The Pakistan Credit Rating Agency Limited

Rating Report

Saigal Packages Industries (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-Aug-2024	BBB-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Saigal Packages Industries Limited ("SPI" or "the Company") ratings reflect an emerging business profile in the industrial packaging industry. The company is engaged in the manufacturing and sales of flexible packaging solutions offering a range of products, including plastic packaging and tin containers for food items, and provides comprehensive packaging design and printing services. SPI's client base includes prominent and reputable names across various industries, showcasing its adequate market presence and credibility, but it faces concentration risk with a few customers contributing a significant portion of its revenue. The packaging sector mainly relies on imported polypropylene and polyethylene, which are key plastic resins widely used in the packaging industry for film extrusion applications. However, the prices of these polymers are volatile-linked with global crude oil prices and demand-supply dynamics. On the flip side prevailing macroeconomic challenges such as soaring inflation/interest rates, and currency devaluation adversely impacted the industry. However, the company managed to sustain revenue growth due to price inflation which was further supported by an increase in volumes from acquiring new customers. During 6MFY24, the company's topline clocked in at ~PKR 2,862mln (FY23: ~PKR 3,500mln). The margins also showed improvement at all levels due to an increase in capacity utilization and better cost controls. The company is owned and managed by close family members and the second generation now actively involved in the business. However, there is room for improvement in the governance structure, as it currently lacks formal board committees and independent oversight. Furthermore, the external auditors are only QCR-rated. The Management has a good understanding of business and operational efficiencies being monitored through budgets and forecasts, furthermore establishment of internal audit function would strengthen the internal control environment. Moving forward, the company is actively pursuing capacity expansion in the plastic packaging segment with plans to finance these initiatives through internally generated cashflows as reflected in business plan. The financial risk profile of the company is demonstrated by comfortable coverages, cashflows, and working capital cycle. The company's capital structure is low leveraged, utilizing long-term borrowings only. The Company has taken advantage of the TERF facility to expand its production capacity and relay on internal cashflow for working capital management.

The ratings are dependent on SPI's ability to maintain its position in its specific business niches and sustain growth in the face of challenging industry dynamics. Essential factors include bolstering share capital, achieving consistent revenue growth, and margins, with improvement in governance framework, and maintaining prudent financial performance in-line with projections.

Disclosure

Name of Rated Entity	Saigal Packages Industries (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-24)
Related Research	Sector Study | Paper and Packaging(Nov-23)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@pacra.com | +92-42-35869504

Profile

Legal Structure The company was incorporated in Pakistan as a private limited company in August 2007, under the now-repealed Companies Ordinance, 1984 (currently governed by the Companies Act, 2017), under the name Saigal Packages Industries Limited.

Background Mr. Tauseef Ahmed's entrepreneurial journey began with the establishment of AJ Containers, a sole proprietorship specializing in tape manufacturing. Recognizing opportunities for growth and diversification, he ventured into the plastic packaging industry in 2007 with the launch of a new manufacturing plant named 'Saigal Packages Industries Limited'.

Operations The principal activity of Saigal Packages Industries Limited is the manufacturing of flexible packaging solutions. The company's manufacturing facility is located at W-296, JH, Sindh Industrial Area.

Ownership

Ownership Structure Mr. Tauseef Ahmad owns the majority of the company, with 99.34% of the shares. The remaining shares are split equally between his son, Mr. Ahsan Tauseef, and his wife, Mrs. Amna Tauseef.

Stability The Company's ownership structure seems stable as no major change in the shareholding structure is expected soon. Although a formal succession plan exists, the second generation has been gradually inducted into the family business.

Business Acumen The family has been engaged in the packaging business for decades. The significant growth over the years highlights their strong business and strategic foresight.

Financial Strength The sponsors' investments in AJ Containers, known for adhesive tapes, and Subhan Pacakges, specializing in food packaging materials, underscore their capacity to offer robust financial support as needed.

Governance

Board Structure The company lacks a formal governance framework. The oversight function is normally the function of the Board is exercised by the Sponsors. They are responsible for the oversight of their respective departments.

Members' Profile Mr. Tauseef is the CEO of the company and has headed this business for the past 17 years. Under his leadership, the company has achieved significant growth and established a strong market presence. His experience and vision have contributed to innovation and operational performance.

