

## RATING REPORT

### Syntronics Limited

#### REPORT DATE:

April 8, 2024

#### RATING ANALYSTS:

Saeb Muhammad Jafri

[saeb.jafri@vis.com.pk](mailto:saeb.jafri@vis.com.pk)

Abdul Kadir

[kadir@vis.com.pk](mailto:kadir@vis.com.pk)

#### 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	Stable		Stable	
Rating Action	Reaffirmed		Maintained	
Rating Date	April 8, 2024		May 15, 2023	

#### COMPANY INFORMATION

Incorporated in 1998	External auditors: M/S. Shinewing Hameed Chaudhri Co. Chartered Accountants.
Public Limited Company (Unlisted)	Chairman: Mr. Abbas Sarfaraz Khan
Key Shareholders (with stake 5% or more):	
M/S. Gran Via Global Limited – 34.27%	
Mr. Iskander Mohammed 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 Methodology – Industrial Corporates

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

#### RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

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

**Syntronics Limited**

**OVERVIEW OF THE INSTITUTION      RATING RATIONALE**

**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**

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.

**Corporate Profile**

Syntronics Limited (‘SL’ or ‘Syntronics’ or ‘the Company’) was incorporated in 1998 as a Public Company and is principally engaged in manufacturing of Hermetically Sealed Laminated Polypropylene Woven Sacks and Flexible Stitched Bags. The head office of the Company is located at 20-A Markaz F-7, Islamabad while the registered office is situated at plot no. 13-16 no. 1, Phase I, Industrial Estate, Gadoon Amazai, Khyber Pakhtunkhwa. The Company’s primary sponsors are the ‘Premier Group’ which has exposure mainly in the sugar industry. Moreover, the Company has a 12.5% shareholding in its associated company, Chashma Sugar Mills Ltd.

**Capacity and operations**

The Company’s manufacturing facilities are located at Hattar, District Haripur, Khyber Pakhtunkhwa. The production capacity has remained stable in recent years, maintaining consistent levels at 203.5m bags annually. During FY23 capacity utilization eroded slightly on account of demand constraint from the cement industry. This is attributed to overall economic slowdown and uncertainty in regulatory framework including monetary policy, taxation, and amendments in real estate sector policies. Breakdown of capacity utilization can be seen below:

Plant Capacity and Production	FY21	FY22	FY23
<b>Production Capacity (mln bags)</b>	203.5	203.5	203.5
<b>Actual Production (mln bags)</b>	174.4	189.7	179.8
<b>Capacity Utilization (%)</b>	<b>85.7%</b>	<b>93.2%</b>	<b>88.3%</b>

Additionally, the recently installed printing unit for Biaxially Oriented Polypropylene (BOPP) commenced operations during the fiscal year 2023. A utilization of 75.1 metric tons out of its 2400 metric tons capacity was recorded. This facility primarily manufactures flexible stitched bags crucial for packaging flour and rice, in addition to producing FFS reel, which serves the FMCG sector. The project incurred a total cost of Rs. 120m, with Rs. 75m funded through debt and the remaining amount sourced from internal capital.

**Key Rating Drivers**

**Medium to high business risk profile characterized by market fragmentation, economic cyclicality, and vulnerability to foreign exchange rates due to heavy reliance on imported materials.**

Ratings take into consideration the packaging sector's medium to high business risk profile in Pakistan. This profile is characterized by significant competition from numerous medium-sized enterprises offering comparable products, thereby heightening competitive pressures on pricing and market share. Furthermore, depending on the type of packaging, exposure to cyclicality may also differ. In case of Syntronics Limited, its dependency on the cement sector exposes it to economic cyclicality, thereby exacerbating risk factors during periods of economic downturns.

On the supply side, the industry is heavily reliant on imports of their raw materials, thereby subjecting it to foreign exchange rate vulnerabilities. Complications associated with import processes and the initiation of Letters of Credit (LC) further compound the risk profile for the industry. Moreover, these materials are particularly susceptible to variations in global oil prices, thereby amplifying SL's exposure to price fluctuations and exchange rate uncertainties.

**Heightened client concentration risk, mitigated by long-standing relationships.**

The client concentration risk of the Company is considered elevated with ~64% of total net sales attributed to the top ten clients during FY23. Despite this concern, the Company benefits from long-term contracts with these clients. SL fosters partnerships with major cement manufacturers, notably the Fauji Group, with whom SL has had a long-standing relationship and used to have an exclusive supplier arrangement. Nevertheless, the considerable reliance on its top 10 clients decreased to 41% during the first half of FY24, thereby reducing the level of exposure to revenue concentration risk.

