VIS
Credit Rating Company Limited

SYNTRONICS LIMITED

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

RS. MILLION	FY23	FY24	1HFY25
Net Sales	5,909	4,812	2,778
PBT	153	-114	597
PAT	83	-111	422
Paid up call	315	315	315
Equity (incl. surplus on PEE)	837	944	944
Total Debt	2,239	2,246	2,083
Debt Leverage	1.63	1.60	1.85
Gearing	1.00	1.03	1.09
FFO	289	40	290
FFO/Total Debt (x)*	12.89%	1.78%	27.88%
NP Margin	1.4%	-2.3%	15.2%

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	BBB+	A2	BBB+	A2
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	May 23,2025		April 08,2024	

RATING RATIONALE

The assigned rating reflects the Company's medium to high business risk profile, primarily due to its significant dependence on imported raw materials. The rating also incorporates the ongoing strategic shift, as the Company plans to focus more on stitched bags and flexible packaging, transitioning away from sacks, amid declining demand from major customers who are establishing in-house packaging facilities.

Assigned rating also incorporates the Company's financial profile, the Company's topline declined in FY24, due to lower demand for sacks from the cement sector amid a broader economic slowdown, as well as a shift by major cement players toward developing in-house packaging facilities. With the shift in the Company's strategy towards stitched and flexible stitched bags, the Company's topline is anticipated to show improvement, going forward. The Company's bottom line turned negative in FY24, mainly driven by elevated financial charges, however, it rebounded strongly during 1HFY25, on the back of one time gain from sale of plant and machinery coupled with decline in finance costs amid a falling policy rate.

Liquidity and coverage metrics are considered adequate. Coverage metrics reflect a satisfactory debt service coverage ratio (DSCR).

COMPANY 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 fabric and Sacks, and Flexible Stitched catering mainly to the cement, sugar, flour, fertilizer, and food industries. Head office of the Company is located in Islamabad while the registered office is situated at Industrial Estate, Gadoon Amazai, Khyber Pakhtunkhwa. The Company's primary sponsor is 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.

INDUSTRY PROFILE & BUSINESS RISK

The business profile of packaging sector is assessed as medium to high. This is characterized by significant competition from numerous medium-sized enterprises offering comparable products, thereby heightening competitive pressures on pricing and market share. 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.

The Company operates in the plastic and paper packaging segment, which is a vital contributor to the economy, serving as an essential ancillary to key sectors such as cement, food, and consumer product. However, its performance remains closely linked to the overall performance of these industries. While food and consumer products sectors exhibit low cyclicality, cement sector is more exposed to economic cyclicality. As a result, the overall exposure of the paper and plastic packaging sector to economic cyclicality remains limited. During FY24, the sector was adversely affected by an overall economic slowdown in business activities as result of high inflation, elevated interest rates, and increased taxation, coupled with an uncertain demand outlook. Despite these challenges, the sector is expected to witness gradual recovery in line with improving macroeconomic indicators and a potential revival in industrial activity.

However, during HFY25, Pakistan's economy experienced a steady recovery following the successful disbursement of first installment of IMF's Extended Fund Facility (EFF). Additionally, monetary easing, receding inflation and stable local currency have provided much relief to the industry. Nevertheless, the industrial sector continues to face slowdown in demand, which has impacted packaging sector as well. High cost of doing business, particularly energy prices and increased tax rates, have significantly impacted consumer buying power.

Going forward, the sector performance will continue to depend on the performance of key industries. While macroeconomic indicators have improved, exposure to volatility in international oil prices and exchange rate uncertainties continue to pose challenges for the sector.

Product Profile & Capacity

During FY24, capacity utilization for the Company's key product—cement sacks—declined to 42% from 85% in the preceding year. This decline was mainly attributed to reduced economic activity in the cement sector, along with lower demand from major clients, including Fauji Cement Company Limited, Maple Leaf Cement Factory Limited, and D.G. Khan Cement Company Limited. These Companies are in the process of establishing their own in-house packaging facilities, thereby reducing their dependence on SL. As a result, a further decline in capacity utilization for this product line is anticipated going forward. In response, the Company revised its strategy in FY24 to focus more on stitched bags. This shift is reflected in the improved capacity utilization rates for conventional stitched bags and BOPP stitched bags, recorded at 66% (FY23: 3%) and 23% (FY23: 3%), respectively.