Board Effectiveness The company currently does not have a formal board structure or established committees.

Financial Transparency Rao & Co. Chartered Accountants are the Company's external auditors. The firm is QCR-rated but not on the SBP's panel of auditors. The auditors issued an unqualified opinion on the Company's financial statements for the year ended June 2023.

Management

Organizational Structure Saigal Packages Industries Limited has a lean organizational structure divided into various functional departments. Currently, the organizational structure is divided into five main functions namely; 1) Sales 2) Production Department 3) Technical Department 4) Accounts & Finance, 5) Printing & Slitting, and 6) Administration.

Management Team Mr. Tauseef Ahmed is the CEO of the company, leading a team of seasoned professionals. Mr. Ahsan Tauseef, his son, serves as the Director, while Mr. Ather, the CFO, brings nearly 35 years of professional experience, including 15 years with the company. The team is qualified, with good experience and a diverse skill set, ensuring the company's continued success.

Effectiveness Keeping in view the size and operations of the Company, management lacks effectiveness as there are no management committees in place. Thus, indicating room for improvement. Management meets on a need basis to ensure the efficiency of the Business's operations The senior management holds major control of operations.

MIS The company utilizes licensed Microsoft Office applications, including Excel, Word, and Outlook, for its operations. Internal MIS reports are generated for senior management on a weekly, monthly, quarterly, and annual basis. However, there is room for improvement in the internal audit department.

Control Environment SPI's management has provided forecasts that reflect their strategy and demonstrate the feasibility of their approach. The company intends to continue investing in capital expenditure to improve manufacturing efficiency and enhance its e-commerce capabilities, to cater to the growing market. For internal MIS reports to senior management reports are generated on a weekly, monthly, quarterly, and annually as per the management perusal. However, there is room of improvement for the internal audit department.

Business Risk

Industry Dynamics Pakistan's Packaging Sector consists of three major Segments - Paper, Plastic, and Tinplate. Paper and Plastic Segments occupy the major share of total market, while other materials such as Tinplate and Glass have relatively smaller sizes.The packaging sector mainly relies on imported polypropylene and polyethylene, which are key plastic resins widely used in the packaging industry for film extrusion applications. However, the prices of these polymers are volatile-linked with global crude oil prices and demand-supply dynamics. On the flip side prevailing macroeconomic challenges such as soaring inflation/interest rates, and currency devaluation adversely impacted the industry.

Relative Position Saigal Packages Industries Limited manufactures & sells packaging materials. Saigal Packages Industries deals in plastic & tinplate segments. The Company has built a good market repute in the industry with its long operations resulting in healthy relationships with suppliers, distributors, and customers.

Revenues In FY23, the company reported a topline of ~ PKR 3,500mln, reflecting a 41.5% growth compared to (FY22: PKR 2,472mln). All sales were domestic, with revenue stemming from various products, including plastic pouches, tin containers, packaging services, recycled plastic dana, scrap, and fabrication charges. Plastic pouches contributed ~ 78.2% of the sales. In the 6MFY24, the company achieved sales of ~ PKR 2,862mln, a 63.5% increase, driven by price inflation and increased volumes from adding new customers.

Margins In FY23, the company's gross profit margin rose to ~ 8.9%, up from 6.9% in FY22, driven by increased volumes and prices. Operating margins also improved, reaching ~ 7.8%, compared to ~5.5% in the previous year. This growth translated into higher net profits, which stood at ~ 5.0%, up from 3.7% in FY22. However during 6MFY24, gross profit and net profit stood at 9.6% and 5.2% respectively.

Sustainability SPI management has provided forecasts that reflect their strategy and demonstrate the feasibility of their approach. The company intends to continue investing in capital expenditure to improve manufacturing efficiency, to cater to the market.

Financial Risk

Working Capital During FY23, the Company's net working capital days declined and clocked in at 61 days (FY22: 73 days) This is due to enhanced inventory days in the recent year (FY23: 34 days; FY22:25 days). It is mainly due to factors such as increased demand. While the trade payable days have reflected an increasing trend. (FY23: 16 days; FY22:8 days,). However, during 6MFY24, net working capital days stood at 15 days.

