RATING REPORT

Kompass Pakistan (Pvt) Limited

REPORT DATE:
April 8, 2020

RATING ANALYSTS:
Muniba Abdullah, CFA
muniba.khan@vis.com.pk

Rating Category	Latest		Previous	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	BBB+	A-2	BBB+	A-2
Rating Date	*Apr 8, 2020*		*Feb 1, 2019*	
Rating Outlook	Stable		Stable	
Outlook Date	*Apr 8, 2020*		*Feb 1, 2019*	

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

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

Kompass Pakistan (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Kompass Pakistan (Pvt) Ltd started operations in 2007 and manufactures flexible packaging with a fully integrated process which comprises of manufacturing of films to delivering the final flexible packaging film. Shareholding of the company is held by two brothers (i) Umair Ahmed Jalil & (ii) Hasan Jalil.

Financial Snapshot

Total Equity as at December 31, 2019: Rs. 1.45b

Net Profit for FY19: Rs. 101.4m

RATING RATIONALE

Incorporated as private limited company, Kompass Pakistan (Pvt) Limited (KPL) is a family owned business. Core operations of the company include manufacturing of flexible packaging 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 & polypropylene films which then are printed on according to the needs of the customer.

Rating Drivers

Strong market position in the packaging industry; the industry may be affected by the recent outbreak of Coronavirus.

Pakistan's packaging market is partially fragmented with several medium sized entities offering similar products and complete packaging solutions. KPL stands as the second largest market player with a total capacity of 1,500 tonnes per month while Packages Limited is the largest with a capacity of 2,500 tonnes per month. 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 represent 80% of the raw material consumed. Polymers' prices are largely a function of global crude oil prices, demand supply dynamics and volatility in exchange rate. In view of the recent market dynamics, cost base of raw materials for the company depicts a declining trend which may support margins. Moreover, the company passes on all cost related impacts to the final customer by adjusting prices on quarterly basis.

The company maintains a diversified product stream and strong clientele profile; there is some concentration prevalent in the client portfolio.

KPL provides a wide array of products for different commodity industries in the form of laminated films, oil & ghee films, opaque & transparent films along with shrink films. For this product portfolio, KPL has two types of technology for the printing (i) Rotogravure & (ii) Flexographic. Customer profile of KPL includes oil & ghee industry, FMCGs and food & beverages sector. Almost two-thirds of revenue is generated from laminated films, which is a value added product sold to FMCGs. Top 5 customers include renowned multinationals contributing 60% of revenues.

	FY19		HY20	
In MT/Rs. m	**Quantity**	**Value**	**Quantity**	**Value**
Laminated Film	48.0%	62.1%	52.3%	66.1%
Ghee Film	17.1%	13.0%	13.5%	9.5%
Nylon Film	11.6%	11.0%	9.0%	7.8%
Opaque PE	8.3%	8.9%	13.4%	13.0%
	11,092.3	**3,807.9**	**5,962.0**	**2,363.1**

Topline of the company has increased gradually on a timeline basis on the back of growing demand from FMCGs.

With growing demand from its clientele and rising prices, sales of the company increased to Rs. 3.8b (FY18: Rs. 3.1b, FY17: Rs. 2.8b) for the year ending June 30, 2019. With higher prices for its key products, margins of the company also improved from 12.5% to 13.4% in FY19. Margins are also impacted by import volumes of raw materials and rupee dollar parity. Going forward, the company projects to increase its gross margins to 15% on the back of projected growth in sales volumes and anticipated reduction in raw material costs.

Leverage indicators are reported on the higher side while capitalization levels remain comfortable. Liquidity indicators remain within adequate levels.

Paid-up capital of KPL remained unchanged over the years and amounted to Rs. 300m at end-June 2019. Accounting for retained earnings and revaluation reserves, total equity stood at Rs. 1.4b, at end-HY20. KPL has no payout history and earnings are completely retained in the business growth in the form of capital formation. Total debt of KPL stood at Rs. 1.5b, which comprises Rs. 757m of short term borrowings while the remaining is contributed by long term debt from commercial banks and a supplier's credit. While gearing levels were stable and close to the 1.0x mark, debt leverage indicators improved to 1.65x at end-HY20. Leverage indicators of the company are considered on the higher side in comparison to peers. Despite growing sales, FFO depicts a stable trend from the past two years and stands at Rs. 276m in FY19. Debt servicing coverage ratio has also decreased to 1.07x in FY19. Going forward, this trend is expected to persist given external macroeconomic impact.

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

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**30-Jun-17**	**30-Jun-18**	**30-Jun-19**	**31-Dec-19**
Non Current Assets	2,355.0	2,532.6	2,375.7	2,287.4
Stock-in-Trade	441.2	580.0	640.5	521.9
Trade Debts	496.1	729.3	708.2	1,159.3
Sales tax receivable	61.1	42.4	-	-
Taxation-net	64.9	137.3	116.0	100.4
Cash and bank balances	58.4	32.2	34.8	62.2
Total Assets	3,507.2	4,084.3	3,900.8	4,199.2
Paid up Capital	300.0	300.0	300.0	300.0
Total Equity	1,393.3	1,521.3	1,668.7	1,809.0
Total Equity (excluding surplus)	997.7	1,159.1	1,289.4	1,446.8
Supplier's Credit	-	172.7	176.9	139.7
Long Term Financing	870.7	596.1	474.3	454.7
Liabilities against Assets Subject to Finance Lease	279.1	165.6	128.0	100.6
Total Long Term Debt	1,149.7	934.5	779.1	695.0
Deferred Liabilities	298.0	293.8	258.9	260.7
Trade and Other Payables	231.4	324.6	441.3	395.2
Short Term Borrowings	418.9	711.0	475.1	757.2
Total Debt	1,568.6	1,645.5	1,254.2	1,452.3
INCOME STATEMENT	**30-Jun-17**	**30-Jun-18**	**30-Jun-19**	**31-Dec-19**
Sales	2,818.5	3,169.3	3,807.9	2,363.1
Gross Profit	468.7	396.1	511.2	354.9
Administrative Expenses	90.3	103.2	113.1	65.0
Selling and Distribution Costs	38.0	32.1	35.9	24.1
Operating Profit	327.6	217.1	287.0	294.1
Finance Costs	87.6	121.1	168.3	111.6
Profit Before Tax	240.0	96.0	118.7	182.5
Profit After Tax	254.5	128.3	101.4	140.4
CASH FLOW STATEMENT				
Funds Flow from Operations	337.3	255.4	276.0	-
RATIO ANALYSIS	**30-Jun-17**	**30-Jun-18**	**30-Jun-19**	**31-Dec-19**
Gross Profit Margin	16.6%	12.5%	13.4%	15.0%
Net Profit Margin	9.0%	4.0%	2.7%	5.9%

FFO/Long Term Debt (x)	0.29	0.27	0.35	-
FFO/Total Debt (x)	0.22	0.16	0.22	-
Current Ratio (x)	1.31	1.16	1.28	1.33
Gearing (x)	1.57	1.42	0.97	1.00
Leverage (x)	2.12	2.21	1.73	1.65
Debt Servicing Coverage (x)	1.85	1.19	1.07	-
ROAA (%)	8.7%	3.4%	2.5%	6.9%
ROAE (%)	29.4%	11.9%	8.3%	20.5%

ISSUE/ISSUER RATING SCALE & DEFINITIONS 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 DISCLOSURES	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				
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.
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. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. 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. Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.
Due Diligence Meetings Conducted	None