RATING REPORT

Century Paper & Board Mills Limited

REPORT DATE:
December 1, 2020

RATING ANALYST:
Muhammad Tabish
muhammad.tabish@vis.com.pk

RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A+	A-1	A+	A-1
Rating Date	*December 1, 2020*		*November 21, 2019*	
Rating Outlook	Positive		Stable	
Rating Action	Maintained		Reaffirmed	

COMPANY INFORMATION	
Incorporated in 1984	External auditors: **BDO Ebrahim & Co., Chartered Accountants**
Public Listed Company	Chairman of the Board: **Mr. Iqbal Ali Lakhani**
Key Shareholders (with stake 5% or more):	Chief Executive Officer: **Mr. Aftab Ahmad**
Associated Companies –68.67%	
Modarabas and Mutual Funds – 7.38%	
General Public –13.22%	
Others – 5.10%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria *Industrial Corporates (May 2016)*   ***http://www.vis.com.pk/docs/Corporate-Methodology-201605.pdf***

Century Paper & Board Mills Limited

OVERVIEW OF THE INSTITUTION

Century Paper & Board Mills Limited (CPBM) was incorporated in 1984 as part of Lakson Group of Companies. The sponsor has diversified interest in paper & packaging, soap, detergents and toothpaste, fast food and insurance sectors. American franchises/affiliation includes Colgate-Palmolive Company & McDonalds Corporation.

Profile of Chairman

Mr. Iqbal Ali Lakhani has over 43 years of top management experience in group companies in finance, marketing, manufacturing industry and government relations. He also serves as a chairman of the corporate boards of Lakson Group Companies. Mr. Lakhani received his B.A. from the University of California – Berkeley and he is also a Charter Member of The Indus Entrepreneurs and also served as Director of Pakistan Business Council.

RATING RATIONALE

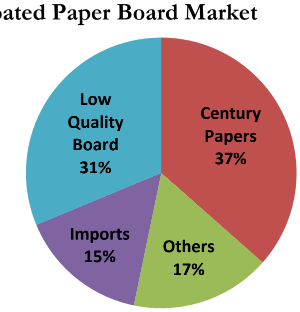
Century Paper & Board Mills Limited (CPBM) with an extensive experience of more than three decades enjoys established market position in paper and packaging industry, particularly in coated board segment. The company has its production facility (mill) in District Kasur, Lahore-Multan Highway with total installed capacity of 240,000 metric tons per annum (MTPA) while overall capacity utilization level has remained on the higher side over the past three years. As per management, the capacity has been increased by 15%-18% on account of modifications in existing plant & machinery along with quality & efficiency enhancement initiatives. Capacity enhancement is primarily in the coated board segment.

Category	Capacity (MT)	Actual Production (MT)	Capacity Utilization (%)
Board	184,000	173,505	94%
Paper	21,500	19,655	91%
Corrugated Boxes	34,500	33,345	97%
Total	**240,000**	**226,505**	**94%**

In addition, CPBM owns three captive power plants which fulfill its entire power requirements while a combination of coal, gas and furnace oil powered sources is employed to arrive at the cheapest and most efficient fuel mix. The company has recently installed solar grid panels for in-house energy consumption in factory.

<u>Product Portfolio</u>

Exhibit 1
Coated Paper Board Market



- **Coated Paperboard –** CPBM's flagship product category and accounts for around four-fifth of total revenue. Despite contraction in overall paper & paperboard industry, coated board market size (high & low quality segments) grew by 1% in 2020 and stood at 430K M. Tons. Of this, two-third comprises high quality segment wherein CPBM has more than 50% market share while the same stands at 37% in terms of overall coated board market size. Given the higher demand for improved quality printing, the quality coated board segment has grown at a faster pace vis-à-vis overall coated board market. This has facilitated CPBM to enhance the customer base in the segment.

- **Paper –** Currently manufacturing two sub-categories of paper ~ machine finished (MF) writing and printing paper and machine glazed (MG) paper which is mainly used for food packaging. This segment contributes around one-tenth to total sales. Certain high margin value added products were added in paper segment during last couple of years.

- **Corrugated Boxes –** Represent around one-tenth of total sales, catering to 4% of industry demand. The segment is characterized by fragmented market structure and high competition from unorganized sector which caters to around 70% of local demand.

Key Rating Divers:

Strong sponsor profile

The parent entity 'Lakson Group' is a reputable conglomerate with strong financial profile and diversified presence in paper & packaging, soap, detergents, toothpaste, printing & packaging, fast food, telecommunication and insurance sectors.

Another challenging year for paper & paperboard industry given shrinking market size; however, demand for coated board remained stable. Overall business risk profile is supported by end clients mostly belonging to FMCG segment and favorable demand supply dynamics.

After 3% drop in market size, paper & paperboard industry further contracted by 6% in the outgoing fiscal year on account of overall economic slowdown and broad based curtailment in consumer demand. However, continued reduction in imports due to rupee devaluation and lower dumping from China neutralized the negative impact of market size contraction on domestic industry. Gradual contraction of imports of coated board along with other benefits (such as availability and lower lead time to customers) provides support to local industry players. End clients mostly belonging to FMCG segment reduces the demand risk where the demand is relatively stable. In addition, Covid-19 crisis has affected consumers' consumption patterns and health consciousness which is expected to favorably impact the packaging industry over medium to long term.

