

RATING REPORT

International Packaging Films Limited

REPORT DATE:

December 09, 2024

RATING ANALYSTS:

Saeb Muhammad Jafri

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A1	A	A1
Rating Outlook/ Watch	Stable		Stable	
Rating Date	December 09, 2024		October 05, 2023	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION

Incorporated in 2015	External auditors: PWC A.F. Ferguson & Co.
Public Limited Company	Board Chairman: Mr. Muhammad Amin
Key Shareholders (10% or more holding):	Chief Executive Officer: Mr. Naveed Godil
<i>Mr. Naveed Godil – 13.14%</i>	

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>

International Packaging Films 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

RATING RATIONALE

Corporate Profile

International Packaging Films Limited (‘the Company’ or ‘IPAK’) was incorporated as a private limited company under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017) on October 2, 2015, located in Sindh, Pakistan. The Company’s status was converted to a public limited company on June 11, 2021, and subsequently listed on the Pakistan Stock Exchange on June 3, 2024. The Company is primarily involved in the production and sale of flexible packaging materials, including BOPP (Biaxially-oriented Polypropylene) films and related products, and commenced commercial operations in September 2017. The registered office is located in Karachi, while the manufacturing plant is situated at Hattar Industrial Estate, Haripur, Khyber Pakhtunkhwa.

Subsidiaries of IPAK:

IPAK has set up subsidiaries for providing a comprehensive range of flexible packaging films. Three of these subsidiaries have recently commenced operations and are projected to contribute to future growth and profitability of the Company.

In addition, the Company is expanding its export footprint by entering new markets and acquiring new customers. A subsidiary, IPAK Connect, has been established in the UAE to facilitate export growth. The expected increase in volumes is anticipated to improve operating efficiencies and generate synergies, contributing positively to the profitability.

	Product Type	Ownership
Global Packaging Films (Private) Limited (GPAK)	BOPP	100%
PETPAK Films (Private) Limited	BOPET*	52%
Cast Packaging Films (Private) Limited	CPP*	100%
IPAK Connect Packaging Materials Trading- FZCO	BOPP/BOPET/ CPP	100%

*BOPET: Biaxially Oriented Polyethylene Terephthalate CPP: Cast Polypropylene

Operational Profile

Production Capacity and Utilization	FY22A	FY23A	FY24A
Installed Capacity (BOPP Films MT)	41,360	41,360	41,360
Actual Production (BOPP Films MT)	27,753	28,809	32,184
Utilization	67.10%	69.65%	77.81%

With improvement in the economic environment during FY24, the Company noted a recovery in demand. Supported by a 11.7% increase in volumes, the capacity utilization enhanced to 77.81% (FY23: 69.65%) in FY24. As per management, IPAK is actively expanding its exports, targeting new markets and customers. To drive export growth, it has established a subsidiary, IPAK Connect, in the UAE. This is expected to further support volume growth and capacity utilization going-forward.

Key Rating Divers:

Business Risk Profile: Industry Risk; High to Medium

The business risk profile of Pakistan's packaging films industry is assessed as high to medium, influenced by consistent demand tempered by raw material cost volatility and competitive pressures.

Demand for packaging films is primarily driven by the food and beverage sector, which has been growing at a rate of 10-15%. The industry utilizes variants of polymer resin to manufacture Biaxially Oriented Polyethylene Terephthalate (BOPET), Biaxially Oriented Polypropylene (BOPP), and Cast Polypropylene (CPP) films.

However, the industry faces challenges due to its reliance on imported raw materials, making it susceptible to fluctuations in global polymer prices and exchange rate volatility. The devaluation of the Pakistani Rupee has led to increased raw material costs, which companies have struggled to pass on to customers concurrently, resulting in margin compression.

The competitive landscape includes major players such as Tri-Pack Films Limited, MACPAC Films Limited, International Packaging Films Limited, and Astro Films, a subsidiary of Ismail Industries Limited. Intense competition, coupled with rising input costs, has led to an overall decline in margins for companies within the sector.

