	4.4	2.7	1.8	1.0	-0.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.0	1.7	3.0	7.0	-5.2
4 Capital Structure					
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	47.9%	53.6%	59.2%	68.3%	76.2%
b Interest or Markup Payable (Days)	71.1	56.4	35.8	48.0	55.3
c Entity Average Borrowing Rate	6.3%	4.9%	7.6%	10.0%	8.5%

Credit Rating

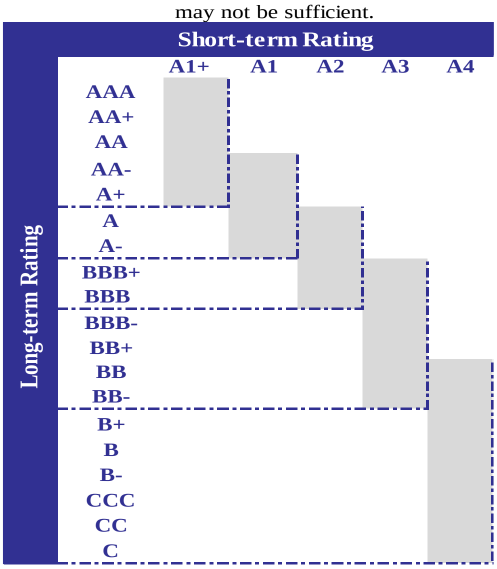
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

Entities
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

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk 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
(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)
Proprietary Information