FY23				
	Unit	**Installed Capacity**	**Production**	**Capacity Utilization**
Cement Sacks of 3.5mm tape	million sacks	121.5	102.923	85%
Conventional bags of 2.6mm tape	million bags	82	54.261	66%
Fabric	million meters	N/A	23.238	N/A
BOPP Stitched bags, FFS films & fabrics	Metric Ton	2400	75.115	3%
FY24				
	Unit	**Installed Capacity**	**Production**	**Capacity Utilization**
Cement Sacks of 3.5mm tape	million sacks	121.5	51.062	42%
Conventional bags of 2.6mm tape	million bags	82	61.611	75%
Fabric	million meters	N/A	22.310	N/A
BOPP Stitched bags, FFS films & fabrics	Metric Ton	2400	450.428	23%

FINANCIAL RISK

The assigned ratings incorporate the Company's financial risk profile reflected in declined sales in FY24 due to reducing demand for sacks. To offset this drop in demand, the Company shifted its focus toward increased production of stitched and flexible stitched bags, as reflected in sales reported during 1HFY25. The Company reported negative bottom line in FY24, mainly due to higher financial charges. However, it rebounded strongly, largely on the back of one time gain on sale of plant and machinery. Capitalization indicators remain at adequate levels, reflecting sufficiency of equity to cover debt and liabilities. The Company's liquidity profile is considered adequate, and coverage metrics reflect a satisfactory debt service coverage ratio (DSCR), supported by improved profitability and a decline in finance costs amid a falling policy rate.

Capital Structure

The capitalization indicators remained at adequate levels, with the gearing and leverage ratios reported at 1.09x and 1.85x, respectively, as at Dec'24 (Jun'24:

1.03x and 1.60x; Jun'23: 1.00x and 1.63x). The slight deterioration in these ratios is attributable to a decline in equity, which fell to PKR 1,913.3m (Jun'24: PKR 2,185m; Jun'23: PKR 2,245m), excluding the revaluation surplus. Reduction in equity is attributable primarily due to dividend payouts despite the Company posting a profit for the year.

Short-term borrowings continued to dominate the Company's debt profile, comprising ~86% of total debt, and are primarily utilized to meet working capital requirements. Long-term financing, however, declined to PKR 179.7m as at Dec'24 (Jun'24: PKR 193.3m; Jun'23: PKR 325.7m).

Going forward rating are dependent upon aligning the payouts while maintaining and improving the capitalization profile of the Company.

Profitability

The topline of the Company declined by ~24% in FY24, dropping from PKR 5.9b to PKR 4.8b due to low demand amid a slowdown in the cement sector during the year. The revenue contraction was further exacerbated by shift among the Company's major clients towards developing their in-house packaging capacities, though some clients still in the development phase.

The Company's sales are predominantly local (1HFY25: ~98%, FY24: ~97%, FY23: ~98%), with export sales comprising a marginal share (1HFY25: ~2%, FY24: ~3%, FY23: ~2%). The sales mix is led by sacks, totaling ~40% of revenue, amounting to PKR 2.1b in FY24 (FY23: PKR 4b). Fabrics contributed ~20%, worth PKR 1.1b (FY23: PKR 0.9b), while stitched bags generated ~33% of the topline, amounting to PKR 1.8b (FY23: PKR 1.7b). The remaining ~7% came from other products, totaling PKR 0.4b (FY23: PKR 0.09b).

SALES CONTRIBUTION				
	FY22	**FY23**	**FY24**	**1HFY25**
LOCAL SALES PROPORTION				
SACKS	60%	59%	40%	30%
FABRICS	16%	14%	20%	19%
STITCHED BAGS	23%	26%	33%	34%
WASTE	1%	1%	1%	1%
FFS REELS	0%	0%	0%	0%
FLEXIBLE STITCHED BAGS	0%	0%	6%	7%
SALE OF MATERIAL	0%			9%
	100%	**100%**	**100%**	**100%**
EXPORTS SALES PROPORTION				
SACKS	97%	97%	97%	97%
REBATE	3%	3%	3%	3%
	100%	**100%**	**100%**	**100%**

Sales of sacks have declined overtime, despite previously serving as the main revenue contributor, now representing ~30% of total sales in HFY25, primarily due to declining demand. Given the change in the operating dynamics, the Company is shifting its strategic focus from sacks to stitched and flexible packaging, given the higher demand for these products, mainly emanating from food, flour, sugar, and fertilizer sectors.

Gross margins stood at 11.58%, down from 13.41% in FY23. The decline is attributable to increase in input cost as well as normalization, as gross margins were higher in FY23, due to inventory gains as prices increased during the period amid shortage in the market due to import restrictions. Operating margin also declined slightly to 9.68% (FY23: 10.69%). The Company reported a negative net margin of 2.31% in FY24 (FY23: positive 1.40%), mainly due to elevated financial charges and losses from its associated company.

However, a notable improvement in both operating and net margins was observed during 1HFY25, supported by one time gain on sales of disposals, a reduction in policy rates, and a favorable shift in the sales mix. Operating and net margins were reported at 28.47% and 15.17% respectively, while gross margin remained at 11.68%.

Debt Coverage & Liquidity

The Company's debt servicing coverage ratio (DSCR) is considered adequate, standing at 1.21x as of Dec'24 (Jun'24: 0.84x; Jun'23: 1.15x), supported by higher funds from operations (FFO) on the back of improved profitability during the period. Short-term debt coverage also remained adequate, recorded at 1.50x as of Dec'24 (Jun'24: 1.38x; Jun'23: 1.55x).