Coverages The Company's free cashflows (FCFO) as of FY23 increased to PKR ~283mln (FY22:142mln) owing to the overall increase in sales of the company. Meanwhile, the Company's finance cost clocked at PKR 10mln as of FY23, (FY22:17mln) Furthermore, in FY23 there is an 11.7x debt payable ratio (FY22: 2.5x). However, during 6MFY24 FCFO stood at ~PKR 192mln.

Capitalization The company's capital structure is low leveraged, utilizing long-term borrowings only. The Company has taken advantage of the TERF facility to expand its production capacity and relay on internal cashflow for working capital management.

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Financial Summary
PKR mln

Saigal Packages Industries (Pvt.) Ltd Paper & Packaging	Dec-23 6M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	618	490	512	435
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,333	1,140	821	635
a Inventories	*561*	*404*	*241*	*94*
b Trade Receivables	*515*	*444*	*376*	*384*
5 Total Assets	1,951	1,630	1,333	1,070
6 Current Liabilities	836	688	412	230
a Trade Payables	*710*	*585*	*362*	*167*
7 Borrowings	63	75	139	64
8 Related Party Exposure	136	100	191	276
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	916	766	591	500
11 Shareholders' Equity	916	766	591	500
B INCOME STATEMENT				
1 Sales	2,862	3,500	2,474	1,876
a Cost of Good Sold	*(2,588)*	*(3,188)*	*(2,304)*	*(1,703)*
2 Gross Profit	274	313	170	172
a Operating Expenses	(25)	(38)	(34)	(26)
3 Operating Profit	249	274	136	146
a Non Operating Income or (Expense)	*(17)*	*(18)*	*(8)*	*(9)*
4 Profit or (Loss) before Interest and Tax	231	257	129	137
a Total Finance Cost	*(2)*	*(10)*	*(17)*	*(6)*
b Taxation	*(80)*	*(71)*	*(21)*	*(35)*
6 Net Income Or (Loss)	149	176	91	96
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*192*	*283*	*142*	*157*
b Net Cash from Operating Activities before Working Capita	*190*	*273*	*126*	*151*
c Changes in Working Capital	*8*	*(76)*	*49*	*(63)*
1 Net Cash provided by Operating Activities	198	198	175	88
2 Net Cash (Used in) or Available From Investing Activities	(195)	(26)	(118)	(193)
3 Net Cash (Used in) or Available From Financing Activitie	22	(155)	(10)	107
4 Net Cash generated or (Used) during the period	25	17	47	2
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	63.5%	41.5%	31.9%	0.0%
b Gross Profit Margin	9.6%	8.9%	6.9%	9.2%
c Net Profit Margin	5.2%	5.0%	3.7%	5.1%
d Cash Conversion Efficiency (FCFO adjusted for Working (	7.0%	5.9%	7.8%	5.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	35.5%	25.9%	16.7%	19.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	61	76	81	93
b Net Working Capital (Average Days)	20	27	42	61
c Current Ratio (Current Assets / Current Liabilities)	1.6	1.7	2.0	2.8
3 Coverages				
a EBITDA / Finance Cost	180.6	37.4	19.0	61.3
b FCFO / Finance Cost+CMLTB+Excess STB	18.1	11.7	2.5	8.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-F	0.5	0.6	2.5	2.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equi	17.9%	18.6%	35.9%	40.5%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	1.6%	3.2%	2.8%	0.9%

Credit Rating

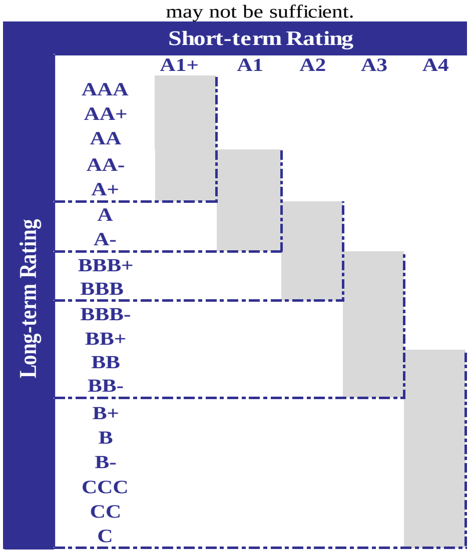
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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 | 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