Additionally, the industry operates under increasing regulatory scrutiny concerning environmental concerns, particularly regarding waste management and recycling standards, which raises operational costs.

Business Risk Profile: Supported by Strong Competitive Position of the Company.

IPAK's business risk profile is supported by its competitive position, driven by the production of 5-layer BOPP films, which differentiates it from industry peers. The assigned ratings are further underpinned by the company's market dominance, reflected in its ~39% market share, along with stable demand and the ability to transfer increased costs to customers.

Profitability Profile

The Company reported a 3% increase in topline, reaching PKR 17,089 million in FY24 (FY23: PKR 16,618 million), driven largely by a volumetric growth of 11.7%, although this was partly offset by a reduction in average selling prices during the period. The strategic focus on expanding export sales, aimed at enhancing import coverage and diversifying market exposure, impacted gross margins. Consequently, gross margins declined to 22.77% in FY24 (FY23: 27.27%), reflecting competitive pressures in export markets where lower margins prevail. In contrast, in the domestic market, the imposition of elevated government duties on imported packing material has enabled the Company to retain greater pricing flexibility, supporting relatively higher margins.

Gross margin compression persisted into 1QFY25, as further reductions in selling prices led to a decline in margins to 12.56%. Going forward, IPAK anticipates gross margins to be slightly higher at year-end FY25, supported by continued efforts to increase export volumes, which are expected to improve fixed cost absorption per unit.

Capitalization profile

The Company's capitalization profile remained conservative in FY24, though there was a slight weakening as reflected by the increase in the gearing and leverage ratios to 0.46x (FY23: 0.42x) and 0.86x (FY22: 0.84x), respectively. This change was primarily due to increased debt drawdowns for investment in capacity enhancements and subsidiaries, partially offset by an increase in paid-up capital and profit retention. The capitalization profile remained conservative in 1QFY25 with gearing and leverage ratios of 0.54x and 0.89x, respectively, despite increasing further on increased short-term borrowing.

Coverage Profile

The Company has historically maintained a strong debt service coverage ratio (DSCR) over the past four years, averaging 13.00x. In FY24, the DSCR declined to 1.82x (FY23: 6.99x), primarily

due to elevated finance costs associated with increased borrowing and an elevated interest rate environment. Consequently, the funds from operations (FFO)/total debt and FFO/long-term debt ratios also decreased, recorded at 20.81% (FY23: 75.06%) and 59.62% (FY23: 183.71%), respectively, due to heightened long-term and short-term borrowings. In 1QFY25, DSCR experienced additional pressure, reported at 0.42x, impacted by contracting gross margins amid elevated finance costs. Management anticipates improvement based on a downward revision in interest rates and expectations of margin recovery.

Liquidity Profile

The Company has historically maintained adequate liquidity, reflected in a four-year average current ratio of 1.46x. In FY24, the current ratio improved to 1.05x (FY23: 0.94x). The current ratio remained adequate at 1.03x in 1QFY25.

