RATING REPORT

Syntronics Limited (SL)

REPORT DATE:
December 31, 2020

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		**Previous Rating**	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	BBB+	A-2	BBB+	A-2
Rating Outlook	Stable		Stable	
Rating Date	*December 31,'20*		*December 10, '19*	

COMPANY INFORMATION		
Incorporated in 1998		**External auditors:** M/S Shinewing Hameed Chaudhri & Co. Chartered Accountants
Public Limited Company (Unlisted)		**Chairman of the Board:** Mr. Abbas Sarfaraz Khan
Key Shareholders (with stake 5% or more):		**Chief Executive Officer:** Mr. Abbas Sarfaraz Khan
M/S Gran Via Global Limited	34.27%	
Mr. Iskander M. Khan	25.00%	
Mr. Abbas Sarfaraz Khan	24.70%	
M/S Premier Board Mills Limited	11.02%	
Mr. Baber Ali Khan	5.00%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (May 2019)
https://www.vis.com.pk/kc-meth.aspx

Syntronics Limited

OVERVIEW OF THE INSTITUTION

Syntronics Limited is involved in the manufacturing of Ad*Star® Polypropylene Laminated Bottom Block Sacks mainly for cement packaging. The company commenced operations in 1998 as Public Limited Company (Unlisted). Registered office of the company is in Islamabad while manufacturing unit is located in Hattar, KPK.

Profile of Chairman & Chief Executive Officer

Mr. Abbas Sarfaraz Khan is the Chairman of board and Chief Executive Officer of Syntronics Limited. He is also the Chairman of Chashma Sugar Mills Limited and is also CEO of Premier Sugar Mills & Distillery Co. Limited and Arpak International Investment Limited. He also serves as director in other associated companies.

Financial Snapshot

Core Equity: end-FY20: 1.8b; end-FY19: Rs. 1.6b; FY18: end-Rs. 1.5b

Assets: end-FY20: Rs. 4.5b; end-FY19: Rs. 4.0b; end-FY18: Rs. 3.9b

Profit After Tax: FY20: Rs. 148.3m; FY19: Rs. 110.6; FY18: (54.1)m

RATING RATIONALE

Syntronics Limited (SL) is primarily involved in the manufacturing of Ad*Star® Polypropylene Laminated Bottom Block Sacks which is used as packaging material mainly in cement industry. The company also manufactures polypropylene bags used in other industries like sugar, feed, flour, fabric etc., with a market share of 25% in cement bags market and around 8% market share in other sectors. The ratings incorporate the demand of polypropylene packaging bags and company's association with the 'Premier Group'.

Sales have remained largely stable on a timeline basis while share of profit from associate has provided support to the bottomline. The company incurred higher finance cost during outgoing year on account of higher average markup rate. Further, some pressure was witnessed on coverages due to lower cash flows in relation to outstanding obligations. Leverage indicators, though increased marginally, have remained moderate. During the ongoing year, sales have exhibited an upward trajectory in tandem with higher cement sales. However, dependence of the company's major part of revenues on cement sector limits the business risk diversity aspect of the ratings. The ratings also factor in possible impact of currency fluctuation on raw material prices and any adverse changes in regulatory duties. Management of cash flows and maintenance of leverage indicators at comfortable level are considered important, going forward.

Production and capacity utilization: Capacity utilization was recorded at 59% (FY19: 55%) during FY20, where total capacity is based on 365 days and 24 hours shifts. Product portfolio remained mainly focused on Polypropylene laminated bottom block sacks (PP bags) for cement industry. As the company supplies PP bags mainly to cement exporters, production of the same was recorded lower at 60.4 million sacks (FY19: 71.0 million sacks) owing to demand disruptions due to COVID-19 in 4QFY20. Meanwhile, production of bags for other sectors mainly flour, fabric and sugar increased during the review period. Production capacity and capacity utilization are given below:

	FY18	FY19	FY20
Production Capacity (million Bags)	264	264	264
Actual Production (million Bags)	143.5	144.3	154.6
Capacity Utilization	54%	55%	59%

Property, plant and equipment (PP&E) stood at Rs. 1.1b (FY19: Rs. 1.2b) at end-FY20, which also includes right of use assets for initial recognition under IFRS 16. SL has 12.51% equity stake in Chashma Sugar Mills Limited (An associated company). Carrying value of the investment as per equity method is recorded higher at Rs. 911.9m (FY19: Rs. 768.9m) in line with adjustments related to share of profit, other comprehensive income, revaluation surplus on PP&E, share of items directly credited in equity and dividend received.

