RATING REPORT

International Packaging Films Limited

REPORT DATE:
October 05, 2023

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-1	A	A-1
Rating Outlook	*Stable*		*Stable*	
Rating Date	*5th October'23*		*30th June'22*	
Rating Action	*Reaffirmed*		*Upgrade*	

COMPANY INFORMATION

Incorporated in 2015	**External auditors:** EY Ford Rhodes- Chartered Accountants
Private Limited Company	**Chief Executive Officer:** Mr. Naveed Godil
Key Shareholders:	
Mr. Naveed Godil – 14.61%	
Mr. Mushtaq Ali Tejani- 9.47%	
Mr. Ameer Ali – 8.49%	
Mr. Taimoor Iqbal – 8.05%	
Mr. Muhammad Usman Pirani – 6.24%	
Mr. Arsalan Pirani – 5.64%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates (May 2023):
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

International Packaging Films (Private) Limited

OVERVIEW OF THE INSTITUTION

Incorporated in 2015, International Packaging Films Limited (IPAK) is engaged in the manufacturing and sale of flexible packaging materials comprising Biaxially Oriented Polypropylene (BOPP) films. Financial Statements of the company for FY21 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. Cast Packaging Films (Pvt) Ltd, Petpak Films (Pvt) Ltd, Global Packaging Films (Pvt) Ltd, Universal Coating Films (Pvt) Ltd and Universal Films (Pvt) Ltd

RATING RATIONALE

Corporate Profile

International Packaging Films Limited (IPAK) is primarily involved in the manufacturing and sale of flexible packaging materials comprising Bi-axially Oriented Polypropylene (BOPP) films. The company was incorporated as a private firm 2015 and began operations in 2017. In June'21, the firm converted its status into a public (unquoted) limited company.

The company's head office is located in Karachi whereas its manufacturing facility is situated in Lahore. Total power requirement of the company (5.2MW) 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 diesel-based generator (2MW). Moreover, the firm has obtained the following ISO certifications:

- Quality Management System ISO 9001:2015
- Environmental Management System ISO 14001:2018
- Food Safety Management System ISO 22000:2018
- Occupational Health and safety 45001:2018
- International sustainability and carbon certification (ISCC plus)
- Pepsi Co Approved Packaging Supplier
- British American Tobacco Supplier Qualification Program

IPAK has **three subsidiaries as follows:**

- Cast Packaging Films (Pvt.) Limited (CPAK)
  IPAK has expanded its operations to include the manufacture and sale of Cast Polypropylene (CPP) Film through this wholly-owned subsidiary which was incorporated in April'20 and commenced operations in April'21 with a production capacity of 7,200MT per annum. The total cost of the project was clocked in at Rs. 1.6b which was funded entirely by IPAK's retained earnings.

- Global Packaging Films (Pvt.) Limited (GPAK)
  IPAK also formed another wholly-owned subsidiary GPAK to enhance the overall group's production capacity of BOPP films by more than double the current level with a planned capacity of 59,480 MT per annum. GPAK was incorporated in Jan'21 and is expected to begin operations by Jan'24. At end-June'23, IPAK's equity stake in the Company was reported higher to Rs. 6.3b (FY22: Rs. 1.1b, FY21: Rs. 500m). According to management, further equity injection is planned during the ongoing year which will be funded through the retained earnings of IPAK.

- PETPAK Films (Pvt.) Limited
  IPAK has a 52% shareholding in PETPAK Films (Pvt.) Ltd. which is engaged in the production of Biaxially-Oriented Polyethylene Terephthalate (BOPET) films and its allied products. The firm was incorporated in Sept'21 and is expected to commence operations by Nov'23 with a total planned production capacity of 40,980 MT per annum. At end-June'23, IPAK's equity contribution in the company amounted Rs. 3.2b (FY22: Rs. 410.1m, FY21: Rs. 270.9m).

