The Pakistan Credit Rating Agency Limited

Rating Report

Novapack (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Dec-2022	BBB-	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Novapack (Pvt.) Limited ("the Company" or "Novapack") ratings reflect an emerging business profile in the industrial packaging industry. The Company manufactures and sells different types of polyethylene rolls and bags and serves a wide range of industries like food & beverages, textile, automotive, and personal care. The company has an in-house sales & marketing department headed by a team of professionals. The product demand is high due to the growing population, urbanization, and the E-Commerce revolution. Novapack is owned and managed by close family members and they are seasoned professionals. There is room for improvements in the governance structure which currently lacks board committees and independent oversight. The Management has a well understanding of business and operational efficiencies being monitored through budgets, forecasts, and projections. During FY22 revenues depicted ~6% growth and stood at PKR 816mln, where net margins showed some dilution and recorded at ~4% (FY:21 ~6%). As a part of the diversification strategy, the Company has started a new business segment of assembling and sale of customized/specialized LED lighting under the brand name "NOVO". The financial risk profile of the Company is considered good, with sufficient cashflows, coverages, and an adequate working capital cycle. The operations of the Company are managed through internally generated cash flows and short-term borrowings. Capital structure is leveraged and mainly comprised of short-term borrowings. The Company has availed TERF facility for expansion in production capacity.

The ratings are dependent on the firm's ability to sustain its position amidst changing business environment and management's ability to run the operations of the Company optimally. With the upcoming growth in the firm's business & volumes; prudent financial discipline and implementation of a stringent control environment shall remain imperative.

Disclosure

Name of Rated Entity	Novapack (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Paper and Packaging(Nov-22)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@pacra.com | +92-42-35869504

Profile

Legal Structure Novapack (Pvt.) was incorporated as a private Ltd. Company in Pakistan in 2014. The Company's registered office and manufacturing units are situated at Pind Nizampura Dhaka, Shahdara, Sheikhupura, Punjab.

Background Vohra Brothers started its business operations as a sole proprietor in the 1980s and was involved in the trading of different types of raw materials for the packaging industry. Novapack was established in 2014 and has become a leading manufacturer of a vast range of packaging products that serve clients from diverse fields and industries i.e., textile, food & packaging, automotive, and personal care. The company is looking towards further expansion plans in the coming years.

Operations The company is principally engaged in manufacturing plastic sheets for industrial packaging (Specializing in Polyethylene Rolls and Bags) and assembling and distributing LED bulbs.

Ownership

Ownership Structure The company is majorly owned by four individuals, and its shareholding is divided among Iftikhar Ahmad (25%), Abdul Rafay (25%), Abdul Wasay (25%), and Adil Nisar (25%).

Stability The Company's operations are majorly met by Iftikhar Ahmad. He is associated with the company since the 1980s. He is a businessman with diversified knowledge and expertise.

Business Acumen The owners have extensive experience in plastic sheet manufacturing. They have experience of decades in polymers, plastic packaging, and associated chemicals.

Financial Strength The company has strong exposure in the manufacturing of plastic sheets, as well as diversification, which is also achieved (Novapack deals in the assembling and distribution of LED lights). Nova pack has a trading company i.e., Vohra brothers with a top line of PKR 1.2bln, and group revenue stands at PKR~2bln.

Governance

Board Structure The board comprises three members with a diversified range of experiences. All of them are family members and there are not any independent directors on the board. The board is currently chaired by Mr. Abdul Wasay. Mr. Abdul Rafay is the director of the company and Mr. Adil Nishat is the non-executive director of the company.

Members' Profile Mr. Abdul Wasay is the Chief Executive Officer and possesses 17 years of business experience. All other members are professionally qualified with extensive professional experience and a diversified skill mix.

Board Effectiveness The Board met many times in FY22 with the presence of all members. The board has established two Committees i.e., the management committee and Finance Committee.

Financial Transparency Arshad & Co., Chartered Accountants are the external auditors of the Company. Currently, auditors are not QCR-rated or not in the SBP category. They gave an unqualified opinion on the company's financial statements for the year ending June 30, 2021.

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 has a team of diversified seasoned professionals. Mr. Abdul Wasay, the CEO has a versatile experience. of 17 years. Mr. Abdul Rafay is an Fellow Chartered Accountant with more than 10 years of professional experience. All other team members are professionals operating under the supervision of their heads of departments.

Effectiveness The Company has established a Management committee and Finance committee, which comprises senior management. These two committees meet weekly. The other departments are finance, product, and sales which handle weekly targets.

MIS The Company has implemented cloud-based software (Infor Syteline) which is US-based software that generates reports and manages the flow of information. It is capable of generating customized MIS /dashboard reports for the board and top management. The management maintains strong controls through the ERP.

Control Environment Report generation has been optimized to bring efficiency. The management of Novpack reports at the Group level weekly via presentations on performance and there is an absence of a formal internal audit department, there is still room for improvement.

Business Risk

Industry Dynamics The global plastic market size was estimated at USD 609.01 billion and $439.28 billion in 2021 and is expected to reach revenue of USD 811.57 billion in 2030, a CAGR of 3.7% from 2022 to 2030. The global plastic market is projected to grow from $457.73 billion in 2022 to $643.37 billion by 2029, at a CAGR of 5.0% in the forecast period 2022-2029. Plastic, also known as polymers, is used to manufacture a wide variety of products ranging from paper clips to spacecraft due to their versatility, easy manufacturing, moldability, lightweight, waterproof nature, and low cost. They are traditionally derived from natural gas and petroleum. The depleting sources of polymers have encouraged manufacturers to use renewable sources. Moreover, big environmental harm caused by the polymers influences manufacturers to develop recyclable products. Surging demand for high-performance plastic packaging solutions for the protection of products is a key factor driving the market.

