RATING REPORT

Kompass Pakistan (Pvt) Limited

REPORT DATE:
May 07, 2021

RATING ANALYSTS:

Asfia Aziz
asfia.aziz@vis.com.pk

Sundus Qureshi
sundus.qureshi@vis.com.pk

Rating Category	Latest		Previous	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	BBB+	A-2	BBB+	A-2
Rating Date	*May 07, 2021*		*April 8, 2020*	
Rating Outlook	Positive		Stable	
Outlook Date	*May 07, 2021*		*April 8, 2020*	

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
Mr. Umair Ahmed Jalil – 50%	
Mr. Hasan Jalil – 50%	

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

Kompass Pakistan (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Kompass Pakistan (Pvt) Ltd started operations in 2007 and manufactures flexible packaging with a fully integrated process which comprises manufacturing, printing and laminating PE films. Shareholding of the company is held by two brothers (i) Umair Ahmed Jalil & (ii) Hasan Jalil.

Financial Snapshot

Total Equity as at December 31, 2020: Rs. 1.73b

Net Profit for FY20: Rs. 191.5m

RATING RATIONALE

Incorporated as private limited company, Kompass Pakistan (Pvt) Limited (KPL) is a family owned business. Core operations of the company include manufacturing of flexible packaging bags and pouches catering primarily to the Fast Moving Consumer Goods (FMCG) industry. KPL has a fully integrated packaging facility in which it extrudes polyethylene films and procures BOPP, PE and CPP films from the local market which are then printed and laminated in accordance with the needs of the customer.

In order to cater increasing demand and management's focus on value-added segment, KPL is currently in the process of expansion whereby it plans to add new machines over the next 12 months. Innovative technological machinery is expected to yield higher margins and increase production capacity from 1500MT/month to 1800MT/month. Total estimated cost of the project is Rs. 1.5b which is projected to be financed through concessionary rate TERF facility. Timely completion of the planned expansion is considered important from a ratings perspective.

Key Rating Divers:

The company maintains a diversified product stream and strong clientele profile; client concentration risk is considered on the higher side, however the same is mitigated through prevalence of contractual agreements

KPL provides a wide array of products for different commodity industries in the form of laminated films, oil & ghee films, opaque & transparent films along with shrink films. For this product portfolio, KPL has two types of technology for printing that are: (i) Rotogravure & (ii) Flexographic. Customer profile of KPL includes oil & ghee industry, FMCGs and food & beverages sector. Almost two-thirds of revenue is generated from laminated films, which is a value added product sold to FMCGs. Top 10 customers include renowned multinationals (P&G, Colgate-Palmolive, Pepsi Cola, National Foods, Ismail Industries, English Biscuit Manufacturers, Dalda Foods etc.) contributing 63.5% (FY20: 75.1%) of revenues during 1HFY21. Client concentration risk is considered on the higher side, however the same is mitigated through prevalence of contractual agreements and long term association with the major clients.

Product Mix	FY20		HY21	
	Quantity (MT)	**Value (Rs. in m)**	**Quantity (MT)**	**Value (Rs. in m)**
Laminated Film	45.6%	62.6%	43.7%	59.1%
Ghee Film	17.0%	12.8%	17.2%	12.6%
Nylon Film	9.6%	9.0%	9.1%	8.4%
Opaque PE	11.3%	12.0%	17.4%	17.2%
	13,163.2	**4,748.1**	**6,883.0**	**2,566.5**

Business risk profile is considered moderate given stable demand supported by end clients belonging to the FMCG and ability to pass on increase in raw material prices. Going forward; VIS expects the order book for the industry to remain stable in the ongoing year, despite Covid-19 concerns.

Economic growth, rising income levels and increasing urbanization are greatly changing consumer behavior and demand for packaged foods and consumer goods. End clients mostly belonging to FMCG segment reduces the demand risk where the demand is relatively stable. Business risk profile is also supported by the ability of local manufacturers to pass increase in raw material prices.

