RATING REPORT

International Packaging Films (Private) Limited

REPORT DATE:
February 26, 2021

RATING ANALYSTS:

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RATING DETAILS		
	Initial Ratings	
Rating Category	Long-term	Short-term
Entity	A-	A-2
Rating Date	February 26, 2021	
Rating Outlook	*Positive*	
Rating Action	Initial	

COMPANY INFORMATION	
Incorporated in 2015	**External auditors:** EY Ford Rhodes- Chartered Accountants
Private Limited Company	**Chief Executive Officer:** Mr. Naveed Godil
Key Shareholders (with stake 5% or more):	
Mr. Naveed Godil - 16.24%	
Mr. Ameer Ali - 13.81%	
Mr. Taimoor Iqbal - 10.84%	
Mr. Usman Pirani- 8.41%	

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

International Packaging Films (Private) Limited

OVERVIEW OF THE INSTITUTION

Incorporated in 2015, International Packaging Films (Private) Limited (IPAK) is engaged in the manufacturing and sale of flexible packaging materials comprising Bi-axially Oriented Polypropylene (BOPP) films. Financial Statements of the company for FY20 were audited by EY Ford Rhodes-Chartered Accountants.

Profile of CEO

Management team at IPAK is spearheaded by Mr. Naveed Godil who *is a successful Pakistani business magnate, investor and founder of various* ***Industries.*** *He graduated from University of Karachi and later completed his professional education from Preston University. Currently, he also serves as CEO of Universal Packaging Company (Pvt) Ltd. He is also an active member of several professional bodies worldwide.*

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RATING RATIONALE

Incorporated in 2015, International Packaging Films (Private) Limited (IPAK) is principally engaged in the manufacturing and sale of flexible packaging materials comprising Bi-axially Oriented Polypropylene (BOPP) films. The company commenced operations in 2017. Competitive advantage stems from the five-layered plant situated in Lahore, Pakistan vis-à-vis three-layered plants of other BoPP manufacturers in the market. Shareholding pattern of the company is vested with individual investors with the major share held by Mr. Naveed Godil (16.24%) who also spearheads the management team at IPAK as the CEO. Associate group companies with reference to common shareholders include Universal Packaging (Pvt) Limited, Universal Carton Industries LLC, Saima Packaging (Pvt) Limited, Sunridge Foods (Pvt) Limited, 14th Street Pizza, and Dazzle Diamon Jewellery. Following is the pattern of shareholding of IPAK at end-June'20:

Naveed Godil	16.24%
Ameer Ali	13.81%
Taimoor Iqbal	10.84%
Mushtaq Ali Tejani	10.69%
Muhammad Usman Pirani	8.41%
Arsalan Pirani	7.18%
Muhammad Ashraf	6.43%
Haji Hanif Ahmed	5.78%
Muhammad Ishrat	4.46%
Others	16.17%

IPAK has an installed capacity of 40,000 MT of BOPP films of various grades and thickness ranging from 10 to 60 microns. Total power requirement of the company (5MW) is met through in-house electricity generation through gas based generators with gas being supplied by SNGPL. For back-up purposes, the company also possesses HFO/Diesel based generators and a backup line from LESCO.

The company has also obtained the following ISO certifications:

- Quality Management System ISO 9001:2015
- Occupational Health & Safety Management System OHSMS 45001:2018Environmental Management System ISO 14001:2015
- Food Safety Management System ISO 22000:2018
- Pepsi Co Approved Packaging Supplier
- British American Tobacco Supplier Qualification Program

Installed Machinery Details

MACHINERY SPECIFICATIONS	
BOPP Film Line	8700mm wide **Brand-** BRUCKNER (Germany) **Capacity-** 40,000 MT/annum.
Vacuum Metalizing Machine	2850mm wide (installed 2017) **Brand-** BOBST K5000 – UK **Capacity-** 7,200 MT/annum

Slitting Machines	8700mm wide- KAMPH (Germany) 2850mm wide- KAMPH (Germany) 1450mm wide- COMEXI (Italy)

Capacity Utilization

Year	Total Capacity	Production During the Period	Capacity Utilization
	(In MT)	(In MT)	(In %)
FY18	40,000	13,319	33.30%
FY19	40,000	21,924	54.81%
FY20	40,000	24,178	60.45%
1QFY21	10,000	7,150	71.50%

IPAK's capacity utilization has been increasing on a timeline basis in line with improving demand dynamics and shift in consumers' attitude towards packed commodities. As per management, utilization levels are expected to further improve over time on the back of higher order pipeline through addition of new customers. Going forward, management targets sale of 30,0000MT of films in the ongoing year.

