



The Pakistan Credit Rating Agency Limited

Rating Report

Poly Pack (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
02-Mar-2023	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Poly Pack (Pvt.) Limited (“the Company”) is predominately manufacturing Poly Propylene Woven Bags. The Company is also engaged in the manufacturing of Polyethylene Plain Films, Polyethylene Shrink Film, POF Shrink Film, and Flexible Packaging. The demand for the product is derived mainly from the food industry and consumers. The strong customer base of the Company bodes well for the assigned rating. The Company is wholly owned by family members. The sponsor’s family has vast experience in packaging and engaged in this business since 1991. The raw material of the finished product is ~100% imported hence, exposed to exchange rate risk. As per management representation, the Company has captured the major share of the PP Woven Bags market and enjoys the highest market share of approximately ~9%. Almost 60% of the total sales of the Company are made in the Punjab region. The Company has expanded its capacity year by year, from ~34,600 MT/annum in FY20 to ~60,000 MT/annum tons in FY22. The Company is currently working on ~90% capacity. The internal audit department is operating under the direct supervision of directors. The Company has developed an effective mechanism for the identification, assessment, and reporting of all types of risk arising out of the business operations.

The Company has generated a topline of ~ PKR 14,252mln in FY22 as compared to ~PKR 11,994mln in FY21. In FY22, Poly Pack (Pvt.) Limited generated a bottom line of ~PKR655mln (FY21: ~PKR 526mln). Equity of the Company stood at ~PKR 2,135mln at the end of FY22(FY21: ~PKR 1,480mln). On the financial profile side, the Company is moderately leveraged with sound financial indicators as of the end of Jun’22. Past trends of equity injections show strong financial commitments of the sponsors.

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	Poly Pack (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	
Rating Analysts	Muhammad Atif Chaudhry Atif.Chaudhry@pacra.com +92-42-35869504



Profile

Legal Structure Poly Pack (Pvt.) Limited ("The Company") was incorporated as a private limited company in 1991.

Background The Company has began its operations with the commercial production of Poly Propylene Bags. The main sponsor family has utilized his skills and experience to turn Poly Pack (Pvt.) Limited into a competent contender in the PP bags and flexible market. The Company is currently one of the largest producers of plastic packaging products in Pakistan.

Operations Poly Pack (Pvt.) Limited provides different types of Poly Propylene Woven Bags, Polyethylene Plain Films, Polyethylene Shrink films, and POF Shrink Films. They have expanded their capacity year by year, from 34,600 MT/annum in FY20 to 60,000 MT/annum tons in FY22, with a utilized capacity of 55,295 MT/annum (92%). They have also set up a flexible packaging line where they print and provide packaging to large-scale corporate clientele.

Ownership

Ownership Structure Majority stake of Poly Pack (Pvt.) Limited lies with Mr. Iftikhar Ahmed who owns ~43.6% of the total shares. Mr. Aamir, Mr. Bilal, and Mr. Abdullah hold respectively ~15.6% ownership of the company. Mr. Aamir, Mr. Bilal, and Mr. Abdullah are all brothers, with Mr. Aamir being the eldest, followed by Mr. Bilal and Mr. Abdullah. Mrs. Nazia Iftikhar is the wife of Mr. Iftikhar Ahmed.

Stability The ownership structure is stable as owners have vast experience in the packaging industry while having a personal stake in the business. The equity injections in FY20 of ~PKR 160mln and FY21 of ~PKR 85mln show their commitment to the business, and their plan to keep a low-leveraged capital structure keeps financial risk low.

Business Acumen The owners and directors of Poly Pack (Pvt.) Limited have extensive relevant experience and insights about the packaging industry owing to their family background. All three brothers are involved in managing the affairs of the Company under the supervision of their father. Mr. Bilal oversees all the financial and tax-related affairs of the company. While Mr. Aamir and Mr. Abdullah are involved in managing the operational activities of the company.

Financial Strength All the brothers have significant resources to finance the Company if the need arises.

Governance

Board Structure The Company's Board structure primarily revolves around its sponsor family. There are 5 directors on the Board, all of them are executive. The addition of independent director would be encouraged.