Pakistan's packaging market is partially fragmented with several medium sized entities offering similar products and complete packaging solutions. KPL's installed capacity is around half (1500 MT/month) of Packages Limited which holds the largest capacity of around 2,500 MT/month. A major challenge faced by the sector is prices and availability 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. Polymer prices are largely a function of global crude oil prices, demand supply dynamics and volatility in exchange rate. In view of the recent market dynamics, cost base of raw materials for the company depicts a declining trend which may support margins given lagged affect in translation of the same in sales prices. Moreover, the company passes on all cost related impacts to the final customer by adjusting prices on quarterly basis.

Revenue base of the company has depicted a CAGR of 22% over the past two years (FY18-FY20) being a function of both volumetric growth and higher average selling prices. Gross margins have improved on a timeline basis owing to higher revenues, lower fuel costs and gain from the premium oil/ghee segment. Going forward, management envisages profitability to improve in the backdrop of higher projected revenue and expansion plans in the value-added segment.

Sales revenue has grown at a two-year CAGR of 22% (FY18-FY20). During FY20, net sales registered a year-on-year (YoY) growth rate of ~25%. The growth has been primarily a function of both volumetric increase and higher average selling prices led by rise in demand of hygiene sector. Product mix of the company includes low, medium and high barrier films and laminates with PE, PA, Al-foil, BOPP, PET, MBOPP, MPET, CPP, MCPP and custom-made laminates. Due to planned capital expenditure in the value-added segment, projected capacity utilization is expected to increase on a timeline basis. Subsequently, projected revenue is expected to witness growth on the back of higher aggregate demand, going forward.

As per management, the packaging industry falls in the supply chain non-cyclical industries including that witnessed an increased demand as a result of COVID-19. Top 10 client concentration in sales revenue was reported at around 65-75%% during FY20 with a blend of contractual and non-contractual customers. Ratings draw comfort from the long term association with clients. In line with increasing demand, higher average selling prices, lower power costs and value-added pricing of the premium segment, gross margins of the company have been improving on a timeline basis and were reported higher at 15.0% (FY19: 13.4%; FY18: 12.5%) during FY20. Despite increasing finance cost of the company due to higher interest rates in most of the outgoing year, net margin of the company increased in FY20 reported at 4.0% (FY19: 2.7%; FY18; 4.0%) supported by unwinding of the supplier credit markup. Going forward, management envisages profitability to further improve in the backdrop of higher projected revenue and expansion plans in the value-added segment.

Liquidity profile of the company is considered adequate as evident from sufficient cash flow coverages in relation to outstanding obligations. Going forward, liquidity profile is expected to strengthen on account of higher projected profitability.

Liquidity profile of the company has improved on a timeline basis in line with improving profitability with adequate coverage of cash flows in relation to outstanding obligations and sound debt servicing ability. In absolute terms, Funds from Operations (FFO) amounted to Rs. 322.9m (FY20: Rs. 306.9m; FY19: Rs. 172.0m) during 1HFY21 translating into improved liquidity indicators with Debt Service Coverage Ratio (DSCR) being reported at 2.65x (FY20: 1.14x; FY19: 0.77x) in 1HFY21. At end-Dec'20, stock in trade and trade debts represented around 794% (FY20: 370%) of outstanding short-term borrowings. The current ratio was reported at 1.68x (FY20: 1.65x; FY19: 1.28x) at half year-end FY21. Going forward, liquidity profile is expected to strengthen on account of higher projected profitability.

Equity base of the company has grown at a two-year CAGR of 14% (FY18-FY20) owing to profit retention. Leverage indicators are considered sound with the same improving on a timeline basis owing to higher growth in equity base. Given projected increase in debt levels to finance expansion, capitalization indicators shall increase going forward; however the same are expected to remain within manageable levels.