Given management's focus towards value addition, IPAK has planned to expand into the manufacturing of CPP Films segment through a wholly owned subsidiary by the name of Cast Packaging Films (Pvt) Limited (CPFPL). The subsidiary is currently in the process of starting up and the principal business shall be to carry out the business of manufacturing, importing, selling, marketing, exporting and dealing in all kinds and classes of flexible packing material mainly comprising of CPP (Cast Oriented Polypropylene) Film and allied products of cast packaging. The name plate capacity of the CPP plant shall be 7,200 MT per annum. The management forecasts commencement of the project by April 2021. The total cost of the project is estimated at Rs. 1.4b which will be entirely financed through IPAK's retained earnings.

Key Rating Divers:

Business risk profile is considered moderate given stable demand supported by end clients belonging to the FMCG, Cosmetic and Pharmaceutical sectors and ability to pass on increase in raw material prices. Moreover, support is drawn from the oligopolistic nature of the BOPP industry in Pakistan comprising four manufacturers with limited imports. Given the prevailing situation of COVID-19 pandemic and lower per-capita usage of BOPP products in Pakistan, demand growth is expected to remain stable due to the sector's contribution in the supply chain of various important industries.

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, Cosmetic and Pharmaceutical 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. To provide support to local industry, anti-dumping duty in the range of 23-57% on BOPP films import from China and Middle Eastern countries was implemented in 2012.

Major BOPP Manufacturers	Installed Capacity (MT)	Market share
Tri-pack Films	66,800	52%
Macpac Films	14,000	11%
IPAK	40,000	31%
Astrofilms	7,500	6%

Installed Capacity	**128,300**	
Usable Capacity	**85,000**	

Major manufacturers of BOPP films include Tri-pack, Macpac, Astro Films and IPAK with the major market share held by Tri-pack. Domestic BOPP market has a CAGR of 6% over the last 6 years ending 2018. Growth in CY19 and CY20 was affected by change in tax laws and COVID 19, respectively. Annual demand of BOPP films was around 78,000 MT during FY20 with available production capacity of four major manufacturers at 85,000 MT. Given the prevailing situation of COVID-19 pandemic and lower per-capita usage of BOPP products in Pakistan (0.28 kg vs. 1.38 kg in the world), demand growth is expected to remain stable due to the sector's contribution in the supply chain of various important industries. Moreover, with sustainability and recyclability being the core focus in packaging industry, the use of mono material may likely have a positive impact on the overall demand in this industry.

Revenue of IPAK has depicted healthy year on year growth during the last three years being a function of increased aggregate demand and higher average selling prices. Gross Margins have been improving on a timeline basis owing to increased revenues and inventory gains. Going forward, management envisages profitability to improve in the backdrop of higher projected revenue and lower fuel costs.

Sales revenue has grown at a two-year CAGR of 56% (FY18-FY20). During FY20, net sales registered a year-on-year (YoY) growth rate of ~35%. The growth has been primarily a function of increased aggregate demand and higher average selling prices. Product mix of the company depicts that around 80% of the sales revenue is generated by transparent and metallized films. Going forward, given management's focus towards value-added products, composition of metallized films is projected to gradually increase. Given that the Company has been operating at nearly full capacities in the ongoing year, sufficient orders in hand in lieu of stable demand topline is projected to depict growth going forward.

