

RATING REPORT

Kompass Pakistan (Pvt.) Limited

REPORT DATE:

January 31, 2024

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
Entity	BBB+/A-2	BBB+/A-2
Rating Date	January 31, 2024	March 17, 2023
Rating Outlook	Positive	Stable
Rating Action	Maintained	Maintained

COMPANY INFORMATION

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

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates:<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Kompass Pakistan (Pvt.) Limited

OVERVIEW OF
THE INSTITUTION

RATING RATIONALE

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 was incorporated in January 2007 as a private limited company under the repealed Companies Ordinance, 1984 (now Companies Act, 2017).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 laminated products and packing of liquids..

Company Profile:

Kompass Pakistan (Pvt.) Ltd. (“KPL” or “the Company”) is a family-owned company primarily engaged in the manufacture of flexible packaging materials including wrappers, bags, pouches and other laminated plastic packaging products which are utilized mainly by 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 Polypropylene (CPP films) from the local market which are then printed and laminated in accordance with the customer needs. The Company has two types of printing- (i) Rotogravure & (ii) Flexographic, mainly specializing in the latter technology. Production units of the Company are situated at Port Qasim and Korangi, Karachi Pakistan.

Key Rating Drivers:

Business risk profile supported by stable demand, sizable market share and strong clientele including big FMCGs.

The plastic and packaging industry's business risk profile is assessed as medium to low due to limited competition from a few domestic players and low industry cyclicality. The sector experiences consistent demand from the fast-moving consumer goods (FMCG) sector, characterized by stable demand influenced by a growing population and evolving consumer preferences.

Kompass Pakistan is one of the key players in the Pakistan’s packaging industry. The sector’s primary challenge is the cost and availability of the raw material specifically polymers such as polypropylene and polyethylene, crucial for film extrusion and accounting for 60% of the total raw material. Polymer prices are influenced by global crude oil prices, market demand-supply, and currency fluctuations. With about half of the raw materials, particularly plastic resin and film being imported, companies face risks related to exchange rate fluctuations and price volatility.

Sizable market share and long-term contracts with renowned FMCGs further support the Company’s risk profile.

The Company is one of the leading players in the packaging industry in the country, with a significant market share. However, KPL’s client portfolio is marked by high concentration risk with top 10 customers contributing much of its revenue. Nevertheless, the Company’s long term association with primary renowned FMCG in the country supports the assigned ratings.

The Company achieved topline growth despite economic challenges; operational improvements varying margins.

In FY23, the Company experienced a 54.9% growth in its topline attributed to both volumetric expansion and price increases. This growth occurred despite a challenging

economic environment and was underpinned by the noncyclical demand in the FMCG sector. Supported by improved operations, gross margins were also reported higher at 16.1% (FY22: 10.7%) in FY23. However, this upward trend in the gross margins showed a slight deterioration to 14.6% in 1HFY24.

Nonetheless, the increase in the Company's revenue and gross margin did not translate into a higher net margin, which was reported at 2.2% (FY22: 2.5%) in FY23. This slight deterioration is attributed to an 825-bps hike in local policy rates in FY23 which escalated finance costs. However, the Company has managed to recover its net margins to 5.1% in 1HFY24.

Going forward, with ease in LC restriction and a relatively stable PKR/USD parity, management expects their profitability profile to improve as cost pressures ease and business normalizes compared to FY23.

While leverage remains elevated, the Company's gearing has reported continuous improvements over the years.

In FY23, the Company's gearing ratio improved to 1.1x (FY22: 1.5x) on account of reduction in the KPL's total debt. However, KPL's leverage deteriorated to 3.1x (FY22: 2.6x) due to an increase of PKR 480 mln in the Company's total current liabilities compared to a slight increase of PKR 273 mln in its equity base. In 1HFY24, sustained operational improvement and increased profitability led to a continuous enhancement in equity. Meanwhile, there was a reduction in the payable buildup and short-term debt drawdown resulting in improvements in both gearing and leverage ratios to 0.6x and 2.4x during 1HFY24.

Adequate liquidity profile, coverage profile is also healthy.

The Company has historically maintained an adequate liquidity profile with a 4-Year average current ratio of 1.4x. In 1HFY24, the current ratio further improved to 1.6x (FY23: 1.4x), recovering from a low of 1.3x in FY22. Similarly, over the years the Company has also maintained a healthy coverage profile with a 4-year average Debt Service Coverage Ratio (DSCR) of 2.0x. In 1HFY24, the DSCR rose to 3.8x (FY23: 1.9x), recovering from a low of 1.4x in FY22.

Considerations for Future Review

Going forward, ratings will remain sensitive to the Company's ability to continue strengthening its capitalization profile. Moreover, maintenance of the profitability, coverage and liquidity profile in line with assigned ratings will also remain important considerations.

Kompass Pakistan (Pvt.) Limited

Appendix I

FINANCIAL SUMMARY					(PKR Millions)
<u>BALANCE SHEET</u>	FY20A	FY21A	FY22A	FY23A	6MFY24A
Equity (excl. Revaluation Surplus)	1,517.1	1,880.1	2,097.0	2,370.0	2,681.8
<u>RATIO ANALYSIS</u>	FY20A	FY21A	FY22A	FY23A	6MFY24A
Gross Margin (%)	13.9%	14.4%	10.7%	16.1%	14.6%
Net Margin (%)	4.1%	6.1%	2.5%	2.2%	5.1%
Current Ratio	1.6	1.5	1.3	1.4	1.6

**Annualized, if required*

Kompass Pakistan (Pvt.) Limited

Appendix II

REGULATORY DISCLOSURES					
Name of Rated Entity	Kompass Pakistan (Pvt.) Limited				
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
	<u>RATING TYPE: ENTITY</u>				
	01/31/2024	BBB+	A-2	Positive	Maintained
	03/17/2023	BBB+	A-2	Stable	Maintained
	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.				
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Due Diligence Meetings Conducted		Name	Designation	Date	
	1.	Ms. Talia Jalil	Board Member	22 nd January 2024	
2.	Mr. Muhammad Huzaifa	Manager – Reporting & Controlling			