RATING REPORT

Syntronics Limited

REPORT DATE:
March 29, 2022

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	BBB+	A-2	BBB+	A-2
Rating Outlook	Positive		Stable	
Rating Action	Maintained		Reaffirmed	
Rating Date	*March 29, 2022*		*December 31, 2020*	

COMPANY INFORMATION

Incorporated in 1998	**External auditors:** M/S. Shinewing Hameed Chaudhri Co. Chartered Accountants.
Private Limited Company	**Chairman/CEO:** Mr. Abbas Sarfaraz Khan
Key Shareholders (with stake 5% or more):	
M/S. Gran Via Global Limited – 34.27% Mr. Iskander M. Khan – 25.00% Mr. Abbas Sarfaraz Khan – 24.7% M/S. Premier Board Mills Limited – 11.02% Mr. Baber Ali Khan – 5.00%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

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 in Hattar, KPK.

Profile of Chairman/CEO.
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 CEO of Premier Sugar Mills & Distillery Co. Limited and Arpak International Investment Limited. He also serves as director in other associated companies.

Financial Snapshot
Total Assets: end-HY22: 6.2b; end-FY21: Rs. 5.5b; FY20: end-Rs. 4.5b

Equity: end-HY22: Rs. 2.2b; end-FY21: Rs. 2.0b; end-FY20: Rs. 1.8b

Profit After Tax: HY22: Rs. 195m; FY21: Rs. 144m; FY20: 148m

RATING RATIONALE

Company Profile
Syntronics Limited (SL) is primarily involved in the manufacturing of Ad*Star® Polypropylene Laminated Bottom Block Sacks used as packaging material mainly in cement industry. The company also manufactures polypropylene bags for its clients in the sugar, poultry feed, and flour industries. The ratings draw comfort from the company's association with the 'Premier Group', positive demand dynamics, and ongoing expansion plans. In an anticipation of ban on cement paper bags and focus towards securing the orders for entire production line of major customers, the company has recently entered into expansion phase entailing construction of new unit to increase the production of cement sacks. In addition, the company is also establishing a new unit for the production of Biaxially Oriented Polypropylene (BOPP) printing unit.

Production capabilities
by higher demand from cement, flour, and fabric clients, overall capacity utilization increased to 99% (FY21: 86%; FY20: 70%) during HY22. The company also completed the balancing, modernization, and replacement (BMR) of existing facility in December'2021 in order to replace the aging machinery, resulting in net production efficiency gain of 4m bags per month. Therefore, the total production capacity of the company now stands at 251.5m bags per annum.

SL has recently embarked on expansion plan entailing construction of unit-5 adjacent to its existing factory location. Civil work is in progress and L/Cs have been opened to import the machinery from Austria. Unit-5 is expected to become operational by end-July'2022, which will further increase the capacity of the company. As per the management, cement industry currently uses kraft paper bags and polypropylene laminated sealed block sacks in a ratio of around 50:50. Since kraft paper bags carry higher health and environmental hazards and SRO to ban the same has already been issued and implementation is expected anytime soon, the management is expecting notable increase in demand for polypropylene laminated sacks for all the manufacturers on a pro-rata basis.

In order to diversify its customer base and penetrate rice and poultry feed mills bags segment, the company is in process establishing BOPP printing unit, having printing capacity 36m bags per annum (this will not add to bags production capacity, but rather will enable end-to-end bags manufacturing and printing capabilities). The company has already started taking rice and poultry feed mills onboard and expects to capture reasonable market share on account of better-quality printing. Both cost projects will be funded through 80% debt and 20% equity.

Sales and profitability
Net sales of the company increased to Rs. 3.81b (FY20: Rs. 2.60b) mainly on account of higher volumetric sales during FY21. Underpinned by healthy cement demand from construction sector, the company's laminated cement sacks sales increased to Rs. 2.45b (FY20: Rs. 1.60b) due to higher volumetric sales of 101.5m bags (FY20: 60.5m bags), though the average price was reduced to Rs. 24.1/bag (FY20: Rs. 26.7/bag) in order to gain more market share. However, stitched bags sales declined to Rs. 768m (FY20: Rs. 929m) owing to lower volumetric sales of 48.4m bags (FY20: 60.7m bags) as the company remained focused on meeting cement sector demand. Meanwhile, revenue from fabric sales increased slightly to Rs. 515m (FY20: Rs. 486m) as the impact of higher volumes was partially offset by lower average selling price during the year.

The company reported gross profit of Rs. 507m (FY20: Rs. 344m) with stable gross margins of 13.3% (FY20: 13.3%) as cheaper raw materials led lower selling prices during FY21. Majority of raw materials including PPG tape yarn, PPG coating, and low-density polyethylene are imported and accounted for three-fourth of overall cost mix, followed by fuel & power and salaries & wages expenses. Increase in operating expenses to Rs. 150m (FY20: Rs. 111m) was mainly led by inflationary adjustment in staff salaries, freight & forwarding charges, workers' participation fund expense and exchange losses during

FY21. Profitability of the company for the year was impacted by share of loss from associated amounting to Rs. 31m vis-à-vis share of profit amounting to Rs. 163.5m during FY20. The aforementioned impact of loss was partially offset by some reduction in financial charges to Rs. 124m (FY20: Rs. 207m) mainly due to lower interest rates. Resultantly, the company reported net profit of Rs. 144m (FY20: Rs. 148m) as the decline in net margins to 3.8% (FY20: 5.7%) subsided the impact of higher sales during FY21. Going forward, burden of finance cost is expected to elevate on account of increase in interest rates and mobilization of new borrowings for ongoing expansion plan.