Members' Profile All the Board members are businessmen in the profession and have the relevant skills.

Board Effectiveness The Board has the strength of all members belonging to the same family, increasing their cohesiveness. The Board met four times during FY22, with the majority attending to discuss pertinent matters.

Financial Transparency The Company's external auditors, PKF F.R.A.N.T.S Chartered Accountants have expressed a qualified opinion on the financial statements for FY21. The auditors have a satisfactory QCR rating from ICAP.

Management

Organizational Structure Poly Pack (Pvt.) Limited has developed a defined organizational structure keeping in mind the Company's operational needs. The Company has a lean organizational structure to control personnel costs while efficiently managing its operations.

Management Team The Company's General Manager (Production), Mr. Mushtaq Anjum Chaudhary has been associated with the Company since its inception. Mr. Mushtaq Anjum Chaudhary has over 45 years of relevant experience and also has special expertise in Polymer/Polyolefins. The Company's Manager Finance, Mr. Aamir Manzoor, is a CA finalist and has over 29 years of relevant experience. He has been working with the Company for 20 years.

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

MIS To generate MIS and operational reports, the ERP software, SAP Crystal Reports is used. The Company is currently outsourcing the software development function from CMC M-Tech.

Control Environment The Company has developed an effective mechanism for identification, assessment, and reporting of all types of risk arising out of the business operations because there is an internal audit department in place to ensure operational efficiency which operates under the direct supervision of directors.

Business Risk

Industry Dynamics A major challenge faced by the sector is prices and availability of raw materials specifically polymers such as polypropylene, & polyethylene. Polymers' prices are largely a function of global crude oil prices, demand-supply dynamics, and exchange rate volatility. The recent market dynamics of the cost base of raw materials for the company represented a rising trend. This coupled with the significant depreciation of the currency would be expected to lead to higher raw material prices and thus create pressure on margins going forward. If the cost of raw materials with predictable exchange rates sustain, it will produce better profitability and margins for the industry in the future.

Relative Position The Company has captured the major share of the PP Woven Bags market and enjoys the highest market share of approximately ~9% with its main competitors being Jilani Plastic Limited and Lahore Polypropylene Industries by holding approximately ~8% and 7% market share respectively. Poly pack (Pvt.) Limited is also becoming a well-known name in the PP films and flexible market segment and also holds a prominent share in this segment, with its main competitors being Tri-Pack, MACPAC and Astro Films.

Revenues The Company generates revenue from the sale of PP Film, Flexible Packaging, and PP Woven Bags in the local market. Local sales increased from ~PKR 11,994mln in FY21 to ~PKR 14,252mln in FY22. The Company makes all its sales directly to its customers. The Company's top ten customers contributed 15.7% to total revenue signifying a low level of concentration.

Margins In FY22, the gross margin and operating profit margin both increased as compared to FY21. The GP margin increased from ~6.3% in FY21 to ~6.4% in FY22 while the OP margin increased from ~5.3% to ~5.6%. Consequently, the net profit margin also increased from ~4.4% to ~4.6% during the same period.

Sustainability In recent years, the Company has undergone through significant expansion while further capital expenditure is expected for the planned expansion. The Company is committed to investing in the BOPP plant which will improve the operational efficiency of the Company and also will help to maintain a better position in the market.

Financial Risk

Working Capital In FY22, the Company's inventory days decreased to ~19 days from ~22 days in FY21. The decrease in inventory days is attributable to better inventory management and excellent communication with customers. Consequently, the Company's net working capital days stood at 1 day at end of FY22, decreasing from ~15 days at end-FY21. The decrease in net working capital days shows excellent working capital management.

Coverages In FY22, the Company's EBITDA stood at ~PKR 820mln increasing from ~PKR 725mln in FY21. The EBITDA/Finance cost showed a decrease from a healthy ~67.4x of coverage at end of FY22 to ~47.6x at end of FY21; however, this is still a healthy coverage level for the Company. While the Company does take on both short-term and long-term financing from financial institutions, the strategy is to keep the Company mainly equity-focused, thus the finance cost is planned to be on a manageable scale moving forward.

