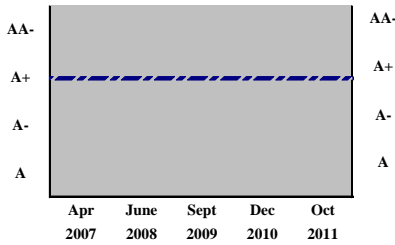


RATINGS (OCTOBER 2011)

TRI-PACK FILMS LIMITED (TPFL)

	New	Previous
Long Term	A+	A+
Short Term	A1	A1

L.T. ENTITY RATING – HISTORY



FINANCIAL DATA

PKR (mln)

	H1CY11*	CY10	CY09
Total Assets	5,676.7	4,399.8	4,516.8
Equity	1,880.2	1,791.1	1,596.3
Profit after Tax	389.1	494.9	464.1
ROA	3.7%	2.8%	2.6%
ROE	43.7%	29.2%	31.9%
Debt to Debt + Equity	51.1%	33.5%	47.3%

* Based on reviewed accounts for 6 months ended June 30, 2011

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RATING RATIONALE AND KEY RATING DRIVERS

- TPFL's ratings reflect its low business risk emanating from the company's established position in the flexible packaging industry. This is an outcome of its efficient supply chain and superior products supported by sound technological infrastructure, product innovation, and optimization of resources in domestic supply constrained market. At the same time, the company continues to generate robust cash flows on the back of rising profitability, which in turn, has improved its coverages. The company has recently embarked upon a major capital expansion, which will allow it to capitalize on consistent growth expected in domestic demand. Meanwhile, penetration into targeted export markets would remain critical in utilizing the expanded capacity at an optimal level.
- The ratings are dependent on the company's ability to maintain its market dominance while generating sufficient cash flows, mainly to meet its enhanced project-related debt obligations. Moreover, timely completion of the on-going expansion without any major negative cost overruns would remain important. Meanwhile, any adverse changes in the favorable regulatory environment and/or competitive landscape may have negative implications for the company.

ASSESSMENT

- TPFL is the largest manufacturer of Biaxially Oriented Polypropylene film (BOPP) and has diversified its product range through the introduction of value-added Cast Polypropylene film (CPP). BOPP and CPP films are flexible packaging materials, widely used in the consumer goods industry, mainly for printed packaging and over-wrapping purposes. TPFL operates in a protected industry where a 20% tariff is imposed on imports of all grades of BOPP film. Consequently, in the absence of any real competition within the country, TPFL commands majority market share in the BOPP (1HCY11: ~65%) and CPP film segments (1HCY11: ~55%). Meanwhile, imports have usually been a function of domestic supply deficit in the country.
- After facing a challenging year during CY09 due to tough operating environment, TPFL regained its growth momentum by registering a 34% increase in revenues during CY10 (CY09: -3%), mainly on the back of demand led volumetric growth, coupled with higher BOPP and CPP film prices. In this regard, the company managed to sustain its gross margin (CY10: 16%, CY09:17%) despite facing rising raw material prices. TPFL's operating expenses (CY10: PKR 264mln, CY09: PKR 212mln) increased in line with higher business volumes and rising fuel cost. Meanwhile, financial charges declined on account of lower debt. The company managed to improve its profitability as a result of the enhanced quantum of business. During 1HCY11, the company continued with its growth momentum by posting an increase of 42% in its top-line. TPFL's gross margin also improved (1HCY11: 19%, 1HCY10: 15%) as a result of the timely procurement of key raw materials. However, the company's total operating expenses continued to increase, mainly on account of rising fuel prices leading to higher distribution costs. Nevertheless, the overall profitability increased significantly, further supported by lower financial charges (1HCY11: PKR 67mln, 1HCY10: PKR 108mln) as a result of a lower debt burden.
- Going forward, TPFL would capitalize on the growing demand for BOPP and CPP films. In this regard, the company has initiated work on 40,000 tons expansion project of its BOPP capacity in Karachi. Although sub-optimal capacity utilization of the new facility as a result of less than expected demand would be a risk factor, the management has identified various export markets to achieve desired volumetric growth post-expansion. In this regard, the company would leverage on its existing business relationships in identified export markets. Penetrating into these targeted export markets would be instrumental towards achieving optimal capacity utilization.
- TPFL's ability to generate strong operational cash flows has been augmented by improved core margins. Moreover, a reduction in debt has facilitated significant improvement in the company's already robust debt payback coverages. Going forward, with the accumulation of new debt to finance the BOPP expansion project, higher financial charges may drag down free cash flows and coverages. However, with expected growth in revenues, in turn, available cash flows, TPFL is expected to possess ample cushion to service its debt obligations from internal generation.
- The company's debt to total capital ratio improved during CY10, as a result of the retirement of a significant amount of debt. However, this increased during 1HCY11 as a result of the addition of short term working capital financing. Going forward, with the acquisition of new debt, TPFL's leveraging is expected to increase. However, over the long term, the company intends to reduce leverage by making regular debt repayments using internally generated funds.

PROFILE

- Tri-Pack Films Limited, a joint venture between Packages Limited (33%) and Mitsubishi Corporation of Japan (25%), was incorporated in 1993. With production facilities based in both the northern and southern regions of Pakistan, TPFL currently has annual installed capacity of 36,000 tons (BOPP: 29,000, CPP: 7,000). The company is listed on all stock exchanges of Pakistan.
- The Board of Directors (BoD) comprises three nominees of Packages, including the Chairman, Syed Babar Ali, two representatives of Mitsubishi Corporation and one independent director. All board members are non-executive, except for the Chief Executive Officer (CEO), Mr. Shahid Hussain. The CEO has been associated with the company since 1994 and has played a key role in driving the growth in Tri Pack's operations.