**Exposure to foreign exchange rate risk high with elevated proportion of imported raw materials.**

Around 88% of the raw materials utilized by SL are sourced through imports, thereby subjecting the company to foreign exchange rate vulnerabilities. Notably, PPG Tape Yarn, constituting 67% of these imports, serves as the principal raw material essential to operations. Moreover, these materials are particularly susceptible to variations in global oil prices, thereby amplifying SL's exposure to price fluctuations and exchange rate uncertainties.

Moreover, SL's associated company, Chashma Sugar Mills Ltd. (CSML), helps circumvent import restrictions due to its export base, providing some resilience. However, reliance on imported raw materials and exposure to foreign exchange fluctuations remain significant risks for SL's operations.

**Topline growth supported by price increases, despite demand constraints. Gross margins benefited from inventory gains while net margins remained restrained by escalating finance costs.**

In FY23, the Company's topline exhibited relative stability, achieving a growth of 15.8% despite notable demand constraints from the cement industry, attributed to a slowdown in construction activity and decreased cement offtakes. This growth is mainly attributed to price adjustments to offset escalating cost pressures. Moreover, contributions from new flexible stitched bags segment provided support to the Company's volumes, offsetting the demand contraction for sacks from the cement industry. Additionally, due to increasing prices, the Company benefited from inventory gains and reported an improved gross margin of 13.4% (FY22: 10.7%). This trend persisted into the current fiscal year, with a reported gross margin of 15.6% during 6MFY24.

However, growth in gross margins has not translated into improved net margins, as they remained subdued by an 825-bps increase in domestic policy rates during the period. Net margins reported at 1.2% (FY23: 1.4%, FY22: 1.6%) in 6MFY24.

**With increased operational cashflows, coverage metrics improve to adequate levels.**

As a result of improvement in topline and operational margins, the Company's coverage metrics reported improvement to levels commensurate with assigned ratings in FY23. The debt service coverage ratio (DSCR) reached an adequate level of 1.1x (FY22: 0.8x) during FY23. Furthermore, SL's FFO to total debt and FFO to long-term debt also improved to 13.0% (FY22: 5.1%) and 58.2% (FY22: 22.1%), respectively. These metrics continued to improve in 6MFY24, with the DSCR, FFO to total debt, and FFO to long-term debt reaching 1.4x, 17.5%, and 112.6%, respectively. This improvement was sustained by healthy operational cash flows supported by elevated gross margins.

#### **Adequate capitalization profile.**

The Company maintained an adequate capitalization profile between FY20-FY22 with an average gearing and leverage ratios of 1.0x and 1.6x, respectively. In FY23, SL managed to improve these metrics to around this average from a gearing of 1.4x and leverage of 2.1x in FY22, supported by improved operational cashflows and a resultant decrease in short-term debt drawdown. However, during the 6MFY24 period, the Company reported a gap in the working capital, on account of a significant reduction in trade and other payables, which it bridged with its short-term debt facilities. Consequently, the Company's gearing ratio deteriorated slightly to 1.2x (FY23: 1.0x), while leverage remained unchanged at 1.6x (FY23: 1.6x) in 6MFY24.

#### **Adequate liquidity profile.**

The Company has maintained a historically stable liquidity profile, with an average current ratio of 1.4x between FY20-FY22. However, after dipping to 1.2x in FY22, the current ratio has remained at this level as of 6MFY24. Meanwhile, the Company short-term debt coverage also remained adequate, improving slightly to 1.4x (FY22: 1.3x) in FY23, before deteriorating in 6MFY24 to 1.2x, albeit remaining within satisfactory levels.

#### **Consideration for future review ratings**

Going forward, ratings will remain sensitive to further improvement in the Company's profitability and coverage metrics. Moreover, enhancement of its capitalization and liquidity metrics will also be important considerations for future reviews.

