VIS
Credit Rating Company Limited

CENTURY PAPER & BOARD MILLS LIMITED

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APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology –Corporates
(https://docs.vis.com.pk/docs/CorporateMethodology.pdf)

Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

PKR. MILLION	FY23	FY24	9MFY25
Net Sales	47,661	42,015	28,981
PBT	1,422	1,173	138
PAT	905	524	70
Paid up capital	4,017	4,017	4,017
Equity (incl. surplus on PPE)	13,112	13,682	13,752
Total Debt	10,480	9,598	12,329
Debt Leverage	1.30	1.16	1.29
Gearing	0.80	0.70	0.90
FFO	2,036	1,284	52
FFO/Total Debt (x)*	0.19	0.13	0.01
NP Margin (%)	1.90%	1.25%	0.24%

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	AA-	A1	AA-	A1
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	May 22, 2025		February 26, 2024	

RATING RATIONALE

The assigned rating reflects Century Paper & Board Mills Limited's (CPBML) established market position, integrated operations, and affiliation with the Lakson Group. The Company maintains a diversified product base across coated and uncoated boards, paper products, and superior qulaity corrugated cartons, supported by backward-integrated manufacturing facilities and an in-house Co-Generation power generation setup.

The business environment remained challenging amid inflationary pressures, raw material cost volatility, and continued import competition. While demand contraction impacted sales volumes across core segments. However, industry-wide pricing pressure and limited pass-through of cost increases compressed margins.

Operational cash flows were affected by reduced sales combined with elevated input costs and increased working capital requirements, particularly due to extended inventory holding period. Although long-term debt has trended downward, reliance on short-term funding has increased to support liquidity. Finance costs remain a key constraint on profitability, however these are expected to decline substantially going forward due to the rapidly declining interest rate scenario in the country.

Liquidity indicators remain satisfactory, supported by prudent working capital management. Management's focus on reducing short-term borrowings and optimizing inventory is expected to support cash flow stability in the medium term.

The rating remains sensitive to the Company's ability to restore profitability growth through better capacity utilization and improved cost efficiencies. Industry recovery, easing monetary conditions, and greater reliance on domestic inputs will be key drivers going forward.

COMPANY PROFILE

Century Paper & Board Mills Limited (CPBML), the flagship company of the Lakson Group, was incorporated in 1984 and commenced commercial production in 1990. It manufactures a wide range of paper and paperboard products, including coated and uncoated boards, writing and printing papers, machine-glazed papers, and corrugated cartons.

The company operates superior qulaity corrugated cartons facility , catering to industries such as FMCG, home appliances, and tobacco. CPBML emphasizes sustainability through use of recycled fiber and energy-efficient processes. Its operations are supported by an Oracle-based ERP system.

GROUP AND SPONSOR PROFILE

Lakson Group is a diversified business group in Pakistan with operations in sectors including paper and paperboard manufacturing, fast-moving consumer goods, media and publishing, information technology and broadband services, insurance, and food services. Key companies within the group include Colgate-Palmolive (Pakistan) Limited, Cybernet (StormFiber), Express Media Group, Century Insurance Company Limited, and SIZA Foods (McDonald's Pakistan).

The Lakson Group comprises both listed and unlisted entities. Group-level strategy is overseen by the sponsoring family, while individual businesses are managed by designated professional teams. The sponsors, the Lakhani family, are the primary shareholders and hold board representation across several group entities.

INDUSTRY PROFILE & BUSINESS RISK

The paper and paperboard industry coupled with packaging industry in Pakistan remains an essential segment of the manufacturing and industrial value chain, supplying core materials to downstream sectors including fast-moving consumer goods (FMCG), pharmaceuticals, e-commerce logistics, textiles, and export packaging. Sector performance has historically followed a cyclical trajectory, heavily influenced by macroeconomic indicators, import dependency, and raw material cost volatility. From FY19 to FY21, the industry maintained relatively stable production volumes, largely supported by a shift toward recyclable and sustainable packaging. However, FY23 marked a challenging period for the industry, as inflationary pressures, raw material cost volatility, and persistent import competition led to demand contraction across key segments.

The industry's structural reliance for major part of raw materials is mainly on domesically available waste paper, agricultural resuduals and partly on imported inputs like Wood pulp and some spaecialized aditives etcIn FY23, raw material cost inflation ranged from 30 to 35 percent, driven by global supply disruptions, elevated shipping rates, and sharp currency depreciation. This input cost pressure translated into margin compression for both integrated and converting units, particularly those with limited pricing power.

In response to macroeconomic conditions, the State Bank of Pakistan reduced the policy rate from 22% in July 2024 to 11% by May 2025, easing interest burdens on manufacturers. However, elevated costs persist, with industrial electricity tariffs rising to PKR 48.7 per kWh in Q1 2025 and freight costs remaining 15-20% above pre-COVID levels due to port congestion and fuel prices volatility.