Equity base of the company has grown at a two-year CAGR of 14% (FY18-FY20) owing to profit retention. Debt profile of the company comprises 30% of short term borrowings and remaining provided by long term borrowings. Long term borrowings significantly increased to Rs. 1.13b at end-Dec'20 (FY20: Rs. 0.80b) in order to finance capital expenditure. Going forward, the company plans to drawdown additional long term debt over 12 months for the expansion in the value-added segment. Gearing and leverage indicators were reported at 0.78x (FY20: 0.80x; FY19: 1.03x) and 1.5x (FY20: 1.5x; FY19: 1.7x), respectively at end-Dec'20. Given projected increase in debt levels to finance expansion, capitalization indicators shall increase going forward; however the same are expected to remain within manageable levels for the assigned ratings.

Kompass Pakistan (Pvt.) Limited **Appendix I**

FINANCIAL SUMMARY	*(amounts in PKR millions)*			
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**9MFY21**
Fixed Assets	2,490.4	2,323.4	1,923.5	2,321.5
Stock-in-Trade	580.0	640.5	673.5	886.8
Trade Debts	729.3	708.2	861.3	1,226.7
Sales tax receivable	42.4	-	-	-
Cash and bank balances	32.2	34.8	153.1	135.0
Total Assets	4,084.3	3,900.8	4,123.8	5,095.5
Paid up Capital	300.0	300.0	300.0	300.0
Total Equity	1,521.3	1,668.7	1,862.1	2,276.1
Total Equity (excluding surplus)	1,159.1	1,289.4	1,517.1	1,931.1
Long Term Financing	596.1	474.3	486.8	950.2
Current Portion of LTD	270.2	248.1	188.5	37.3
Liabilities against Assets Subject to Finance Lease	165.6	128.0	122.0	157.4
Total Long Term Debt	1,031.9	850.4	797.3	1,144.9
Deferred Liabilities	293.8	258.9	313.0	310.2
Trade and Other Payables	324.6	435.8	504.8	665.3
Short Term Borrowings	711.0	475.1	416.7	438.6
Total Debt	1,742.9	1,325.5	1,214.0	1,583.4
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**9MFY21**
Sales	3,169.3	3,807.9	4,748.1	4,097.4
Gross Profit	396.1	511.2	712.8	678.6
Administrative Expenses	103.2	113.1	151.8	114.7
Selling and Distribution Costs	32.1	35.9	45.8	37.2
Operating Profit	217.1	287.0	491.5	584.4
Finance Costs	121.1	168.3	190.7	73.2
Profit Before Tax	96.0	118.7	300.9	475.4
Profit After Tax	128.3	101.4	191.5	414.0
CASH FLOW STATEMENT				
Funds Flow from Operations	162.8	172.0	306.9	597.3
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**9MFY21**
Gross Profit Margin	12.5%	13.4%	15.0%	16.6%
Net Profit Margin	4.0%	2.7%	4.0%	10.1%
FFO/Long Term Debt (x)	16%	20%	38%	69%
FFO/Total Debt (x)	9%	13%	25%	50%
Current Ratio (x)	1.16	1.28	1.65	2.06
Gearing (x)	1.50	1.03	0.80	0.82
Leverage (x)	2.21	1.73	1.49	1.46
Debt Servicing Coverage (x)	0.83	0.77	1.14	2.26
ROAA (%)	3.4%	2.5%	4.8%	11.3%
ROAE (%)	8.8%	6.4%	10.8%	25.4%
(TD+ Stock in trade)/(STD)	184%	284%	368%	482%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix 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	Kompass Pakistan (Pvt) Ltd
Sector	Packaging
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
05/07/2021	BBB+	A-2	Positive	Maintained
04/08/2020	BBB+	A-2	Stable	Reaffirmed
02/01/2019	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. Umar Nabeel	CFO	30-March-2021
2	Mr. Mohammad Ahad	Assistant Manager	30-March-2021