Gradual passing on the cost impacts through pricing revisions have driven growth momentum in topline while short term dip in some of the inputs in international markets translated into higher gross margins. Going forward, profitability growth will be driven by increase in sales volumes.

In FY20, net sales amounted to Rs. 24.3b (FY19: Rs. 22.2b), registering a year-on-year (YoY) growth rate of ~9%. Given that the Company has been operating at nearly full capacities post FY18, growth has been primarily a function of higher average selling prices.

Raw material cost forms the major portion of cost of sales. During outgoing fiscal year, international prices of waste paper and wood pulp showed downward trend. However, most of the local raw material prices escalated during the year. Company imported more waste paper for some part of the year to get advantages of dip in prices.in international market. Resultantly, gross margins improved to 16.2% in FY20 vis-à-vis 12.0% in FY19. Improved topline and margins translated into higher bottom line, reporting at Rs. 1.5b (FY19: Rs. 884.2m) in FY20. Going forward, margins are expected to rationalize while higher sales volume (given increase in capacity), addition of value added products in paper segment, reduction in policy rate and removal of additional custom duty on wood pulp will support the earing profile.

Liquidity profile has depicted improvement while debt coverage metrics are sound.

In absolute terms, Funds from Operations (FFO) amounted to Rs. 2.7b (FY19: Rs. 1.8b) depicting a 49% increase on account of higher overall profitability. This has translated into improved liquidity indicators with Debt Service Coverage Ratio (DSCR) being reported at 2.23x (FY19: 1.44x) in FY20. Similarly, FFO in relation to long-term debt improved considerably to 93.9% (FY19: 43.5%) in FY20. CPBM's working capital cycle necessitates utilization of short term debt with extended time to collect receivables and fund inventory level. In FY20, owing to declining raw material prices, utilization of running finance was lower than previous year. Stock in trade and trade debts represented around 183% of outstanding short-term borrowings.

Leverage indicators have trended downwards and are expected to remain at similar levels over the rating horizon.

Net equity grew by 23% in FY20 and was reported at Rs. 7.6b (FY19: Rs. 6.2b). Cash dividend payout ratio was also reported at 15% (FY19: 20%). Debt profile of the company comprises a mix of short and long term debt with total interest bearing liabilities amounting to Rs. 6.5b (FY19: Rs. 8.4b) as at end-FY20; long term debt constituted 45% of total debt. Moreover, management has planned to obtain TERF loan facility at a concessionary rate up to 5% for planned BMR projects. Leverage indicators have trended downward with gearing reporting below 1.0x and are expected to remain at similar level.

Century Paper & Board Mills Limited **Appendix I**

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**FY18**	**FY19**	**FY20**
Fixed Assets	9,613.4	9,395.3	9,320.6
Stock-in-Trade	2,897.3	3,484.2	3,727.8
Trade Debts	2,366.3	3,046.3	2,907.9
Cash & Bank Balances	415.5	351.7	237.2
Total Assets	17,304.2	18,543.7	18,597.0
Trade and Other Payables	2,215.8	2,528.1	2,893.3
Long Term Debt ***(*incl. current maturity + preference shares for FY18 & FY17)***	4,769.8	4,182.9	2,905.8
Preference shares	901.2	-	-
Short Term Debt (STD)	3,426.7	4,247.3	3,616.8
Paid Up Capital	1,470.2	1,470.2	1,470.2
Total Equity ***(*excluding preference shares for FY18 & FY17)***	5,541.7	6,188.9	7,582.3
INCOME STATEMENT			
Net Sales	18,964.6	22,240.6	24,345.0
Gross Profit	2,505.8	2,662.3	3,936.4
Operating Profit	1,891.6	2,001.1	3,142.8
Profit Before Tax	1,431.2	1,239.0	2,155.7
Profit After Tax	991.9	884.2	1,521.8
RATIO ANALYSIS			
Gross Margin (%)	13.2%	12.0%	16.2%
Net Margin (%)	5.2%	3.9%	6.3%
Trade Debt/Sales (%)	12.5%	13.7%	11.9%
FFO to Total Debt (x)	0.29	0.22	0.42
FFO to LT Debt (x)	0.49	0.44	0.94
Current Ratio	1.14	1.21	1.27
Stock+ Trade Debts/STD (%)	154%	154%	183%
Gearing (x)	1.48	1.36	0.86
Leverage (x)	2.12	1.98	1.45
DSCR (x)	1.86	1.58	2.23
ROAA (%)	6.1%	4.9%	8.2%
ROAE (%)	16.3%	14.0%	22.1%

ISSUE/ISSUER RATING SCALE & DEFINITION Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES					Appendix III
Name of Rated Entity	Century Paper & Board Limited				
Sector	Paper & Board				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: ENTITY				
	1-Dec-20	A+	A-1	Positive	Maintained
	21-Nov-19	A+	A-1	Stable	Reaffirmed
	23-Nov-18	A+	A-1	Stable	Reaffirmed
	11-Dec-17	A+	A-1	Stable	Reaffirmed
	23-May-16	A+	A-1	Stable	Reaffirmed
	15-Dec-14	A+	A-1	Stable	Reaffirmed
	20-Nov-13	A+	A-1	Stable	Upgrade
Instrument Structure	N/A				
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				