International Packaging Films Limited
Appendix I

Financial Summary			
Balance Sheet (PKR Millions)	FY23A	FY24A	3MFY25M
Property, plant and equipment	4,921.99	4,706.99	4,626.25
Right-of-use Assets	36.67	12.25	10.05
Intangible Assets	61.12	54.38	55.69
Long-term Investments	11,168.24	13,853.02	14,019.34
Stock-in-trade	2,588.71	2,357.96	2,500.71
Trade debts	2,474.72	3,431.80	2,830.72
Short-term Investments	0.00	0.00	0.00
Cash & Bank Balances	162.62	80.75	177.11
Other Assets	506.37	3,134.90	3,765.98
Total Assets	21,920.44	27,632.05	27,985.85
Creditors	2,012.74	2,334.78	2,001.94
Long-term Debt (incl. current portion)	1,905.65	2,243.88	2,209.10
Short-Term Borrowings	2,758.46	4,185.92	5,312.95
Total Debt	4,664.11	6,429.80	7,522.05
Other Liabilities	2,628.42	3,320.08	2,904.74
Total Liabilities	9,305.27	12,084.66	12,428.73
Paid up Capital	6,300.95	7,002.00	7,002.00
Revenue Reserve	3,251.14	1,259.99	1,295.71
Other Equity (excl. Revaluation Surplus)	1,487.57	5,729.72	5,729.72
Sponsor Loan	0.00	0.00	0.00
Equity (excl. Revaluation Surplus)	11,039.66	13,991.71	14,027.43
Income Statement (PKR Millions)	FY23A	FY24A	3MFY25M
Net Sales	16,617.71	17,088.89	3,426.64
Gross Profit	4,531.56	3,891.75	430.38
Operating Profit	3,823.00	3,272.64	393.90
Finance Costs	632.59	1,527.18	380.71
Profit Before Tax	3,190.41	1,745.46	13.19
Profit After Tax	2,082.04	1,137.53	9.75
Ratio Analysis	FY23A	FY24A	3MFY25M
Gross Margin (%)	27.27%	22.77%	12.56%
Operating Margin (%)	23.01%	19.15%	11.50%
Net Margin (%)	12.53%	6.66%	0.28%
Funds from Operation (FFO) (PKR Millions)	3,490.68	1,328.37	-197.23
FFO to Total Debt* (%)	74.84%	20.66%	-10.49%
FFO to Long Term Debt* (%)	183.18%	59.20%	-35.71%
Gearing (x)	0.42	0.46	0.54
Leverage (x)	0.84	0.86	0.89
Debt Servicing Coverage Ratio* (x)	6.65	1.81	0.42
Current Ratio (x)	0.94	1.05	1.03
(Stock in trade + trade debts) / STD (x)	1.93	1.45	1.08
Return on Average Assets* (%)	11.77%	4.59%	0.14%
Return on Average Equity* (%)	23.38%	9.09%	0.28%
Cash Conversion Cycle (days)	74.28	71.36	91.33

*Annualized, if required

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

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	<table border="1"> <thead> <tr> <th>Rating Date</th> <th>Medium to Long Term</th> <th>Short Term</th> <th>Rating Outlook/ Watch</th> <th>Rating Action</th> </tr> </thead> <tbody> <tr> <td colspan="5" style="text-align: center;">RATING TYPE: ENTITY</td> </tr> <tr> <td>Dec-09-2024</td> <td>A</td> <td>A1</td> <td>Stable</td> <td>Reaffirmed</td> </tr> <tr> <td>Oct-05-2023</td> <td>A</td> <td>A1</td> <td>Stable</td> <td>Reaffirmed</td> </tr> <tr> <td>Jun-30-2022</td> <td>A</td> <td>A1</td> <td>Stable</td> <td>Upgrade</td> </tr> <tr> <td>Feb-26-2021</td> <td>A-</td> <td>A2</td> <td>Positive</td> <td>Initial</td> </tr> </tbody> </table>		Rating Date	Medium to Long Term	Short Term	Rating Outlook/ Watch	Rating Action	RATING TYPE: ENTITY					Dec-09-2024	A	A1	Stable	Reaffirmed	Oct-05-2023	A	A1	Stable	Reaffirmed	Jun-30-2022	A	A1	Stable	Upgrade	Feb-26-2021	A-	A2	Positive	Initial
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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	<table border="1"> <thead> <tr> <th>Name</th> <th>Designation</th> <th>Date</th> </tr> </thead> <tbody> <tr> <td>Mr. Muhammad Shoaib</td> <td>Assistant Manager Finance</td> <td>4 November 2024</td> </tr> </tbody> </table>		Name	Designation	Date	Mr. Muhammad Shoaib	Assistant Manager Finance	4 November 2024																								
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