Topline remained largely stagnant while share of profit from associate provided support to the bottomline: SL reported net sales of Rs. 2.60b (FY19: Rs. 2.56b) during FY20. The company sold 59.6 million sacks in FY20 vis-à-vis 69.0 million in FY19 while average selling price increased marginally to Rs. 26.74/bag (FY19: Rs. 26.54/bag). Stitched bags sale increased to Rs. 928.7m (FY19: Rs. 743.2m) as the company was able to sell 61.1 million bags (FY19: 46.0 million) at a relatively lower rate of Rs. 15.2/bag (FY19: Rs. 16.2/bag) during the outgoing year. Sale of fabric generated Rs. 485.5m (FY19: Rs. 359.8) in revenue on back of increase in quantity to 1.7 million kg (FY19: 1.2 million kg); meanwhile, average selling rate was lower at Rs. 293.5/kg (FY19: Rs. 302.7/kg). Exports constituting cement sacks decreased to Rs. 21.5m (FY19: Rs. 47.9m). Sales to cement sector as percentage of total sales has also decreased to 52% (FY19: 60%). Sector-wise breakdown of sales is given below:

Sector	2018	2019	2020
Cement	66%	60%	52%
Flour	8%	21%	23%
Fertilizer	1%	-	-
Fabric	11%	14%	15%
Sugar	6%	-	3%
Misc.	8%	5%	7%
Total	**100%**	**100%**	**100%**

The company recorded gross profit of Rs. 344.5m (FY19: Rs. 379.2m) during FY20. Gross margins decreased to 13.3% (FY19: 14.8%) primarily on account of lower average selling prices of majority of the products. Additionally, cost of sales increased to Rs. 2.3b (FY19: Rs. 2.2b) in FY20 mainly as a result of higher power and fuel cost along with increase in salaries, wages and benefits. Meanwhile, raw material cost remained largely the same on account of some decrease in average procurement rate of major components; around 95% of the raw material is imported. Distribution cost during the outgoing year remained at Rs. 31.4m (FY19: 31.2m). Administrative expenses were recorded slightly lower at Rs. 67.4m (FY19: Rs. 69.9m) primarily due to decrease in salaries and benefits as a result of lower headcount and sharing part of expenses with its associated companies with respect to combined offices. Other expenses decreased to 12.0m (FY19: Rs. 39.5m) mainly due to lower exchange rate fluctuation loss of Rs. 8.0m (FY19: Rs. 28.6m) as a result of some stability in rupee and US Dollar parity during FY20. Other income of Rs. 5.5m (FY19: Rs. 1.9m) largely constituted scrap sale and gain on sale of assets during FY20. The company incurred higher finance cost of Rs. 207.2m (FY19: Rs. 158.0m) during outgoing year mainly on account of increase in average markup rate on borrowings. Share of profit of associate (net of taxation) amounted to Rs. 163.5m (FY19: Rs. 49.0m) during FY20. Resultantly, net profit was recorded higher at Rs. 148.3m (FY19: Rs. 111.0m) with a higher net margin of 5.7% (FY19: 4.3%) despite higher finance cost and effective tax rate.

Sales during Jul-Nov'20 were recorded at Rs. 1.4b. The management expects the momentum to continue during the ongoing year on back of increase in sale of cement sacks along with some increase in average selling price. The management also contemplates increase in revenue from polypropylene laminated sacks on the back of ban expected on kraft paper bags for cement packaging. Further, Statutory Regulatory Order (SRO) to use food grade polypropylene laminated sacks for wheat flour in Nov'20 to reduce wastage from using low grade bags, would also support the topline, going forward, as per management.

Some pressure on coverages due to lower cash flows in relation to outstanding obligations: Funds from Operations (FFO) decreased to Rs. 125.0m (FY19: Rs. 166.0m) primarily on account of decrease in profit before taxation (without accounting for share of profit of associated company). As a result of decrease in FFO and overall higher borrowings, FFO to total and long-term debt decreased to 0.08x and 0.26x (FY19: 0.14 and 1.41x), respectively. Meanwhile, debt service coverage ratio increased slightly to 1.13x (FY19: 0.94x) on account of lower long-term repayments made during the review period.

Stock in trade stood lower at Rs. 491.0m (FY19: Rs. 536.0m) mainly due to lower raw material inventory of Rs. 264.2m (FY19: Rs. 331.5m) at end-FY20. Meanwhile, trade debts increased significantly to Rs. 1.2b (FY19: Rs. 593.1m) by end-FY20 due to relaxed credit terms in FY20; outstanding trade debts have decreased to Rs. 211m as of now. Other receivables of Rs. 15.6m (FY19: 16.0m) were largely related to rebate receivable on export sales. Tax refunds due from government decreased slightly to Rs. 632.1m (FY19: Rs. 647.6m) mainly due to decrease in sales tax refundable to Rs. 50.2m (FY19: Rs. 82.3m); meanwhile, income tax refundable increased to Rs. 577.7m (FY19: Rs. 561.1m) by end-FY20. The management expects steady funds recovery over years. Cash and bank balances decreased to Rs. 28.5m (FY19: Rs. 84.4m) by end-FY20. Trade and other payables were lower at Rs. 390.9m (FY19: Rs. 460.3m) mainly on account of decrease in bills payable to Rs. 247.9m (FY19: Rs. 354.0m) against import of raw material. Current ratio stood higher at 1.53x (FY18: 1.22x). Coverage of short-term borrowings via stock in trade and trade debts also increased to 1.52x (FY19: 1.07x).