In terms of operational recovery, FY24 recorded a modest rebound in production, driven by increased demand from e-commerce, FMCG, and secondary packaging for textile and pharmaceutical exports. Industry capacity utilization improved compared to FY23, although it remains below pre-pandemic levels. Despite the increase in volumes, net profitability continues to face pressure. Margin compression persists for mid- to large-scale players in the sector, largely due to elevated input costs, energy tariffs, and limited flexibility in passing through cost increases to end-users.

The outlook for 2025 remains closely linked to three factors: continued currency stability, further monetary easing, and gradual substitution of imported inputs through local recycling initiatives. However, any delay in structural energy reforms or raw material localization may extend the current margin compression trend into the medium term.

Product Portfolio and Capacity

Capacity	FY23			FY24		
In Tons	Installed Capacity	Actual Production	Capacity Utilization	Installed Capacity	Actual Production	Capacity Utilization
Paper and Board	265,000	195,454	74%	265,000	179,326	68%

- Coated Paperboard contributes approximately 80% of CPBM's total volumes and remains the largest segment by revenue. This product is primarily used in packaging applications that require durability and high print quality. In FY24, the coated board segment operated at 80% of its installed capacity. Utilization increased to 87% during H1FY25, reflecting stable output despite a generally subdued demand environment. External factors such as economic conditions and competition from lower-priced imports continue to influence market dynamics.
- Paper, comprising machine-finished writing and printing paper and machine-glazed paper used in packaging, accounts for around 10% of total revenue. The segment has been affected by reduced institutional and educational demand, attributed in part to the growing shift toward digital alternatives.
- Corrugated Boxes represent approximately 12% of the company's revenue. Capacity utilization in this segment stood at 62% in FY24 and

increased to 69% in H1FY25. The corrugation market remains fragmented, with unorganized players supplying a significant share and benefitting from a tax evasion etc.. These market conditions continue to affect pricing and profitability in the organized sector.

- Uncoated Board contributes less than 3% of revenue and has experienced a continued decline in demand. Utilization fell from 27% in FY24 to 24% in H1FY25. The decline is associated with changing customer preferences and a shift toward coated alternatives. As a result, a portion of capacity has been reallocated to other segments.

The consideration for future expansion of installed capacity will be based on the point when utilization rates across current operations reach approximately 90%.

FINANCIAL RISK

Capital Structure

As of March,'25, the Company's equity base increased to PKR 13.75 billion (FY24: PKR 13.68 billion), supported by internal profit retention. Paid-up capital remained unchanged at PKR 4.02 billion. Long-term debt (including current portion) declined to PKR 4.30 billion (FY24: PKR 5.30 billion), reflecting scheduled repayments. As per management, recent capacity expansion has been completed, and ongoing BMR projects will be financed through internal accruals, with no additional long-term borrowing planned.

The Company's gearing and leverage indicators showed gradual improvement in FY24. Gearing reduced to 0.70x (FY23: 0.80x), while total debt-to-equity declined to 1.16x (FY23: 1.30x), primarily due to the retirement of long-term borrowings. However, this improvement was partially offset by a sharp rise in short-term borrowings, which nearly doubled to PKR 8.02 billion by 9MFY25 (FY24: PKR 4.30 billion). The increase was driven by heightened working capital requirements stemming from elevated raw material costs, extended inventory holding periods, and competitive pressures from the unregulated domestic market benefiting from tax advantages. While the reduction in long-term debt has supported improvement in leverage metrics, the doubling of short-term borrowings underscores persistent funding pressures tied to day-to-day operations.

Profitability

The Company's topline trajectory, which had demonstrated consistent growth until FY23, faced significant challenges in FY24 due to a combination of macroeconomic and sector-specific factors. Net sales declined by approximately 12% to PKR 42.0 billion (FY23: PKR 47.7 billion), driven by a 11% reduction in sales volumes to 184.9 thousand MT. Demand contraction was primarily linked to ongoing inflationary pressures that reduced consumer purchasing power, indirectly impacting packaging board demand. Paper consumption declined due to the shift towards digital mediums, although a growing e-commerce sector is expected to provide some support to packaging demand in the future.

Despite the imposition of anti-dumping duties, aggressive dumping, particularly from China, has persisted with circumvention, leading to increased volumes of imports in the domestic market and continued pressure on industry pricing power. In response, the Company kept pricing stable during FY24 to maintain market share, but could only pass on a limited portion of cost increases to customers. As a result, gross margins remained subdued at 9.7% (FY23: 9.3%). Pricing pressure from the unorganized sector, which benefits from tax arbitrage, further compressed margins.

Operating profit declined to PKR 3.02 billion in FY24 (FY23: PKR 3.4 billion), while finance costs remained elevated at PKR 1.85 billion (FY23: PKR 2.0 billion), primarily due to high policy rates and increased working capital borrowings. Net profit dropped to PKR 524 million (FY23: PKR 905 million), resulting in a net margin of 1.25%. While the bottom line remained positive, its sustainability depends on easing financial costs and better pricing dynamics.

