RATING REPORT

Century Paper & Board Mills Limited

REPORT DATE:

February 26, 2024

RATING ANALYST:

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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	AA-	A-1	AA-	A-1
Rating Date	*February 26, 2024*		*December 30, 2022*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		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 – 68.66%	
General Public –12.37%	

APPLICABLE METHODOLOGY
VIS Entity Rating Criteria: Corporates https://docs.vis.com.pk/docs/CorporateMethodology.pdf **VIS Rating Scale** https://docs.vis.com.pk/docs/ratingscale.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 44 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 ('CPBML' or 'the Company') commenced operations in 1984, primarily focusing on the manufacturing of diverse paper and board products. This includes multi-ply one-side clay-coated packaging boards, uncoated boards, machine-finished writing and printing papers, machine-glazed papers, and corrugated boxes. The ratings consider the robust sponsor profile, aligning with the majority shareholding held by the Lakson Group, which is involved in various business sectors such as FMCG, fast food, insurance, media, paper, technology, and asset management.

Demand and Supply Dynamics

The paper and packaging industry in Pakistan, integral to the manufacturing sector, faces a multifaceted array of challenges and opportunities. Between FY19 and FY21, the paper packaging segment showed commendable stability in production, driven by the growing demand for sustainable packaging. However, in FY23, the industry experienced a slight production decrease, primarily due to supply and demand-side challenges. These included difficulties in procuring imported raw materials amid global supply constraints and import controls, as well as a demand slowdown caused by inflationary pressures that reduced consumer disposable income. A significant risk for the sector is its heavy reliance on imported raw materials like wood pulp. The cost of these imports has substantially increased largely due to the depreciation of the Pakistani rupee against the US dollar and a rise in the average import price for wood pulp. However, according to the management, the company is able to pass on the impact to their customers.

There has been an uptick in the industry's topline, however margins have suffered on the back of a sharp rise in the cost of key input items, an increase in oil and energy prices, and a significant increase in finance costs. The segment's direct costs, mainly consisting of imported raw materials like wood pulp fibers, cellulose, and cotton, accounted for about 85% of the total costs, making it highly sensitive to exchange rate fluctuations and international price trends.

The industry's overall financial context is shaped by the economic crunch, higher finance costs due to a policy rate increase to 22%, challenges in raw material procurement and supply chain disruptions. These factors reflect the industry's vulnerability to external economic factors. The future outlook of the industry remains cautiously optimistic, contingent on addressing these challenges effectively.

Key Rating Drivers:

Revenue expanded, primarily driven by upward price adjustments, although market demand experienced a downturn, resulting in a decrease in volumes and margins.

The company has consistently demonstrated an upward trajectory in its top-line performance over the years. Notably, there has been a significant increase of ~22% in net sales during FY23, amounting to Rs. 47.7b (FY22: Rs. 39.0b; FY21: Rs. 28.7b). This growth is attributed to elevated product prices. However, the company has taken the hit from the general decline in market demand. With the escalation of inflation over the past year, the purchasing power of individuals has declined, leading to a decline in demand for general products in turn decreasing demand for packaging. This challenging operating environment has placed considerable pressure on the company's volumetric sales and overall market performance. Resultantly, sales volumes experienced a decline of about 14%, to 207.5 MT (FY22: 242.3 MT) in FY23. Export sales remained modest at Rs. 230m (FY22: Rs. 41m; FY21: Rs. 142m) in FY23.

Area	FY22		FY23	
	Sales (Rs.'000')	Volume (M.Ton)	Sales (Rs.'000')	Volume (M.Ton)
Local	38,959,145	242,061	47,430,776	206,462
Export	41,102	232	230,472	1,086
Total	39,000,248	242,293	47,661,248	207,548

As per management, market share for CPBML increased to 40% (FY22: 36%) in FY23 despite lower volumetric sales. Net sales stood at Rs. 11.4b during 1QFY24.

A declining trend in gross margins have been witnessed on a timeline basis (FY23: 9.3%; FY22: 12.8%; FY21: 19.9%). Elevated material and fuel costs led to a 27% rise in the cost of sales compared to the previous year. Operating expenses increased to Rs. 1.3b (FY22: Rs. 1.2b) during FY23. Other income, with a major proportion from sale of scrap, increased to Rs. 275m (FY22: Rs. 187m) in FY23.

Consequently, the operating profit for FY23 declined to Rs. 3.4b (FY22: Rs. 3.9b). The escalation in interest rates and higher average borrowings led to higher finance costs, amounting Rs. 2.0b (FY22: Rs. 676m) in FY23. The company reported lower net profit of Rs. 905m (FY22: Rs. 2.21b; FY21: Rs. 2.96b) in FY23 with net margin of 1.9% (FY22: 5.7%; FY21: 10.3%) in FY23. Net profit for 1QFY24 amounted to Rs. 300m.

Coverages have been on the decline while overall liquidity has been adequate.