During FY23, total investment in subsidiaries increased to Rs. 11.2b (FY22: Rs. 3.1b) which was funded by equity injections through rights issuance and associated share premium amounting to Rs. 4.2b in total. The Company also incurred long-term borrowings amounting to Rs. 1.9b while the remainder was met through internal cash sources.

Additionally, the associated group companies under common directorship include Universal Coating Films (Pvt.) Limited, Universal Packaging (Pvt.) Limited, 14th Street Pizza Co. (Pvt.) Limited, Universal Films (Pvt.) Limited, Universal Carton Industries (Pvt.) Ltd., Adpak (Pvt.) Limited, R.S. Corporation (Pvt) Limited and Saima Packaging (Private) Limited.

Capacity Utilization

	FY21	FY22	FY23
Total Production Capacity (MT)	40,000	40,000	40,000
Actual Production (MT)	28,809	27,753	28,809
Capacity Utilization (%)	72.1%	69.4%	72.0%

The installed production capacity is 40,000 MT of BOPP films including various grades and thickness ranging from 18 to 60 microns. The Company's capacity utilization has remained relatively stable during the rating review period, standing at around 72% during FY23 (FY22: 69.4%), which is attributable to the competitive market dynamics in the packaging industry. Given consumer preference towards packaged goods and the non-cyclical nature of clients' industries, demand is projected to remain sound despite rising inflation. Going forward, expansion within IPAK's production facilities is not planned as the management is focused on enhancing capacities of the subsidiaries in order to capture greater market share on consolidated basis.

Key Rating Divers:

Elevation in business risk following severe currency devaluation, volatile prices and enhanced competition from imports due to regulatory changes; however, oligopolistic nature of local BOPP industry, inelastic demand base and limited impact of import restrictions provide comfort.

The BOPP packaging industry is oligopolistic in nature as it is dominated by a few large-sized players, namely, Tri-pack, Macpac, Astro Films and IPAK with the major market share held by Tri-pack. A new entrant, Lahore Polypropylene, is expected to commence production of BOPP film products by end-July'24 with a total manufacturing capacity of 30,000MT. Tripack has also commissioned an additional BOPP line which will further enhance its production capacity by about 40,000MT. However, with the manufacturing facilities of IPAK's subsidiary, GPAK, coming online in the ongoing year, the combined installed capacity will reach 99,480MT, allowing the overall group to strengthen its market position. Moreover, IPAK's current plant produces higher quality 5-layer BOPP film packaging compared to the 3-layer products produced by competitors, **offering a competitive advantage**. Breakdown of market share based on capacity size between large players can be seen below:

Major BOPP Manufacturers	Installed Capacity (MT)	Market share	New Capacities Planned (MT)	Market Share
Tri-pack Films	66,800	53.4%	106,800	42.0%
IPAK and GPAK	40,000	32.0%	99,480	39.1%
Macpac Films	14,000	11.2%	14,000	5.5%
Astrofilms	4,200	3.4%	4,200	1.7%
Lahore Polypropylene			30,000	11.8%
Installed Capacity	**125,000**		**254,480**	

Demand risk is characterized to be moderate given that the primary clients consist of firms pertaining to the FMCG, pharmaceutical and cosmetic sectors with relatively inelastic demand. Additionally, with growing population size, urbanization and shift in consumer preferences towards hygienic packaging, overall demand is expected to remain positive.

On the supply-side front, although the overall industry is heavily reliant on imported raw materials, restrictions on imports did not yield challenges given the fact that the products manufactured were categorized as essential commodities. However, the prices of the primary raw material, homopolymer, are linked to international oil prices which depicted notable volatility over the rating review period, increasing price risk. This challenge further compounded due to the severe currency devaluation, high interest rate environment and rising inflation in the country.

Ratings factor in the Company's ability to moderate these risks by passing on higher prices to customers through monthly price revisions given the inelastic demand of end consumers. Removal of anti-dumping duties in the range of 23-57% on imports of BOPP film products from China and Middle East and reduction in custom duties from 20% to 16% have enhanced competition emanating from imports in the local market which comprise a total of 15% of the total demand requirement.