Relative Position As per management understanding, NovaPack is one of the reputable manufacturers of Polyethylene rolls and bags. Other competitors in a similar range of products are Jalani Plastic Group and Pearl Petro.

Revenues In FY22, the Company's top-line stood at ~5.9% YoY and stood at PKR ~816mln (FY21: PKR ~771mln).

Margins In FY22, Company's gross margin reached ~10.4% (FY21: ~9.7%). Meanwhile, the operating margin remained consistent at ~7% (FY21: ~7.2%). The Company's finance cost recorded in FY22 is PKR ~13mln (FY21: PKR ~8mln). The Company's net profit in FY22 decreased to PKR ~31mln (FY21: PKR ~47mln).

Sustainability As per management, the Plastic sheets used for Packing Materials, like fabrics, food, and beverages, construction films for waterproofing, and nursery bags will remain in an increasing trend, as there is rising demand. Management prepares financial projections/budgets efficiently.

Financial Risk

Working Capital In FY22, Company's inventory days reached ~22 days (FY21: ~37days). Meanwhile, in FY22, trade receivable days have reached ~67 days (FY21: ~45days). Gross working capital days stood at ~89 days in FY22 (FY21: ~82 days). The trade payable days during FY22 were clocked at ~43days (FY21: ~51 days). Resultantly, the net working capital days clocked in at 47 days (FY21: ~31 days).

Coverages The company's cash flows from operations reached PKR (~25mln) during FY22 (FY21: PKR ~55mln). The interest coverage ratio in FY22 clocked at 4.0x (FY21: 7.0x). Furthermore, the debt coverage ratio reached 0.6x.

Capitalization During FY22, leveraging remained consistent at 61.6% (FY21: 61%) meanwhile, short-term borrowings increased to PKR 134mln in FY22 (FY21: PKR 101mln).

The Pakistan Credit Rating Agency Limited

NOVAPACK (Pvt.) Limited	Jun-22	Jun-21	Jun-20
Paper and pacakaging	12M	12M	12M
A BALANCE SHEET			
1 Non-Current Assets	36	23	6
2 Investments	-	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	299	251	243
a Inventories	*70*	*28*	*130*
b Trade Receivables	*155*	*147*	*43*
5 Total Assets	335	273	249
6 Current Liabilities	83	107	110
a Trade Payables	*83*	*107*	*110*
7 Borrowings	155	101	122
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	-	-	-
10 Net Assets	97	66	18
11 Shareholders' Equity	97	66	18
B INCOME STATEMENT			
1 Sales	816	771	467
a Cost of Good Sold	*(731)*	*(696)*	*(467)*
2 Gross Profit	85	75	1
a Operating Expenses	(28)	(19)	(16)
3 Operating Profit	57	56	(15)
a Non Operating Income or (Expense)	-	*(1)*	*(0)*
4 Profit or (Loss) before Interest and Tax	57	55	(15)
a Total Finance Cost	*(13)*	*(8)*	*(13)*
b Taxation	*(12)*	-	-
6 Net Income Or (Loss)	31	47	(29)
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*49*	*51*	*(28)*
b Net Cash from Operating Activities before Working Capital Changes	*49*	*51*	*(28)*
c Changes in Working Capital	*(74)*	*4*	*(132)*
1 Net Cash provided by Operating Activities	(25)	55	(160)
2 Net Cash (Used in) or Available From Investing Activities	(15)	(20)	(0)
3 Net Cash (Used in) or Available From Financing Activities	54	(23)	164
4 Net Cash generated or (Used) during the period	13	12	4
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	5.9%	64.8%	-9.9%
b Gross Profit Margin	10.4%	9.7%	0.1%
c Net Profit Margin	3.8%	6.1%	-6.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-3.1%	7.2%	-34.1%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/S*	38.3%	113.0%	-88.0%
2 Working Capital Management			
a Gross Working Capital (Average Days)	89	82	133
b Net Working Capital (Average Days)	47	31	46
c Current Ratio (Current Assets / Current Liabilities)	3.6	2.3	2.2
3 Coverages			
a EBITDA / Finance Cost	4.0	7.0	-2.1
b FCFO / Finance Cost+CMLTB+Excess STB	4.0	7.0	-2.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.6	0.0	0.0
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	61.6%	60.7%	87.0%
b Interest or Markup Payable (Days)	0.0	0.0	0.0
c Entity Average Borrowing Rate	9.4%	6.6%	15.5%

Credit Rating

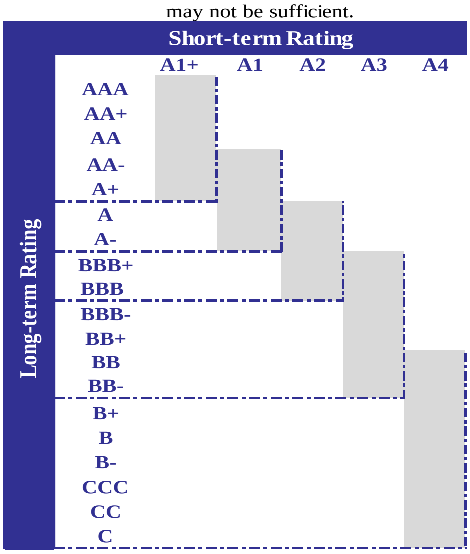
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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
(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