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# Paper & Packaging

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## Research Analysts

**Saniya Tauseef** | Senior Manager Research  
**Muhammad Iqbal** | Research Analyst

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# Paper & Packaging

## Introduction

Packaging refers to the enclosing or protecting of goods for the purpose of distribution, storage, sale and use. The packaging industry is mostly segmented according to the types of material used.

### Plastic

Plastic packaging is composed of synthetic materials derived from various organic polymers like polyethylene, PVC, and nylon. These materials can be molded into specific shapes while in a pliable state and then solidified into either a rigid or slightly flexible form. These encompasses items like PET bottles and Plastic boxes. Additionally, it includes flexible packaging options like Plastic bags and pouches.

### Paper & Cardboard

Paper-based packaging is typically employed for smaller items such as food and gifts, and tends to be lighter than cardboard, whereas cardboard packaging is used in handling heavier products and is characterized by its substantial weight and bulkiness. Additionally, cardboard packaging serves as a reliable option for shipping materials and products, offering essential support. This category encompasses various forms like cartons, corrugated boxes, as well as bags and Paper sacks.

### Metal

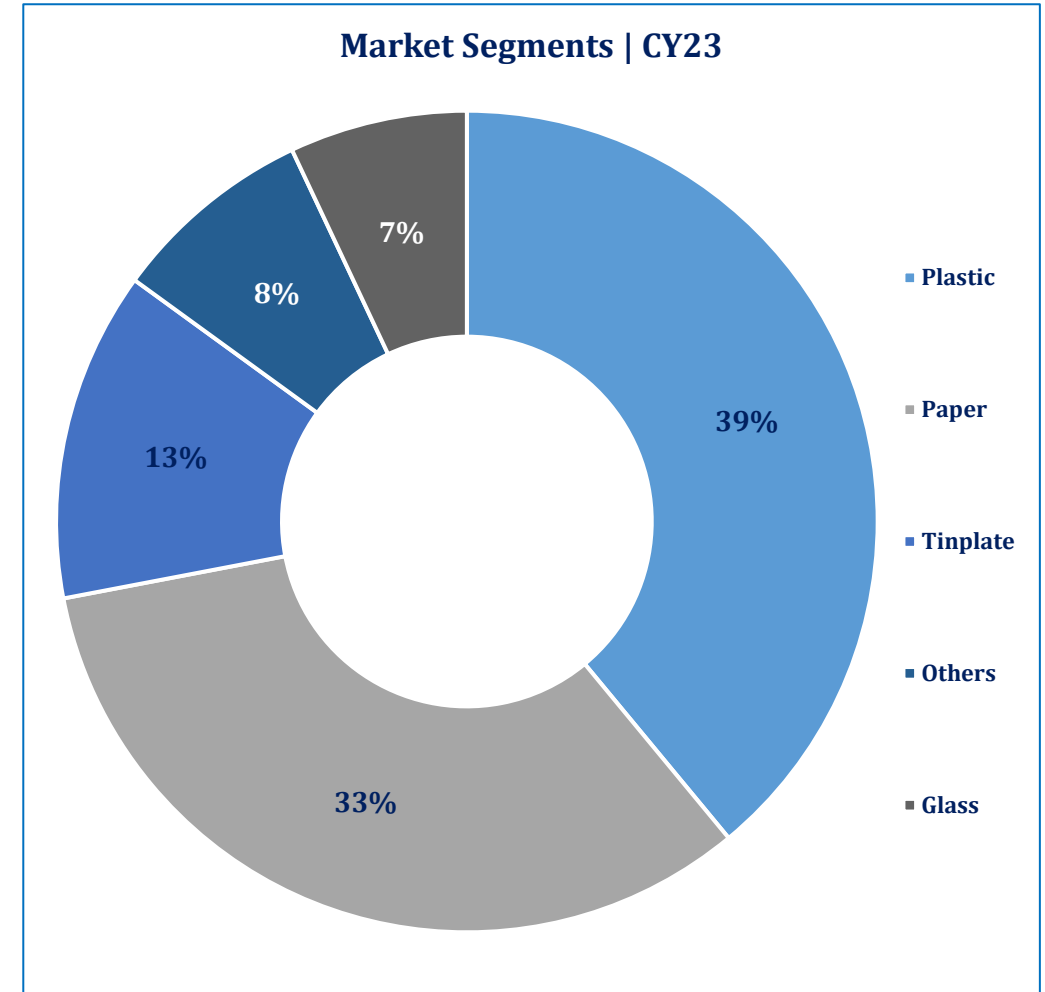
It refers to the use of metallic materials, such as aluminum and steel, as packaging materials. These metals are known for their durability, strength, and ability to protect goods from external factors like moisture, light, and air. They are commonly used in the manufacturing of cans, foils, lids, and other packaging solutions. Metals in packaging are favored for their ability to provide a secure and long-lasting enclosure for a wide range of products, including food, beverages, pharmaceuticals, and various consumer goods.



