RATING REPORT

Kompass Pakistan (Pvt) Limited

REPORT DATE:

June 10, 2022

RATING ANALYSTS:

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Rating Category	Latest		Previous	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	BBB+	A-2	BBB+	A-2
Rating Date	*June 10, 2022*		*May 07, 2021*	
Rating Outlook	Positive		Positive	
Rating Action	Reaffirmed		Maintained	

COMPANY INFORMATION	
Incorporated in 2007	**External auditors:** M/s EY Ford Rhodes Chartered Accountants
Private Limited Company	**Chairman:** *Vacant*
Key Shareholders (with stake 5% and more):	**Chief Executive Officer:** Mr. Umair Ahmed Jalil
Mr. Umair Ahmed Jalil – 50%	
Mr. Hasan Jalil – 50%	

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

OVERVIEW OF THE INSTITUTION

Kompass Pakistan (Pvt) Ltd was incorporated in January 2007 as a private limited company under the repealed Companies Ordinance, 1984 (now Companies Act, 2017). The company is engaged in the business of manufacturing flexible plastic packaging material, especially of packing of liquids.

Financial Snapshot

Tier-1 Equity: end-HY22: 2.03b; end-FY21: Rs. 1.88b; end-FY20: Rs. 1.52b

Total Assets: end-HY22: Rs. 7.15b; end-FY21: Rs. 5.05b; end-FY20: Rs. 4.12b

Profit After Tax: HY22: Rs. 143m; FY21: Rs. 334m; FY20: Rs. 192m

RATING RATIONALE

Kompass Pakistan (Pvt.) Limited (KPL) is a family-owned business while the core operations include manufacturing of flexible packaging materials including wrappers, 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 Biaxially Oriented Polypropylene Films (BOPP), biaxially-oriented polyethylene terephthalate (BoPET) and Cast unoriented Polypropylene (CPP films) from the local market which are then printed and laminated in accordance with the customer needs.

Key Rating Divers:

The execution of expansion plan amidst demand dynamics bodes well for the company: In the backdrop of increasing demand of company's products driven by growth in FMCG sector, the company has implemented capacity enhancement plan spanning over FY21 and FY22. The cost of machinery component amounting Rs. 1.8b has been financed through bank borrowings under Temporary Economic Refinance Facility (TERF) by State Bank of Pakistan (SBP) while cost related to installation and other local components have been met through own sources. Property, plant and equipment stood higher at Rs. 2.4b (FY20: Rs. 1.9b) mainly on account of additions in plant and machinery amounting Rs. 525.6m related to flexo printing line which led to increase in production capacity to 946.1m meters (FY20: 683.3m meters) by end-FY21. Actual production was recorded higher at 522m meters (FY20: 462.5m meter) in FY21. However, capacity utilization was reported lower at 55% (FY20: 68%) as the additional capacity came online in last quarter of the outgoing year. KPL has dominance in flexo printing while the company also offers gravure printing facility to provide one window solution to its clients. During 1HY22, the company has made additions worth Rs. 921.2m which largely pertained to compounding line, laminating line and an extrusion line; the PVC compounding requirements were previously outsourced by the company while the other two lines were added to enhance its conversion operations. These processing lines were procured in Aug'21 while installation and commissioning process was completed by end-Nov'21.

Another flexo printing line will be added in the upcoming year, the machinery component expenditure will be financed through bank borrowings while installation and other local component cost will be met through own sources. This new printing line will start commercial operations in FY23.

Healthy growth in topline with largely stable gross margins: During FY21, net revenues were recorded higher at Rs. 5.45b (FY20: 4.68b) on account of around 10% increase in volumetric sales along with overall increase in average selling prices. In terms of value, around two-third of the revenue emanated from laminated films. During HY22, company recorded net revenue of Rs. 3.6b (HY21: Rs. 2.6b), registering a growth of 40% on YoY basis. The proportion of various products in the sales mix with quantity sold and total value has been tabulated below:

Product Mix	FY20		FY21		HY22	
	Quantity (million Kgs)	**Value (in million Rs.)**	**Quantity (million Kgs)**	**Value (in million Rs.)**	**Quantity (million Kgs)**	**Value (in million Rs.)**
Laminated Film	53.0%	63.5%	50.1%	60.3%	64.0%	73.1%
Ghee Film	19.7%	13.0%	19.4%	13.2%	12.3%	8.4%
Nylon Film	11.2%	9.1%	11.4%	9.5%	6.1%	4.7%
Opaque PE	13.2%	12.2%	17.0%	14.9%	17.1%	13.2%
Others	3.0%	2.2%	2.2%	2.0%	0.5%	0.6%
Total	**11,326.8**	**4,684.7**	**12,461.1**	**5,451.6**	**7,135.6**	**3,603.7**