Capitalization indicators remained comfortable despite increase in borrowings: Long-term borrowings including current portion stood higher at Rs. 478.2m (FY19: Rs. 117.5m) at end-FY20. During FY20, the company mobilized a term finance facility of Rs. 400m, repayable in 8 equal half yearly installments ending March, 2025, to meet working capital requirements so as to create some cushion in short-term credit lines. The bank disbursed Rs. 396.6m against this facility in two tranches during FY20. The facility carries markup at the rate of 6 months KIBOR *Plus* 1.20% per annum. Additionally, the company obtained a term finance facility of Rs. 55m under State Bank of Pakistan (SBP) refinance scheme for payment of wages and salaries; an amount of Rs. 18.2m was disbursed against this facility till June 30, 2020. The loan is repayable in eight equal quarterly installments starting from Jan'21 and carries markup at a rate of 3% per annum, payable on a quarterly basis. As the loan is below-market rate of interest, the difference between the fair value of loan on initial recognition and the amount received has been recognized as government grant of Rs. 2.4m and amortised over the term of the loan. Short-term borrowings of Rs. 1.1b (FY19: Rs. 1.1b) were outstanding at end-FY20. The company has aggregate short-term credit lines of Rs. 1.6b (FY19: Rs. 1.6b), carried markup at rates ranging from 9.33% to 15.80% (FY19: 4.63% to 13.88%) during FY20. Additionally, facilities available for opening letter of credit and guarantee from various commercial banks amounted Rs. 1.9b (FY19: Rs. 1.7b), facilities amounting Rs. 1.5b (FY19: Rs. 1.3b) remained unutilized at end-FY20.

Core equity increased to Rs. 1.8b (FY19: Rs. 1.6b) by end-FY20 mainly on back of profit retention. Surplus on revaluation of property, plant and equipment was recorded at Rs. 440.6m (FY19: Rs. 476.1m). Debt leverage and gearing increased slightly to 1.23x and 0.86x (FY9: 1.17x and 0.72x) by end-FY20. Leverage indicators are projected to improve on back of increase in equity base due to internal capital generation and scheduled repayments of long-term loan.

Syntronics Limited | Annexure I

BALANCE SHEET (in million PKR)	FY18	FY19	FY20
Property, Plant and Equipment	1,348	1,213	1,126
Long Term Investment in Associate (Using Equity Method)	526	769	912
Stock in Trade	574	536	491
Trade Debts	502	593	1,163
Tax Refund from Government	671	648	632
Other Assets	175	173	170
Cash & Bank Balances	79	84	29
Total Assets	3,875	4,015	4,522
Trade and Other Payables	323	460	391
Short Term Borrowings	1,185	1,057	1,091
Long Term Loan (Including current maturity)	296	117	478
Other Liabilities	271	273	292
Total Liabilities	2,075	1,908	2,252
Paid-Up Capital	315	315	315
Tier 1 Equity	1,490	1,631	1,829
Revaluation Reserves	310	476	441
Total Equity including Revaluation Reserves	1,800	2,107	2,269

INCOME STATEMENT	FY18	FY19	FY20
Net Sales	2,322	2,556	2,599
Gross Profit	176	379	344
Operating Profit	75	240	239
Finance Cost	111	157	207
Share of Profit from Associate	12	49	163
Profit/(Loss) before Tax	(24)	131	195
Profit/(Loss) after Tax	(54)	111	148

RATIO ANALYSIS	FY18	FY19	FY20
Gross Margin (%)	7.6	14.8	13.3
Net Margin (%)	-	4.3	5.7
Current Ratio (x)	1.14	1.22	1.53
Net Working Capital	240	358	857
Debt Leverage (x)	1.39	1.17	1.23
Gearing (x)	0.99	0.72	0.86
FFO	48	166	125
FFO to Total Debt (%)	3.2	14.2	8.0
FFO to Long Term Debt (%)	16.2	141.5	26.1
Debt Servicing Coverage Ratio (x)	0.38	0.94	1.13
Inventory + Receivables/Short-term Borrowings (x)	0.91	1.07	1.52
ROAA (%)	-	4.2	5.2
ROAE (%)	-	8.5	9.5

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure 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	Syntronics Limited				
Sector	Paper & Packaging				
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				
	31/12/2020	BBB+	A-2	Stable	Reaffirmed
	10/12/2019	BBB+	A-2	Stable	Initial
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 Conducted		**Name**	**Designation**	**Date**	
	1	Mr. Khalid Mahmood	Chief Financial Officer	December 7, 2020	