**Syntronics Limited**
**Annexure I**

<b>FINANCIAL SUMMARY</b>					
<i>(PKR Millions)</i>					
<b>Balance Sheet</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>1HFY24</b>
Property, plant and equipment	1,125.9	1,139.2	1,735.9	1,648.8	1,607.8
Stock-in-trade	491.0	1,067.7	1,386.1	1,165.6	1,408.8
Trade debts	1,162.6	1,123.6	1,558.9	1,228.8	1,188.2
Cash & Bank Balances	28.5	177.3	77.0	122.5	11.5
<b>Total Assets</b>	<b>4,521.7</b>	<b>5,459.0</b>	<b>7,063.8</b>	<b>6,743.6</b>	<b>6,691.9</b>
Trade and Other Payables	387.1	882.5	987.4	930.4	424.3
Long-term Debt (incl. current portion)	467.6	494.4	671.1	495.6	413.2
Short-Term Borrowings	1,091.4	1,212.9	2,233.9	1,731.6	2,247.6
<b>Total Debt</b>	<b>1,559.0</b>	<b>1,707.3</b>	<b>2,905.0</b>	<b>2,227.3</b>	<b>2,660.8</b>
<b>Total Liabilities</b>	<b>2,252.4</b>	<b>2,958.7</b>	<b>4,342.1</b>	<b>3,660.9</b>	<b>3,579.5</b>
Paid up Capital	315.2	315.2	315.2	315.2	315.2
Equity (excl. Revaluation Surplus)	1,828.7	2,001.6	2,110.3	2,245.2	2,274.9
<b>Income Statement</b>					
<b>Net Sales</b>	<b>2,598.7</b>	<b>3,812.9</b>	<b>5,102.0</b>	<b>5,909.1</b>	<b>2,387.6</b>
Gross Profit	344.5	507.5	546.9	792.5	371.8
Operating Profit	402.6	349.2	376.8	619.4	318.9
Finance Costs	207.2	124.1	229.9	465.9	260.8
Profit Before Tax	195.5	225.1	146.9	153.5	58.1
Profit After Tax	148.3	144.1	82.3	83.0	29.7
<b>Ratio Analysis</b>					
<b>Gross Margin (%)</b>	<b>13.3%</b>	<b>13.3%</b>	<b>10.7%</b>	<b>13.4%</b>	<b>15.6%</b>
<b>Operating Margin (%)</b>	<b>15.5%</b>	<b>9.2%</b>	<b>7.4%</b>	<b>10.5%</b>	<b>13.4%</b>
<b>Net Margin (%)</b>	<b>5.7%</b>	<b>3.8%</b>	<b>1.6%</b>	<b>1.4%</b>	<b>1.2%</b>
<b>Funds from Operation (FFO)</b>	<b>125.0</b>	<b>280.0</b>	<b>148.4</b>	<b>288.7</b>	<b>232.5</b>
<b>FFO to Total Debt* (%)</b>	<b>8.0%</b>	<b>16.4%</b>	<b>5.1%</b>	<b>13.0%</b>	<b>17.5%</b>
<b>FFO to Long Term Debt* (%)</b>	<b>26.7%</b>	<b>56.6%</b>	<b>22.1%</b>	<b>58.2%</b>	<b>112.6%</b>
<b>Gearing (x)</b>	<b>0.9</b>	<b>0.9</b>	<b>1.4</b>	<b>1.0</b>	<b>1.2</b>
<b>Leverage (x)</b>	<b>1.2</b>	<b>1.5</b>	<b>2.1</b>	<b>1.6</b>	<b>1.6</b>
<b>Debt Servicing Coverage Ratio* (x)</b>	<b>1.3</b>	<b>1.5</b>	<b>0.8</b>	<b>1.2</b>	<b>1.4</b>
<b>Current Ratio</b>	<b>1.5</b>	<b>1.4</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>
<b>(Stock in trade + trade debts) / STD (x)</b>	<b>1.6</b>	<b>1.7</b>	<b>1.3</b>	<b>1.4</b>	<b>1.2</b>
<b>Return on Average Assets* (%)</b>	<b>3.3%</b>	<b>2.9%</b>	<b>1.3%</b>	<b>1.2%</b>	<b>0.9%</b>
<b>Return on Average Equity* (%)</b>	<b>8.1%</b>	<b>7.5%</b>	<b>4.0%</b>	<b>3.8%</b>	<b>2.6%</b>

\*Annualized, if required

REGULATORY DISCLOSURES				Annexure II	
<b>Name of Rated Entity</b>	Syntronics Limited				
<b>Sector</b>	Paper & Packaging				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Ratings				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	Apr-08-2024	BBB+	A-2	Stable	Reaffirmed
	May-15-2023	BBB+	A-2	Stable	Maintained
	Mar-29-2022	BBB+	A-2	Positive	Maintained
	Dec-31-2020	BBB+	A-2	Stable	Reaffirmed
	Dec-10-2019	BBB+	A-2	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>		<b>Date</b>	
	Mr. Rashid Abbas	DG Finance		April 01, 2024	
	Mr. Naveed Irshad	AGM Finance and Taxation			