The current ratio was reported at 1.22x as of Dec'24 (Jun'24: 1.20x; Jun'23: 1.22x), reflecting an adequate liquidity position. However, the Company experienced an increase in its cash conversion cycle (CCC) during FY24, which subsequently improved in 1HFY25 but remained elevated. The longer CCC was mainly due to an increase in inventory days and a shorter trade payable cycle. Consequently, the net CCC was recorded at 133 days in 1HFY25 (FY24: 148 days; FY23: 108 days). Going forward, optimizing inventory turnover and strengthening credit control measures will be important to improve working capital management.

GOVERNANCE

Syntronics Limited is an unlisted Company. The board of the Company comprises of six directors with no independent director representation, among them one director also serves as chief executive. The Company has no board-level committees; however, all board members actively participate in decision-making and lead various departments. The absence of formal board committees has been noted, indicating room for improvement in the governance structure, which may strengthen the Company's overall governance profile

Financial Summary — Annexure I

Balance Sheet (PKR Millions)	FY22A	FY23A	FY24A	1HFY25M
Property, plant and equipment	1,677.68	1,572.12	1,511.34	1,194.56
Right-of-use Assets	45.72	43.52	0.00	0.00
Intangible Assets	0.00	0.00	0.00	0.00
Long-term Investments	1,124.66	1,398.66	1,496.41	1,496.41
Stock-in-trade	1,386.12	1,165.58	1,218.03	1,157.14
Trade debts	1,558.94	1,228.77	1,148.48	1,322.06
Short-term Investments	0.00	0.00	0.00	0.00
Cash & Bank Balances	76.99	122.53	50.83	49.69
Other Assets	1,193.70	1,212.38	1,205.46	1,184.13
Total Assets	7,063.81	6,743.56	6,630.55	6,403.99
Creditors	987.39	930.38	107.61	886.12
Long-term Debt (incl. current portion)	685.05	507.21	349.11	287.52
Short-Term Borrowings	2,233.87	1,731.62	1,897.20	1,795.12
Total Debt	2,918.92	2,238.83	2,246.31	2,082.64
Other Liabilities	435.83	491.67	1,146.85	577.42
Total Liabilities	4,342.14	3,660.88	3,500.77	3,546.18
Paid up Capital	315.21	315.21	315.21	315.21
Revenue Reserve	1,795.14	1,930.02	1,870.04	1,598.08
Sponsor Loan	0.00	0.00	0.00	0.00
Equity (excl. Revaluation Surplus)	2,110.35	2,245.23	2,185.25	1,913.29

Income Statement (PKR Millions)	FY22A	FY23A	FY24A	1HFY25M
Net Sales	5,102.00	5,909.13	4,811.58	2,777.99
Gross Profit	546.91	792.52	557.03	324.47
Operating Profit	349.43	631.40	465.84	790.89
Finance Costs	229.94	465.91	518.88	193.84
Profit Before Tax	146.88	153.48	-113.92	597.05
Profit After Tax	82.31	82.96	-111.04	421.51

Ratio Analysis	FY22A	FY23A	FY24A	1HFY25M
Gross Margin (%)	10.72%	13.41%	11.58%	11.68%
Operating Margin (%)	6.85%	10.69%	9.68%	28.47%
Net Margin (%)	1.61%	1.40%	-2.31%	15.17%
Funds from Operation (FFO) (PKR Millions)	148.40	288.68	39.96	290.35
FFO to Total Debt* (%)	5.08%	12.89%	1.78%	27.88%
FFO to Long Term Debt* (%)	21.66%	56.92%	11.45%	201.97%
Gearing (x)	1.38	1.00	1.03	1.09
Leverage (x)	2.06	1.63	1.60	1.85
Debt Servicing Coverage Ratio* (x)	0.81	1.15	0.84	1.21
Current Ratio (x)	1.17	1.22	1.20	1.22
(Stock in trade + trade debts) / STD (x)	1.41	1.55	1.38	1.50
Return on Average Assets* (%)	1.31%	1.20%	-1.66%	12.94%
Return on Average Equity* (%)	4.00%	3.81%	-5.01%	41.14%
Cash Conversion Cycle (days)	119.35	108.71	147.89	132.53

Annualized, if required
A - Actual Accounts
P - Projected Accounts
M - Management Accounts

REGULATORY DISCLOSURES — Annexure II

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				
May-23-2025	BBB+	A2	Stable	Reaffirmed
April-08-2024	BBB+	A2	Stable	Reaffirmed
May-15-2023	BBB+	A2	Stable	Maintained
Mar-29-2022	BBB+	A2	Positive	Maintained
Dec-31-2020	BBB+	A2	Stable	Reaffirmed
Dec-10-2019	BBB+	A2	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.
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Due Diligence Meetings Conducted

Name	Designation	Date
Wajahat Butt	GM Finance	April 17, 2025
Rashid Abbas	DGM Finance	
Mr. Naveed Irshad	AGM Finance and Taxation	