Higher sales prices in the review period supported robust revenue growth

Consistent double-digit growth in revenue of 25.3% and 41.1% in FY22 and FY23 was primarily contributed by increase in average prices by about 22.6% and 36.1%, respectively. The product mix majorly constituted of transparent and metallized films. Management envisages gradual shift from transparent films towards metallized films in pursuit of higher margins in the upcoming years.

Client concentration remained on the higher side with the top ten clients contributing about 44.4% to net sales during FY23 (FY22: 43.1%). However, given that demand is relatively stable owing to the non-cyclical nature of major clients, the associated risk is moderated.

Volatility seen at gross margin level during the review period; net margins dampened by higher financing expenses

In line with variability in inventory gains, gross margins declined to 19.8% during FY22 before increasing sizably to 27.3% at end-June'23. While net margins decreased to 12.6% during FY22, reflecting the dip in the gross margin level as well as incurrence of exchange losses (despite decrease in tax expense due to refunds on withholding taxes paid between FY16-FY21), the same remained largely unchanged at 12.5% during FY23. This is largely on the account of significant increase in tax expense amounting to approximately 7% of the total revenues due to expiry of related exemptions. Financing costs also rose due to higher debt levels and policy rates while further inflationary pressure escalated operating expenses during the rating review period. With the finance costs expected to continue dragging the overall profitability profile, maintaining margins will be important from a ratings perspective.

Albeit reducing on a timeline basis due to elevated debt levels, cash flow coverages are considered sufficient

The firm's Funds from Operations (FFO) witnessed an increase to Rs. 3.5b during FY23 (FY22: Rs. 1.7b) in line with improvement in profit generation. However, cash flow coverages declined with FFO/Total Debt and FFO/LT Debt standing at 0.75x and 1.86x (FY22: 0.77x, 32.66x) during FY23. This is attributable to sizeable increase in debt levels largely owing to higher long-term borrowings. Additionally, debt-service coverage ratio (DSCR) also decreased to 6.21x (FY22: 12.04x) on account of higher financing costs but remained at comfortable levels for the assigned ratings.

Total stock-in-trade amounted to Rs. 2.6b (FY22: Rs. 1.9b) which is sufficient coverage for the next 3-4 months, according to management. Trade debts increased to Rs. 2.5b (FY22: Rs. 1.9b) in line with upward price revisions, however, aging schedule remained comfortable with the entirety of receivables amount due within 3 months. Liquidity position exhibited stress at end-FY23 with the current ratio declining to 0.94x (FY22: 1.43x) due to increase in short-term borrowings and trade payables owing to higher working capital requirements. Short-term borrowing coverage, however, is comfortable at 1.84x (FY22: 1.75x) at end-FY23.

Sound capitalization levels supported by equity injection

The Company's equity base increased sizably to Rs. 11b by end-FY23 (FY22: Rs. 6.8b) attributable to issuance of right shares of Rs. 2.1b and profit retention. Total debt levels also exhibited an increase as well to Rs. 4.7b (FY22: Rs. 2.3b) owing mainly to higher long-term borrowings of Rs. 1.9b (FY22: Rs. 52.9m) related to capital expenditure for subsidiaries. Short-term borrowings also increased to Rs. 2.8b (FY22: Rs.

2.2b) in line with higher working capital requirements due to rising inflation. Consequently, with the expansion of the quantum of debt, gearing and leverage indicators rose to 0.42x and 0.84x, respectively (FY22: 0.33x, 0.72x) at end-FY23 but remained within manageable levels for the assigned ratings. Going forward, with no plans to drawdown any further long-term financing in the medium term, gearing and leverage indicators are projected to remain sound.

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	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
Oct-05-2023	A	A-1	Stable	Reaffirmed
Jun-30-2022	A	A-1	Stable	Upgrade
Feb-26-2021	A-	A-2	Positive	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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.
Due Diligence Meetings	

Name	Designation	Date
Mr. Muhammad Shoaib	Senior Executive Finance	08-Aug-2023