



The Pakistan Credit Rating Agency Limited

## Rating Report

### Pearl Petro Industry (Pvt.) Limited

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
12-Jun-2024	BBB-	A2	Positive	Maintain	-
12-Jun-2023	BBB-	A2	Positive	Initial	-

#### Rating Rationale and Key Rating Drivers

Pearl Petro Industry (Pvt.) Ltd. (“Pearl Petro” or “the Company”) manufactures and sells Polypropylene bags, Polyethylene Bags (liner bags), farm house PT sheets and other plastic sheets. The Company has also set up a flexible packaging line to print and provide packaging products for large-scale corporate clients. Sponsors acumen and strong customer base, operating in textile, fertilizer, and feed industries, bodes well for the Company. Pearl Petro imports Resin from KSA, USA, UAE, Kuwait, Singapore, and Qatar; thus, exposing the Company to exchange risk. The Company operates at the capacity of 17,500 MT for the Polypropylene (PP) and 45,000MT for Polyethylene (PE). Utilization levels remain stable; however, seasonality remains pivotal. Lately, the Company has set up and commissioned Biaxially Oriented Polypropylene (BOPP) line. The management expects a considerable impact of this expansion on the Company’s overall performance, going forward. Pearl Petro generates revenue from polypropylene begs (~44%), followed by polyethylene sheets (~24%), PT poly bags (~17%) and other products (~15%). Revenue posted growth (~30%) backed by inflationary trend in prices with limited volumes trickling in. Overall margins remain low, as compared to peers, due to higher cost of business. On the financial risk front, the Company’s working capital cycle and capital structure remains adequate; while, coverages remain stretched.

The ratings drives support from sustainable revenue growth, along with improved profitability and coverages. Product diversification and related impact remains imperative for the ratings. Firm working capital management leading to improved liquidity remains crucial.

#### Disclosure

<b>Name of Rated Entity</b>	Pearl Petro Industry (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jul-23),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Rating Modifiers(Apr-24)
<b>Related Research</b>	Sector Study   Paper and Packaging(Nov-23)
<b>Rating Analysts</b>	Faiqa Qamar   faiqa.qamar@pacra.com   +92-42-35869504



## Profile

**Legal Structure** Pearl Petro Industry (Pvt.) Limited ("Pearl Petro" or "the Company") was incorporated as a private limited company in 2014 under the Companies Act 2017.

**Background** Pearl Petro, previously known as MH Plastic, was founded in 1979 by Mr. Munawar Hussain Malik. The Company was engaged in sales and marketing of plastic bags. Later, its legal structure changed and it became a private limited company. The Company then began to target corporate customers. Today, the Company has expanded its product line from polypropylene and polyethylene bags to flexible packaging line, and lately has setup a BOPP film line.

**Operations** Pearl Petro manufactures and sells polypropylene bags, polyethylene bags (liner bags), farmhouse PT sheets and other plastic sheets. The Company has also set up a flexible packaging line to print and provide packaging products to large-scale corporate clientele. The Company operates at a capacity of 17,500 MT for Polypropylene (PP) and 45,000MT for Polyethylene (PE). The Company's registered office and manufacturing facility are located near Lahore.

## Ownership

**Ownership Structure** Mr. Munawar Hussain Malik holds majority shares (~72.8%) of the Company; while, the remaining shareholding lies with his daughter, Ms. Bushara Fatima Malik (~27.7%).

**Stability** The Company's ownership is expected to remain stable, going forward.

**Business Acumen** The Sponsors hold extensive experience and understanding of the market; along with building stable relationships with the customers & suppliers. This supports the Company's overall risk profile.

**Financial Strength** The Sponsors hold substantial financial strength to support the Company, if needs be.

## Governance

**Board Structure** The Board is dominated by the Sponsors. Mr. Munawar and his daughter, Ms. Bushra Fatima Malik are Executive Directors. There is lack of independent oversight and coherence in the governance framework.