While cement industry suffered a decline 4.1% decline in volumetric sales during HY22, SL reported net sales of Rs. 2.57b on account of sustained volumes and higher average selling price of cement sacks during the period. Gross profit of the company amounted to Rs. 392m on account of higher sales and improved gross margins of 15.2% during HY22. Increase in finance cost to Rs. 81m was mainly led by both higher borrowings and interest rates. Despite that, the company reported higher net profit of Rs. 195m during HY22.

Liquidity

Funds from operations (FFO) improved to Rs. 280m (FY20: Rs. 125m) primarily on account of higher profits without accounting for share of loss from associated company. With debt service coverage ratio of 2.07x (FY20: 1.16x) and FFO-to-total debt ratio of 0.16x (FY20: 0.08x), the company's capacity to meet financial obligations is considered adequate. Working capital cycle was recorded at 128 days (FY20: 180 days) mainly on account of improvement in receivable days while the company stretched payables to 97 days (FY20: 63 days) to match with the increased inventory days of 118 days (FY20: 80 days) during FY21. Current ratio decreased slightly to 1.41x (FY20: 1.53x) mainly due to higher payables and short-term borrowings at end-FY21. Coverage of short-term borrowings via stock in trade and receivables stood at 1.81x (FY20: 1.52x) at end-FY21.

In the absolute terms, trade receivables stood at Rs. 1.12b (FY20: Rs. 1.16b) at end-FY21. The subsequent increase in receivables to Rs. 1.55b by end-HY22 was mainly due to relaxed credit term allowed DG Cement and Maple Leaf Cement due to their financial stretch. On average cement clients made payments in 90 days to 120 days during HY22 vis-à-vis the company's credit policy of 30 days to 40 days. Meanwhile, flour mills cleared payments in 60 days vis-à-vis the company's credit policy of 45 days. Going forward, the company plans to reduce its collection period in order to improve working capital cycle.

Capitalization

Paid up capital of the company stood at Rs. 315m at end-HY22. Increase in tier-1 equity to Rs. 2.20b (FY21: Rs. 2.0b) was driven by retention of profits during the period. Revaluation surplus amounted to Rs. 499m (FY21: Rs. 499m) at end-HY22. Total liabilities were recorded at Rs. 3.46b (FY21: Rs. 2.96b), with trade & other payables and bank borrowings being the largest components. In line with increased working capital requirements to support growth targets, short-term borrowings stood higher at Rs. 1.57b (FY21: Rs. 1.21b) at end-HY22. Outstanding balance of long-term borrowings was recorded higher at Rs. 692m (FY21: Rs. 508m) as the company mobilized temporary economic relief facility (TERF) of Rs. 200m to fund the BMR of existing facility during HY22. Resultantly, gearing and debt leverage ratios increased to 1.03x (FY21: 0.86x) and 1.58x (FY21: 1.48x) by end-HY22.

Syntronics Limited — Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**HY22**
Property, Plant & Equipment	1,213	1,126	1,139	1,446
Long-term Investment	769	912	959	959
Stock-in-Trade	536	491	1,068	1,144
Trade Debts	593	1,163	1,124	1,551
Tax Refund Due from Govt.	648	632	768	785
Other Assets	173	170	224	221
Cash & Bank Balances	84	29	177	51
Total Assets	**4,015**	**4,522**	**5,459**	**6,157**
Trade and Other Payables	460	387	883	866
Short Term Borrowings	1,057	1,091	1,213	1,567
Long-Term Borrowings *(Inc. current matur)*	117	478	508	692
Other Liabilities	273	296	355	337
Tier-1 Equity	**1,631**	**1,829**	**2,002**	**2,196**
Revaluation Surplus	476	441	499	499
Paid-Up Capital	315	315	315	315
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**HY22**
Net Sales	2,556	2,599	3,813	2,573
Gross Profit	379	344	507	392
Share of Profit from Associate	49	163	-31	n/a
Profit Before Tax	131	195	225	229
Profit After Tax	111	148	144	195
FFO	166	125	280	n/a
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**HY22**
Gross Margin (%)	14.8	13.3	13.3	15.2
Net Margin (%)	4.3	5.7	3.8	7.6
Current Ratio (x)	1.22	1.53	1.41	1.44
Net Working Capital	358	857	978	1,146
FFO to Long-Term Debt (x)	1.42	0.26	0.55	n/a
FFO to Total Debt (x)	0.14	0.08	0.16	n/a
Debt Servicing Coverage Ratio (x)	0.94	1.16	2.07	n/a
Gearing (x)	0.72	0.86	0.86	1.03
Debt Leverage (x)	1.17	1.23	1.48	1.58
Inventory + Receivables/Short-term Borrowing	1.07	1.52	1.81	1.72

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 — Annexure III

Name of Rated Entity	Syntronics Limited
Sector	Paper & Packing
Type of Relationship	Solicited
Purpose of Rating	Entity & Instrument Ratings
Rating History	see table below
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. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.
Due Diligence Meetings Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
29/03/2022	BBB+	A-2	Stable	Maintained
31/12/2020	BBB+	A-2	Stable	Reaffirmed
10-12-2019	BBB+	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Khalid Mehmood	CFO	February 25, 2022