Capitalization Poly Pack (Pvt.) Limited has a low-leveraged structure, with long-term liabilities being ~8.9% of equity at end of FY22 and ~12% of equity at end of FY21. Its gearing ratio has increased from ~34% at the end of FY21 to ~39.2% at the end of FY22, while it has remained at ~8.6% in FY20, indicating that while the Company does have debt, it is not increasing its debt ratio currently and is instead relying more on organic growth.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Poly Pack (Pvt.) Limited 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	1,289	1,093	789	861
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	4,568	3,067	2,207	2,075
<i>a Inventories</i>	830	679	735	761
<i>b Trade Receivables</i>	1,228	1,085	925	907
5 Total Assets	5,858	4,161	2,997	2,936
6 Current Liabilities	2,345	1,919	940	1,321
<i>a Trade Payables</i>	2,067	1,686	751	1,180
7 Borrowings	389	344	11	69
8 Related Party Exposure	989	418	167	53
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	2,135	1,480	1,879	1,494
11 Shareholders' Equity	2,135	1,480	1,879	1,494

B INCOME STATEMENT

1 Sales	14,252	11,994	7,866	6,182
<i>a Cost of Good Sold</i>	(13,333)	(11,235)	(7,390)	(6,054)
2 Gross Profit	919	760	476	128
<i>a Operating Expenses</i>	(127)	(125)	(97)	(82)
3 Operating Profit	792	634	380	46
<i>a Non Operating Income or (Expense)</i>	(32)	(27)	(19)	(4)
4 Profit or (Loss) before Interest and Tax	759	607	361	42
<i>a Total Finance Cost</i>	(22)	(14)	(3)	(4)
<i>b Taxation</i>	(82)	(67)	(132)	(23)
6 Net Income Or (Loss)	655	526	225	15

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	752	494	298	65
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	734	489	294	62
<i>c Changes in Working Capital</i>	(295)	825	(426)	539
1 Net Cash provided by Operating Activities	439	1,314	(132)	600
2 Net Cash (Used in) or Available From Investing Activities	(257)	(363)	3	(196)
3 Net Cash (Used in) or Available From Financing Activities	(883)	(341)	217	(473)
4 Net Cash generated or (Used) during the period	(701)	611	87	(68)

D RATIO ANALYSIS

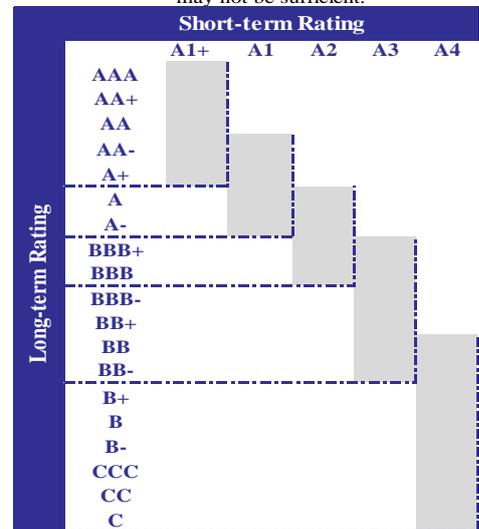
1 Performance				
<i>a Sales Growth (for the period)</i>	18.8%	52.5%	27.3%	--
<i>b Gross Profit Margin</i>	6.4%	6.3%	6.1%	2.1%
<i>c Net Profit Margin</i>	4.6%	4.4%	2.9%	0.2%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	3.2%	11.0%	-1.6%	9.8%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	36.2%	31.3%	13.3%	1.0%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	49	52	77	99
<i>b Net Working Capital (Average Days)</i>	1	15	32	29
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.9	1.6	2.3	1.6
3 Coverages				
<i>a EBITDA / Finance Cost</i>	47.6	67.4	672.2	145.7
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	5.9	3.9	448.5	1.1
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	1.9	1.6	0.6	1.8
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	39.2%	34.0%	8.6%	7.5%
<i>b Interest or Markup Payable (Days)</i>	60.8	277.5	276.2	162.6
<i>c Entity Average Borrowing Rate</i>	1.6%	2.3%	0.4%	1.2%

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	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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(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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(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)

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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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