**Members' Profile** Mr. Munawar chairs the Board and has an experience of over three decades. Ms. Bushra participates in strategic decision-making.

**Board Effectiveness** The Board meets frequently to discuss all the strategic issues. However, these meetings remain informal with documentation of minutes. Moreover, no formal committee exist at the Board level.

**Financial Transparency** The external auditors of the Company, M/s. Amin Mudassir and Co. - QCR rated and on SBPs panel in category 'B', has expressed an unqualified opinion on the financial statements for the year ended Jun-23.

## Management

**Organizational Structure** The Company is managed through Accounting & Finance, Marketing & Sales, HRM, Quality Assurance, Supply Chain, and Production. Each department Head reports to the CEO, who makes the pertinent decisions.

**Management Team** Mr. Munawar, the CEO, has an extensive experience of three decades. He has been associated with the Company since inception.

**Effectiveness** The department heads meet as per requirement. Senior management gives input in the decision-making. There are no formal management level committees.

**MIS** Pearl Petro has deployed "SoftTech" accounting software that has all the required modules for inventory, sales & marketing, finance, procurement, HR and others. It generates reports on a daily, weekly and monthly basis. Further, the Company has installed a database on-site, and stores where data is captured on daily basis.

**Control Environment** The Company has an in-house internal audit department. The Company has acquired ISO-9001, ISO-22000, ISO-14001 and PS-3733 certifications to enhance and maintain the highest levels of quality standards. The management ensures operational efficiency under the direct supervision of CEO.

## 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 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 built a strong market position in the industry with its long operations resulting in healthy relationships with suppliers, distributors, and customers.

**Revenues** The Company's prime revenue is generated from the sale of polypropylene bags (~44%), followed by polyethylene sheets (~24%), PT poly bags (~17%) and others (~15%). During FY23, revenue of the Company improved by ~30% (FY23: ~PKR 11.3bln, FY22: ~PKR 8.6bln) attributable to price adjustments alongside volumetric uptake. During 6MFY24, the revenue of the Company stood at ~PKR 5.9bln. Moving forward, the impact of Biaxially Oriented Polypropylene (BOPP) unit is expected to be positive for the Company.

**Margins** During FY23, the Company's gross margins remain stagnant (FY23: ~8.3%, FY22: ~8.4%). The operating margin posted a trickling effect (FY23: ~7.1%, FY22: ~7.3%). While, the net margin showed slight improvement (FY23: ~2.7%, FY22: ~2.3%). During 6MFY24, the Company continued to experience low margins primarily due to elevated procurement costs, resulting in a gross profit margin of ~6.7%. Whereas, the net margin of the Company stands at ~2.7%. Going forward it is anticipated that the Company's margins will remain the same.

**Sustainability** The Company has set up and commissioned Biaxially Oriented Polypropylene (BOPP) line. The management expects a considerable impact of this expansion on the Company's overall performance, going forward.

## Financial Risk

**Working Capital** As of FY23, the net working capital days remained stable reported at ~35 days. In FY23, the Company's inventory days improved to 30 days, down from 38 days in FY22, indicating more efficient use of resources to convert inventory to cash. However, trade receivable days increased to ~24 days (FY22: 15 days). The Company increased its credit terms to support the sales leading to increased receivable. Trade payable days also increased to 20 days in FY23 (FY22: 18 days). As of 6MFY24, net working capital cycle of the Company stood at 46 days. The Company has a limited borrowing cushion on its balance sheet. Going forward, the working capital cycle is expected to remain unchanged.

**Coverages** The liquidity positioning of the Company remains adequate. The interest coverage ratio (EBITDA/Finance cost) stood at 5.4x (FY22: 13.1x). The Company's FCFO stands at PKR 384mln (FY22: PKR 253mln). Moving forward, it is anticipated that the Company's coverage may improve.

