

RATING REPORT

Novatex Limited

REPORT DATE:

March 20, 2025

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
Entity	AA/A1+	AA/A1+
Rating Date	March 20, 2025	February 22, 2024
Rating Outlook/Watch	Stable	Positive
Rating Action	Maintained	Maintained

COMPANY INFORMATION

Incorporated in 1991

External auditors: Kreston Hyder Bhimji & Co. Chartered Accountants, Karachi

Public Limited Company

Chief Executive Officer: Mr. Rizwan Diwan

Key Stakeholders (with stake 5% or more):

Mr. Shabbir Diwan

Mr. Rizwan Diwan

Mr. Saqib Haroon Bilwani

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Novatex Limited

OVERVIEW OF THE INSTITUTION

Novatex Limited ('Novatex' or 'the Company') was incorporated in Pakistan on March 06, 1991, as a private limited company and later converted into an unlisted public limited company. The registered office of Novatex is in Quetta, while its manufacturing facilities are situated in Landhi Karachi, Faisalabad & Sheikhpura.

RATING RATIONALE

Corporate Profile

Novatex Limited (Novatex or the Company) is part of the Gani & Tayub (G&T) group of companies which holds the majority stake in the company. It is engaged in manufacturing and selling of PET resin, PET Preforms, RPET and BoPET films for packaging, bottling, pharmaceuticals, warehousing, and automobiles.

Group Profile

The G&T Group is a well-established and diversified business conglomerate in Pakistan with interests in packaging, thermal energy, textiles, and allied sectors. The Group's core businesses include Novatex Limited, which specializes in PET resin, PET Preforms, RPET and BoPET films, a leading player in the plastics industry. G&T Group companies are recognized for their focus on innovation and export-oriented operations, contributing significantly to Pakistan's industrial and economic growth. The Group's investment, such as Thalnova Power Thar (Private) Limited, further enhances its market presence by tapping into thermal energy generation.

Operational Performance:

Novatex maintains a strong position in the PET Resin market, with approximately 24% of its production allocated for Preforms and BoPET Films. In FY24, PET Resin utilization reached 88%, supported by higher export sales Bottle Grade Chips, along with increased domestic demand of RPET and BoPET Film.

Inflationary pressures and reduced consumer purchasing power further impacted FMCG demand, yet Novatex continues to command a significant market share.

In the BoPET Films segment, Novatex emerged as Pakistan's largest local producer after commissioning a third production line, expanding installed capacity in FY24 placing it well ahead of competitors, and allowing it to meet rising domestic demand and strengthen its export potential. Since additional production capacity came online in FY24, utilization levels dropped. The investment has been made with a view to capture market share in central region being the only manufacturer of the specialized films. The company projects utilization level to increase going forward.

Diversification into Thal Nova Power Plant (Pvt.) Limited (TNTPTL) with an equity investment of 24.7%

Novatex through its wholly owned subsidiary Nova Powergen has invested in Thalnova; which generated a profit of PKR 9.6bn during FY24. Novatex recorded a share of profit from Thalnova, contributing to the overall profitability of Novatex, as reflected in the consolidated accounts.

Industry Update:

The sector's performance in FY24 was closely linked to consumption from key industries, including beverages, fast-moving consumer goods (FMCG), and pharmaceuticals, which generally exhibit low cyclicality. However, PET product consumption varied throughout FY24 compared to the preceding year. This variation was partially driven by a global boycott of certain beverage brands

due to geopolitical factors, though the emergence of local beverage producers mitigated the overall impact for domestic manufacturers.

Growth in PET usage faced additional constraints due to inflationary pressures and reduced consumer purchasing power, particularly in non-essential and premium FMCG categories. Within the BoPET films segment, local utilization remained stable, supported by continued application in food packaging and industrial sectors, particularly pharmaceuticals. Meanwhile, international orders for PET products remained subdued, influenced by ongoing economic uncertainties and geopolitical instability.

In FY25, raw material costs are expected to remain volatile due to geopolitical developments and fluctuations in crude oil prices. Consumption levels are likely to remain stable, with local beverage brands filling the gap left by international products. Steady demand from the pharmaceutical, food, and FMCG sectors is expected to support overall industry stability. However, competition from lower-cost imports may pose challenges. The sector's performance will depend on efficient supply chain management and adaptability to evolving market conditions.