KPL maintains a diversified product stream and strong clientele profile. The client concentration risk, as measured in terms of sales to top ten clients has remained on higher side (HY22: 78.7%; FY21: 72.1%; FY20: 75.1%). However, the risk is largely mitigated through contractual agreements and long-term relationship with clients. Major clients included leading multinational and local FMCGs companies, namely Proctor & Gamble, Ana and Batla Industries (Pvt.) Ltd., Ismail Industries Ltd., Colgate Palmolive (Pakistan) Ltd., Pepsi Cola International, English Biscuit Manufacturers (Pvt.) Ltd., Dalda Foods, National Foods and Hilal Foods.

Gross profits of the company were recorded higher at Rs. 736.8m (FY20: Rs. 649.4m) while gross margins decreased marginally to Rs. 13.5% (FY20: 13.9%) primarily in line with increase in cost of sales during FY21. Raw material and spare parts consumed accounted for 80% (FY20: 79%) of the cost of goods manufactured. 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 their prices are largely a function of global crude oil prices, demand supply dynamics and volatility in exchange rate. Plastic granules and film are the two major cost component which comprised around 80% of the raw material purchases. Administrative and distribution expenses were largely rationalized. Other expenses amounting Rs. 42.1m (FY20: Rs. 40m) were largely related to employees funds. Other income was recorded higher at Rs. 173.1m (FY20: Rs. 79.8m) mainly due higher scrap sales and net exchange gain. Despite higher average borrowings finance cost decreased to Rs. 109.6m (FY20: Rs. 190.7m) due to lower average benchmark rates. Accounting for taxation, the company has reported higher net profits of Rs. 333.7m (FY20: Rs. 191.5m) and net margins of 6.1% (FY20: 4.1%) in FY21.

During HY22, the company generated Rs. 490.7m in gross profits with gross margin of 13.6% while profit after tax was recorded at Rs. 142.6m with net margin of 4.0%. The management projects topline of Rs. 6.9b in FY22 while gross margins are projected to increase to 14.9% largely on account of some decrease in cost of sales due to in-house compounding along with economies of scale leading to better fixed overheads absorption. Albeit local currency depreciation, increasing trend in crude oil price may put some pressure on gross margins, the margins are largely supported by the ability of the company to pass on all cost related to final customers on quarterly basis. Net sales are projected to grow at a CAGR of 16% over three years period. Demand risk is largely mitigated by the fact that majority clients of the company belong to FMCG segment, exhibiting growth driven by economic growth, rising income levels, and increasing urbanization positively impacting the demand for packaged food and other consumer goods.

Liquidity profile underpinned by adequate cash flows in relation to outstanding obligations: The company generated Rs. 354.3m in funds from operations (FFO) (FY21: Rs. 701.9m; FY20: Rs. 609.1m) in HY22. Annualized FFO to total debt and FFO to long-term debt albeit decreased in HY22 owing to increase in overall debt levels, have remained adequate. Debt service coverage ratio remained sizeable at 1.97x (FY21: 4.58x; FY20: 2.71x) despite higher principal repayments of Rs.150.4m (FY20: Rs. 72.0m; FY21: Rs. 109.7m) in HY22.

Stock in trade stood notably higher at Rs. 1.3b (FY21: Rs. 879.2m; FY20: Rs. 673.5m) at end-HY22. The increase was majorly on account of higher raw material procurement anticipating further rupee depreciation coupled with container availability problems. Whereas under normal circumstances, the management usually keeps three months stock. Trade debts have increased by end-HY22 and as percentage of net sales accounted for 22% (FY21: 23%; FY20: 19%). Nonetheless, aging profile is considered satisfactory as 86% of the receivables were not past due as of Dec 31, 2021 while only 12% of outstanding receivables fall within 90 days credit bracket and around 2% were over 90 days. The credit terms have remained unchanged, with maximum of 120 days credit period provided to large customers and 30 to 60 days credit is given to small customers. The current ratio was reported at 1.35x (FY21: 1.47x; FY20: 1.65x) at end-HY22. The coverage of short-term borrowings via stock in trade and trade receivables have remained sizeable at 2.87x (FY21: 4.58x; FY20: 2.71x).