Product Mix	FY18	FY19	FY20	1QFY21
Transparent Films	56.0%	54.6%	55.9%	58.1%
Metallized Films	25.9%	26.4%	25.4%	21.0%
Matt Films	1.4%	1.9%	2.8%	2.4%
Pearlize Films	8.3%	8.1%	4.5%	4.8%
White Films	2.6%	5.9%	8.2%	8.1%
Recycled Granuels and Other Waste	5.7%	2.5%	0.6%	1.0%
Export Films	0.3%	0.6%	2.6%	4.7%

As per management, the packaging industry falls in the supply chain of various non-cyclical industries including FMCGs and pharmaceuticals that witnessed an increased demand as a result of COVID-19. Top 10 client concentration in sales revenue was reported at around 40-50% during FY20 with a blend of contractual and non-contractual customers. In line with increasing demand, higher average selling prices, inventory gains and lower power costs, gross margins of the company have been improving on a timeline basis and were reported higher at 16.8% (FY19: 7.2%; FY18: -0.1%) 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 9.5% (FY19:0.2 %; FY18; -6.8%). Going forward, management envisages profitability to improve in the backdrop of higher projected revenue and lower fuel costs.

Liquidity profile of the company is considered strong as evident from healthy cash flow coverages in relation to outstanding obligations. Going forward, with improving profitability and limited additional debt drawdown, liquidity profile is expected to strengthen.

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, manageable ageing of trade debts and sound debt servicing ability. In absolute terms, Funds from Operations

(FFO) amounted to Rs. 916.3m (FY19: Rs. 234.3m) during FY20 translating into improved liquidity indicators with Debt Service Coverage Ratio (DSCR) being reported at 10.0x (FY19: 3.4x) in FY20. Timely recovery of dues against associated companies is considered important from a ratings perspective. Stock in trade and trade debts represented around 193% of outstanding short-term borrowings. The current ratio was reported at 1.6x (FY19: 1.1x; FY18: 1.0x) at year-end FY20. Going forward, with improving profitability and limited additional debt drawdown, liquidity profile is expected to strengthen.

Equity base of the company has grown at a three-year CAGR of 17% (FY17-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 profitability and limited additional debt drawdown, capitalization indicators are expected to further improve going forward.

Equity base of the company has grown at a three-year CAGR of 17% (FY17-FY20). As a part of management's deliberate strategy, any future expansion will be financed with either internal capital generation or equity injection from the sponsors. Debt profile of the company comprises only short term borrowings which increased during FY20 on account of additional net working capital requirement amidst COVID-19. Going forward, the company has no plans to drawdown long term debt. Gearing and leverage indicators remain on the lower side at 0.29x (FY19: 0.47x; FY18: 0.12x) and 0.65x (FY19: 0.97x; FY18: 0.89x), respectively at year-end FY20. Given projected increase in profitability and no further drawdown in debt, capitalization indicators are expected to further improve going forward. .

Corporate governance framework is adequate but depicts room for further improvement
Board of Directors consists of eight members comprising CEO and seven other members. The board members conduct quarterly meetings and discuss about the financial and operational progress of the company. The company is currently in the process of setting up a separate internal audit function. Information Technology Department of the company is divided in the Information Systems (IS) team and Hardware & Infrastructure team. Under the IS team, they currently have a Tier 1 ERP called The Microsoft Dynamics AX. The team is aligned to provide the following core services in relation to the installed ERP system:

- Functional and technical requirements gathering and documentation.
- Customizing Microsoft Dynamics AX based on user requirements scoped.
- Integrating Microsoft Dynamics AX with third party products through their respective interfaces
- Working on full life cycle implementation Power B.I. based on the management's reporting need entity-wide.

Further, the Hardware and Infrastructure team provides support in the following areas:

- Network engineering
- Software acquisition, installation and troubleshooting
- Hardware acquisition, installation and troubleshooting
- Ensuring appropriate placements for disaster recovery systems
- Helping the strategic management in developing and implementing overall IT strategy to be in line with the overall organization strategy.

ISSUE/ISSUER RATING SCALE & DEFINITION — Appendix I

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 II

Name of Rated Entity	International Packaging Films (Private) Limited
Sector	Packaging
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see below
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	see below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
Feb-26-2021	A-	A-2	Positive	Initial

Due Diligence Meetings

Name	Designation	Date
Mr. Mohsin	CFO	13-Jan-2021
Mr. Babar Baig	Head of Sales and Marketing	15-Jan-2021