In 9MFY25, topline pressures persisted, with net sales recorded at PKR 28.9 billion (9MFY24: PKR 32.8 billion). Sales volumes further declined to 130.55kMT (9MFY24: 143.1kMT), and gross margins narrowed to 7.5%. Operating profit was PKR 1.45 billion, while finance costs remained high at

PKR 1,317 million. Net profit for the period decreased to PKR 70 million (9MFY24: PKR 669 million), reflecting ongoing margin pressures. Despite macroeconomic stabilization, as indicated by lower inflation and improved forex reserves, sectoral challenges persist.

The Company expects net sales to reach PKR 42 billion by the end of FY25, supported by seasonally stronger second-half demand and increased e-commerce activity. The bottom line is expected to remain under pressure, with net margins likely staying around 1%, constrained by high finance costs and continued price competition.

Debt Coverage & Liquidity

The Company's FFO decreased to PKR 1.2 billion in FY24 (FY23: PKR 2.0 billion; FY22: PKR 3.2 billion), mainly due to reduced gross margins and increased finance costs. As a result, key FFO-based coverage ratios weakened, with FFO to total debt falling to 0.13x (FY23: 0.19x) and FFO to long-term debt declining to 0.24x (FY23: 0.32x). This was driven by ongoing operating pressures due to weak market demand, limited pricing power, and heightened competition from import dumping and the unorganized sector.

In 9MFY25, FFO further moderated to PKR 294 million, reflecting lower earnings and higher working capital absorption. As a result, the debt service coverage ratio (DSCR) declined to 0.52x (FY24: 0.99x), indicating reduced capacity to meet debt obligations from internal cash flows. Liquidity remained within acceptable limits, with a current ratio of 1.43x as of March 31, 2025 (FY24: 1.62x), slightly lower due to increased stock-in-trade and receivables. Net Working capital as of balance sheet amounted to PKR 6.11 billion as of end-Mar'25. Management has indicated plans to reduce short-term borrowings by the end-FY25, supported by improved internal cash generation and tighter inventory management.

FINANCIAL SUMMARY					(PKR in millions)
BALANCE SHEET	**FY21**	**FY22**	**FY23**	**FY24**	**9MFY25**
Property, plant and equipment	9,946	11,204	11,718	11,505	10,940
Stock-in-Trade	5,189	8,399	8,755	6,857	8,087
Trade Debts	3,259	4,561	5,182	5,086	5,385
Cash & Bank Balances	493	760	801	788	678
Total Assets	21,408	28,796	30,168	29,537	31,478
Trade Payables	832	1,156	1,293	1,625	1,815
Long Term Debt	3,082	2,500	6,409	5,294	4,303
Short Term Debt	2,178	7,513	4,071	4,304	8,026
Total Debt	5,260	10,013	10,480	9,598	12,329
Total Liabilities	11,086	16,569	17,056	15,855	17,726
Paid Up Capital	1,764	2,029	4,017	4,017	4,017
Total Equity	10,322	12,226	13,112	13,682	13,752
INCOME STATEMENT	**FY21**	**FY22**	**FY23**	**FY24**	**9MFY25**
Net Sales	28,660	39,000	47,661	42,015	28,981
Gross Profit	5,695	4,973	4,442	4,066	2,183
Operating Profit	4,652	3,933	3,437	3,021	1,455
Profit Before Tax	4,246	3,257	1,422	1,173	138
Profit After Tax	2,960	2,212	905	524	70
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**FY24**	**9MFY25**
Gross Margin (%)	19.9%	12.8%	9.3%	9.7%	7.5%
Net Margin (%)	10.3%	5.7%	1.9%	1.2%	0.2%
FFO to Long-Term Debt*	1.58	1.28	0.32	0.24	0.09
FFO to Total Debt*	0.93	0.32	0.19	0.13	0.03
Debt Servicing Coverage Ratio (x)*	5.74	3.35	1.12	0.99	0.52
ROAA (%) *	14.8%	8.8%	3.1%	1.8%	0.3%
ROAE (%) *	33.1%	19.6%	7.1%	3.9%	0.7%
Gearing (x)	0.51	0.82	0.80	0.70	0.90
Debt Leverage (x)	1.07	1.36	1.30	1.16	1.29
Current Ratio	1.59	1.33	1.70	1.62	1.43
Inventory + Receivables/Short-term Borrowings	3.88	1.73	3.42	2.77	1.68

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 Type: Entity				
Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
22-May-2025	AA-	A1	Stable	Reaffirmed
26-Feb-24	AA-	A1	Stable	Reaffirmed
30-Dec-22	AA-	A1	Stable	Reaffirmed
10-Nov-21	AA-	A1	Stable	Upgrade
1-Dec-20	A+	A1	Positive	Maintained
21-Nov-19	A+	A1	Stable	Reaffirmed
23-Nov-18	A+	A1	Stable	Reaffirmed
11-Dec-17	A+	A1	Stable	Reaffirmed
23-May-16	A+	A1	Stable	Reaffirmed
15-Dec-14	A+	A1	Stable	Reaffirmed
20-Nov-13	A+	A1	Stable	Upgrade

Statement by the Rating Team

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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 Conducted

S.No.	Name	Designation	Date
1.	Mr. Rashid Dastagir	CFO	April 18, 2025
2.	Mr. Tanveer Khalid	COO	April 18, 2025