Cash conversion cycle has also remained manageable on a timeline basis. Going forward, liquidity profile is expected to improve further on account of higher profitability.

Capitalization is supported by profit retention while leverage indicators have increased by end-HY22 on account of additional long-term loans to finance capex and notable increase in short-term borrowings to support working capital requirements: Equity base of the company has grown steadily over the years on the back of internal capital generation. Tier-1 equity stood higher at Rs. 2.0b (FY21: 1.9b; FY20: Rs. 1.5b) at end-HY22. Short-term borrowings have sizably increased to Rs. 1.0b (FY21: Rs. 363.9m; FY20: 416.7m) in line with working capital requirements, where short-term borrowings of the company majorly comprised finance against trust receipts and finance against documents acceptance. The long-term debt inclusive of current portion have increased by around two-folds to Rs. 2.1b (FY21: Rs. 1.1b; FY20: Rs. 864.9m) by end-HY22. The company mobilized loan amounting Rs. 352.9m and Rs. 1.2b during FY21 and 1HY22, respectively to finance capital expenditure as discussed earlier in this report. These facilities have been obtained at subsidized rate under TERF. Meanwhile, in 2HY22, the company has mobilized additional KIBOR-based financing to the tune of Rs. 500m for purchase of another printing machinery. In view of sufficient availability of cash flows, the management intends to repay KIBOR-based loans earlier. Trade and other payables stood higher at Rs. 907.3m (FY21: Rs. 734.0m; FY20: Rs. 504.8m) and as a percentage of cost of sales stood at 16% (FY21: 13%; FY20: 10%). Gearing and debt leverage were reported higher at 1.52x (FY21: 0.80x; FY20: 0.84x) and 2.36x (FY21: 1.52x; FY20: 1.49x), respectively by end-HY22. While leverage indicators are expected to remain higher in the ongoing year vis-à-vis preceding year, the same will remain at fairly manageable level. Going forward, leverage indicators are expected to decrease on the back of scheduled repayments and augmentation in equity base due to profit retention.

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

BALANCE SHEET (in million PKR)	Jun 30, 2020	Jun 30, 2021	Dec 31, 2021
Property and Equipment	1,924	2,448	3,507
Right of Use Assets	249	223	212
Stock in Trade	674	879	1,269
Trade Debts	894	1,234	1,612
Cash & Bank Balances	96	89	175
Taxation-net	117	25	127
Other Assets	170	153	248
Total Assets	**4,124**	**5,051**	**7,150**
Trade and Other Payables	505	734	907
Short Term Borrowings	417	364	1,005
Long-Term Borrowings (incl. current maturity)	865	1,144	2,093
Total Interest-Bearing Debt	**1,282**	**1,508**	**3,097**
Deferred Liabilities	313	342	395
Other Liabilities	162	274	414
Total Liabilities	**2,262**	**2,858**	**4,813**
Paid Up Capital	300	300	300
Tier-1 Equity	1,517	1,880	2,038
Total Equity	**1,862**	**2,194**	**2,337**

INCOME STATEMENT	Jun 30, 2020	Jun 30, 2021	Dec 31, 2021
Net Sales	4,685	5,452	3,604
Gross Profit	649	737	491
Operating Profit	492	656	331
Finance Cost	191	110	84
Profit Before Tax	301	546	247
Profit After Tax	192	334	143

RATIO ANALYSIS	Jun 30, 2020	Jun 30, 2021	Dec 31, 2021
Gross Margin (%)	13.9	13.5	13.6
Net Margins	4.1	6.1	4.0
Current Ratio	1.65	1.47	1.35
Net Working Capital	747	748	870
Funds from Operations (FFO)	609	702	354
FFO to Total Debt (x)	0.48	0.47	0.23*
FFO to Long Term Debt (x)	0.70	0.61	0.34*
Debt Leverage	1.49	1.52	2.36
Gearing	0.84	0.80	1.52
Debt Servicing Coverage Ratio (x)	2.71	4.58	1.97
ROAA (%)	4.8	7.3	4.7*
ROAE (%)	13.6	19.6	14.6*
(Stock in Trade+ Trade Debt) to Short-Term Borrowing (x)	3.76	5.81	2.87
Net Operating Cycle (days)	55	83	87

ISSUE/ISSUER RATING SCALE & DEFINITION 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 DISCLOSURE					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				
	06/10/2022	BBB+	A-2	Positive	Reaffirmed
	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. Sohail Ismail	CFO	May 16, 2022	