Key Rating Drivers

Business Risk Profile

Industry Risk: Medium to Low

The business risk profile of Pakistan's PET resin, PET Preform, and BoPET films sector is evaluated as medium to low, reflecting considerations such as demand cyclicality, competitive dynamics, and energy sensitivity.

Demand for PET products in Pakistan exhibits seasonality, largely influenced by consumption patterns within the beverage industry. Sensitivity to economic cycles is assessed as low, given the relatively stable demand from the FMCG and beverages sectors, which are less susceptible to economic fluctuations.

The sector encounters competition from both domestic and international market participants. Barriers to entry are moderate, primarily due to the substantial capital investment required to establish manufacturing facilities. Growth trends are shaped by global demand for packaging products and the ongoing transition towards sustainable materials.

Energy sensitivity is a notable factor, given the energy-intensive nature of PET production. Variations in energy prices and supply reliability can affect production costs and operational efficiency.

Market Presence and Contracts

Novatex's supply contracts with key participants in the beverage industry support its market position by ensuring consistent demand for its products, including PET resins and other packaging materials. These contracts facilitate long-term business relationships with globally recognized brands, which contribute to reduced revenue volatility and enhanced operational predictability. The agreements also underscore the Company's ability to adhere to rigorous quality standards and production requirements, reinforcing its standing as a dependable supplier. The association with established industry players provides a competitive advantage, mitigating exposure to market fluctuations and supporting growth opportunities through stable order volumes.

Financial Risk Profile

Novatex's balance sheet footing expanded in FY24, with 10.53% is invested in Long Term Strategic Investments. As part of its terms of arrangement for the demerger in May 2023, Novatex had to transfer investments in listed shares and mutual funds to Nova Frontier Limited as at May 09, 2023.

In FY24, Novatex Limited's revenue increased by 32.55%, primarily driven by a 117% growth in export sales. Exports accounted for approximately 48% of total sales, with local sales contributing the balance 52%. Within export sales, PET resin accounted for 93% of total export revenue in FY24, increasing from 86% in FY23. The growth in PET resin export volumes by 119% was largely facilitated through its subsidiary, which expanded the company's presence in North American markets.

Conversely, local sales, where PET resin contributed 44% to total revenue, contracted 9.44% compared to the same period last year. The decline was primarily driven by lower demand from major beverage customers, who were affected by a consumer boycott due to geopolitical factors. However, increased demand from local brands partially offset the decline in sales from these customers.

The gross profit margin contracted due to a 18.73% increase in raw material procurement costs and a 7.05% rise in fuel and power expenses. This was also reflected in a constrained bottom line which was further impacted by increase in financial burden from increased debt levels amid an elevated interest rate environment.

The debt levels increased during the year, driven by higher long-term borrowings to finance continued expansion initiatives and elevated short-term debt to meet increased working capital requirements. The impact of reduced margins was reflected in a drop in FFO in FY24. The debt service coverage ratio (DSCR) declined in FY24, reflecting the impact of a higher debt burden and elevated interest rates; however, the ratio remained at adequate levels.

Liquidity indicators remained stable; excess liquidity continued to be allocated to capital expenditure the current ratio to declined marginally in FY24.

REGULATORY DISCLOSURES		Appendix I			
Name of Rated Entity	Novatex Limited				
Sector	Chemicals				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	20-03-2025	AA	A1+	Stable	Maintained
	22-02-2024	AA	A1+	Positive	Maintained
	30-12-2022	AA	A1+	Stable	Reaffirmed
	29-07-2021	AA	A1+	Stable	Reaffirmed
	10-07-2020	AA	A1+	Stable	Upgrade
	05-12-2018	AA-	A1	Positive	Maintained
25-09-2017	AA-	A1	Stable	Initial	
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.				
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Due Diligence Meetings Conducted	S.No.	Name	Designation	Date	
	1.	Mr. Rizwan Diwan	Chief Executive Officer	7-Feb-2025	
	2.	Mr. Umair Ilyas	Chief Financial Officer – Novatex Limited		
	3.	Mr. Kafeel Zehri	Chief Financial Officer - Nova Mobility, PharmNova and G&T Tyres		
	4.	Mr. Muhammad Tufail	Divisional Head – Finance		