**Capitalization** Pearl Petro has a leveraged capital structure (FY23: ~58.3%, FY22: ~69.2%). STB of the Company stood at PKR 1,392mln in FY23 (FY22: PKR 1,657mln) including CMLTB; whereas, LTB of the Company surged to PKR~ 372mln (FY22: ~PKR 460mln). Equity of the Company stood at PKR~1,357mln (FY22: PKR~ 1,048mln). During 6MFY24, the Company's equity stands at PKR~ 1,521mln. Moving forward, the Company's leverage may remain stable.



The Pakistan Credit Rating Agency Limited

Financial Summary  
PKR mln

Pearl Petro Industry (Pvt) Ltd. Paper & Packaging	Jun-23 12M	Jun-22 12M	Jun-21 12M	Jun-20 12M
--	---------------	---------------	---------------	---------------

#### A BALANCE SHEET

1 Non-Current Assets	1,867	2,113	1,369	341
2 Investments	-	-	-	-
3 Related Party Exposure	30	-	-	-
4 Current Assets	3,406	2,404	1,028	862
<i>a Inventories</i>	458	1,426	360	375
<i>b Trade Receivables</i>	1,103	416	313	256
5 Total Assets	5,302	4,517	2,397	1,203
6 Current Liabilities	1,810	951	112	43
<i>a Trade Payables</i>	458	793	55	1
7 Borrowings	1,764	2,118	1,282	467
8 Related Party Exposure	136	236	120	-
9 Non-Current Liabilities	234	164	34	25
10 Net Assets	1,357	1,048	849	668
11 Shareholders' Equity	1,357	1,048	849	668

#### B INCOME STATEMENT

1 Sales	11,333	8,689	5,698	3,643
<i>a Cost of Good Sold</i>	(10,396)	(7,963)	(5,267)	(3,372)
2 Gross Profit	938	726	430	271
<i>a Operating Expenses</i>	(129)	(91)	(83)	(65)
3 Operating Profit	809	634	347	206
<i>a Non Operating Income or (Expense)</i>	(162)	(160)	(60)	(33)
4 Profit or (Loss) before Interest and Tax	647	475	287	173
<i>a Total Finance Cost</i>	(132)	(109)	(27)	(10)
<i>b Taxation</i>	(205)	(167)	(79)	(67)
6 Net Income Or (Loss)	309	199	182	96

#### C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	557	384	253	116
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	455	318	233	107
<i>c Changes in Working Capital</i>	1,040	57	(25)	122
1 Net Cash provided by Operating Activities	1,495	374	207	229
2 Net Cash (Used in) or Available From Investing Activities	83	(906)	(1,042)	(184)
3 Net Cash (Used in) or Available From Financing Activities	(38)	678	251	(4)
4 Net Cash generated or (Used) during the period	1,540	146	(584)	40

#### D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	30.4%	52.5%	56.4%	10.2%
<i>b Gross Profit Margin</i>	8.3%	8.4%	7.6%	7.4%
<i>c Net Profit Margin</i>	2.7%	2.3%	3.2%	2.6%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	14.1%	5.1%	4.0%	6.5%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	25.7%	21.0%	23.9%	15.5%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	55	53	42	67
<i>b Net Working Capital (Average Days)</i>	35	35	40	67
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.9	2.5	9.2	19.9
3 Coverages				
<i>a EBITDA / Finance Cost</i>	5.7	5.4	13.1	20.7
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	0.4	0.3	0.5	0.2
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	4.4	6.9	3.3	4.4
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	58.3%	69.2%	62.3%	41.1%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	0.0	0.0
<i>c Entity Average Borrowing Rate</i>	6.5%	5.7%	2.8%	2.0%

### 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+	
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-	
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	
CC	<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.
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	e) Holding Company Rating
b) Corporate Rating	f) Independent Power Producer Rating
c) Debt Instrument Rating	g) Microfinance Institution Rating
d) Financial Institution Rating	h) Non-Banking Finance Companies Rating

**Disclaimer:** PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

### **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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

### **Probability of Default**

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

### **Proprietary Information**

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent