RATING REPORT

Kompass Pakistan (Pvt) Limited

REPORT DATE:
February 1, 2019

RATING ANALYSTS:
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Rating Category	Previous Rating	
	Long-term	Short-term
Entity	BBB+	A-2
Rating Date	*Feb 1, 2019*	
Rating Outlook	Stable	
Outlook Date	*Feb 1, 2019*	

COMPANY INFORMATION	
Incorporated in 2007	**External auditors:** M/s EY Ford Rhodes Chartered Accountants
Private Limited Company	**Chairman:** *Vacant*
Key Shareholders :	**Chief Executive Officer:** Mr. Umair Ahmed Jalil
Umair Ahmed Jalil** - **50%	
Hasan Jalil** - **50%	

APPLICABLE METHODOLOGY(IES)	
JCR-VIS Entity Rating Criteria	*Industrial Corporates (May 2016)* ***http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf***

Kompass Pakistan (Pvt) Limited

OVERVIEW OF THE INSTITUTION

Incorporated in 2007, Kompass Pakistan (Pvt) Ltd manufactures flexible packaging with a fully integrated process which comprises of manufacturing of films to delivering the final flexible packaging film. The Shareholding of the company is held by two brothers (i) Umair Ahmed Jalil & (ii) Hasan Jalil.

Financial Snapshot

Total Equity as at June 30, 2018: Rs. 1.5b

Net Profit for FY18: Rs. 128m

RATING RATIONALE

Kompass Pakistan (Pvt) Limited (KPL) operates as a private limited company owned and managed within a single family. Core operations of the company include manufacturing of flexible packaging bags and pouches catering to the FMCG industry. KPL has a fully integrated packaging facility in which it extrudes polyethylene & polypropylene films which then are printed on according to the needs of the customer. KPL has two types of technology for the printing (i) Rotogravure & (ii) Flexographic.

Rating Drivers

Market Position

The packaging market comprises several medium sized entities that manufacture similar films and provide complete packaging solutions. KPL stands as the second largest market player with a total capacity of 1,500 tonnes per month while Packages Limited is the largest player with a capacity of 2,500 tonnes per month.

Challenges in the Market

A major challenge faced by the sector is prices of the raw material specifically polymers such as polypropylene, & polyethylene. The polymers act as a major raw material in the extrusion of the film and represent 80% of the raw material consumed. Prices of the polymer follow its own global dynamics of rising volatile crude oil prices, demand supply dynamics and volatility in exchange rate. Given the current market scenario, cost base of raw materials for the company depicts a rising trend which further exerts pressure on margins. However, the company passes on the rising costs and dollar depreciation impact to the final customer by adjusting prices on quarterly basis.

Diversified Product Stream & Clientele

KPL provides a wide array of products including laminated films, oil & ghee films, opaque & transparent films along with shrink films. Customer profile of KPL includes oil & ghee industry, FMCGs and food & beverages sector. Almost 70% of revenue is generated from laminated films, which is a value added product sold to FMCGs. Top 5 customers include renowned multinationals contributing 60% of revenues.

Sales

Topline of the company has increased gradually on a timeline basis; sales amounted to Rs. 3.1b (FY17: Rs. 2.8b) for FY18. Margins during the 4 year period from FY14-FY17 depicted an increasing trend (FY17: 16.6%, FY16: 15.3%). In FY18, it declined to 12.9% primarily on account of incremental depreciation charged for revaluation of plant and machinery. On the other hand, these costs were a function of both higher import volumes of raw materials and devaluation of rupee in relation to USD. Going forward, the company projects to increase its gross margins to 15% on the back of projected growth in sales volumes.

Capitalization and Funding

Paid-up capital of KPL remained unchanged over the years and amounted to Rs. 300m at end-June 2018. Accounting for retained earnings and revaluation reserve, total equity stood at Rs. 1.3b, at end-FY18. KPL has no payout history and earnings are completely retained in the business growth in the form of capital formation. As a result, equity depicted a CAGR growth of 34% over the four year period (FY14 - FY18). Total debt of KPL stood at Rs. 1.8b, which comprises Rs. 681m of short term borrowings while the remaining is contributed by long term debt from commercial banks and a supplier's credit. Debt leverage and gearing were reported at 1.9x and 1.4x, respectively; leverage indicators of the company are considered on the higher side in comparison to peers.

Liquidity

Despite growing sales, FFO depicts a declining trend from the past two years and stands at Rs. 258m as compared to Rs 368m in FY16 on account of debt servicing. The debt servicing coverage ratio has also decreased to 1.13x in FY18 from 1.85x in FY17 on account of higher interest payments. Going forward, this trend is expected to persist as margins have also declined.

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix I

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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 II
Name of Rated Entity	Kompass Pakistan (Pvt) Ltd
Sector	Packaging
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
Instrument Structure	N/A
Statement by the Rating Team	JCR-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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
02/01/2019	BBB+	A-2	Stable	Initial