Funds from Operations (FFO) declined to Rs. 1.7b (FY22: Rs. 2.9b; FY21: Rs. 4.7b) during FY23. FFO to total debt and FFO to long-term debt decreased to 0.16x (FY22: 0.28x) and 0.26x (FY22: 0.99x) respectively while debt servicing coverage ratio stood at 1.66x (FY22: 1.46x) in FY23. With decline in FFO to Rs. 185m in 1QFY24, coverages further deteriorated. The current portion of long-term financing amounted Rs. 1.5b at end-Sep'23. DSCR was 1.21x during 1QFY24. Meanwhile, trade debts to total sales remained somewhat constant at 0.11x (FY22: 0.12x). Aging of trade receivables is as follows:

Aging of Trade Receivables (Rupees millions)						
	1 - 30 Days	31-60 Days	61-90 Days	91-180 Days	181 - 365 Days	Grand Total
Paper & Board	4268	251	0	0	28	**4547**
Box	644	16	6	2	5	**674**
Grand Total	**4912**	**267**	**6**	**2**	**33**	**5221**

Otherwise, liquidity ratios are considered adequate with current ratio and short-term borrowing coverage at 1.71x (FY22: 1.33x) and 3.42x (FY22: 1.73x) respectively at end-FY23. Cash conversion cycle stood at 70 days (FY22: 66 days; FY21: 58 days) during FY23.

Gearing and leverage indicators have been effectively managed and are projected to improve, going forward.

During FY23, CPBML increased the authorized share capital to Rs.10.0b (FY22: Rs. 4.1b). With issuance of bonus shares, paid-up capital increased to Rs. 4b (FY22: Rs. 2b) by end-FY23. Equity base enhanced on a timeline basis to Rs. 13.1b (FY22: Rs. 12.2b; FY21: Rs. 10.3b) on account of profit retention. Apart from equity, the balance sheet is funded with a mix of long and short-term borrowings. The proportion of long-term financing has increased in the overall financing mix to 62% (FY22: 28.1%) by end-FY23. Gearing and debt leverage have remained range bound at 0.71x and 1.18x (FY23: 0.83x and 1.28x; FY22: 0.85x and 1.36; FY21: 0.53x and 1.07x).

The company mobilized long-term financing from Meezan Bank Limited during FY23 amounting Rs. 4b to rationalize use of short-term working capital limits. The company completed its capacity expansion during the first half of FY24 and now has no plans to mobilize long-term financing in the medium term. BMR projects will be financed through internal capital generation hence the management is projecting gradual decrease in leverage indicators, going forward.

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

Financial Summary				(PKR Millions)
BALANCE SHEET	**FY21**	**FY22**	**FY23**	**1QFY24**
Fixed Assets	9,946	11,204	11,718	11,626
Stock-in-Trade	5,189	8,399	8,755	7,196
Trade Debts	3,259	4,561	5,182	4,921
Cash & Bank Balances	493	760	801	961
Total Assets	21,408	28,796	29,896	29,173
Trade and Other Payables	4,023	4,913	4,609	4,970
Long Term Debt	3,330	2,940	6,770	6,718
Short Term Debt	2,178	7,513	4,071	2,832
Total Debt	5,508	10,453	10,842	9,550
Total Liabilities	11,086	16,569	16,784	15,762
Total Equity	10,322	12,226	13,112	13,411
Paid Up Capital	1,764	2,029	4,017	4,017
INCOME STATEMENT				
Net Sales	28,660	39,000	47,661	11,398
Gross Profit	5,695	4,973	4,442	1,269
Operating Profit	4,652	3,933	3,437	968
Profit Before Tax	4,246	3,257	1,422	491
Profit After Tax	2,960	2,212	905	300
FFO	4,718	2,922	1,742	185
RATIO ANALYSIS				
Gross Margin (%)	19.9%	12.8%	9.3%	11.1%
Net Margin (%)	10.3%	5.7%	1.9%	2.6%
Net Working Capital	4,291	4,353	7,551	7,431
Trade debts/Sales (x) *	0.11	0.12	0.11	0.11
FFO to Total Debt (x) *	0.86	0.28	0.16	0.08
FFO to Long Term Debt (x) *	1.42	0.99	0.26	0.11
Current Ratio (x)	1.60	1.33	1.71	1.75
Debt Servicing Coverage Ratio (x)	3.57	1.46	1.66	1.21
Gearing (x)	0.53	0.85	0.83	0.71
Leverage (x)	1.07	1.36	1.28	1.18
(Stock in Trade + Trade Debts)/STD (x)	3.88	1.73	3.42	4.28
ROAA (%) *	13.8%	8.8%	3.1%	4.1%
ROAE (%) *	28.7%	19.6%	7.1%	9.0%
Cash Conversion Cycle (CCC)	58	66	70	67

**Annualized*

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	Century Paper & Board Limited				
Sector	Paper & Board				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: ENTITY				
	26-Feb-24	AA-	A-1	Stable	Reaffirmed
	30-Dec-22	AA-	A-1	Stable	Reaffirmed
	10-Nov-21	AA-	A-1	Stable	Upgrade
	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.				
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Due Diligence Meetings	Name	Designation	Date		
	Mr. Rashid Dastagir	CFO	January 3, 2024		
	Mr. Tanveer Ahmed	Director - Marketing	January 3, 2024		