# Paper & Packaging

## Global | Overview

- The estimated market size of the global Paper & Packaging sector is expected to record at USD~1.23tln by the end of CY24, while it was USD~1.18tln in CY23. In this connection, the demand is forecasted to reach USD~1.4tln by CY28 at a CAGR of ~4.5%, with Asia Pacific having the largest share attributable to the growing demand for labeled and dairy products in the region.
- The global Paper & Packaging sector has experienced consistent growth over the last decade due to substrate choice changes and the expansion of new markets.
- There already exists a growing market for food packaging, including delivery and takeaway packaging due to the increase in global urbanization, fast-paced consumer lifestyles, and adoption of e-commerce. The COVID-19 pandemic and resulting restrictions have led to a further increase in demand from these sectors.
- Greater consumer awareness regarding the harmful environmental impact of Plastic Packaging may create challenges for the industry. Various regulations have already been implemented such as the ban on single-use Plastics in various countries. As a result, the industry is moving towards more innovative and environmentally friendly Packaging solutions.
- As of end-Dec'23, the largest segment within the global Industry was Plastic which occupied ~39% of the global Paper & Packaging sector. Paper, Tinplate, and Glass held market shares of ~33%, ~13%, and ~7%, respectively, while others (other packaging and flexible foil packaging) had a combined share of ~8%.



# Paper & Packaging

## Local | Overview

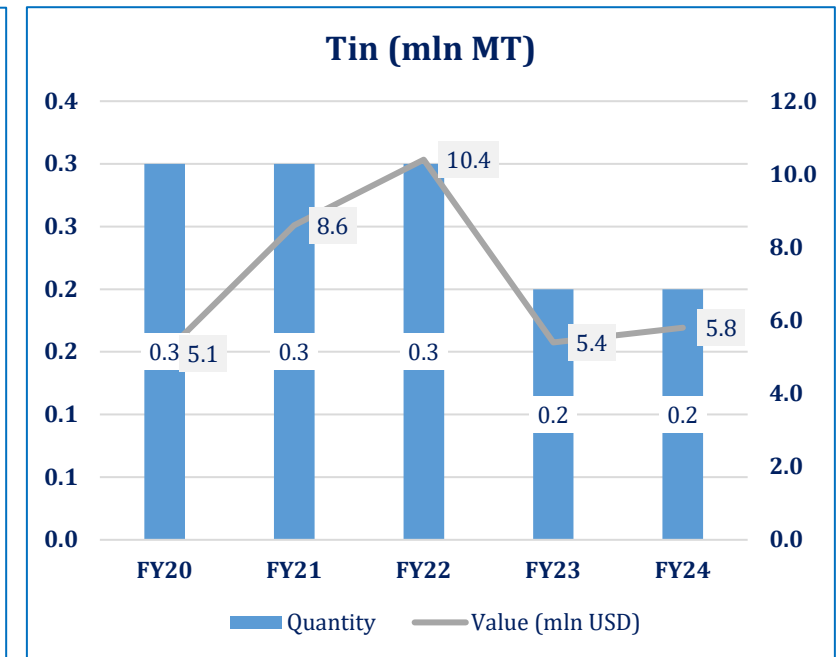
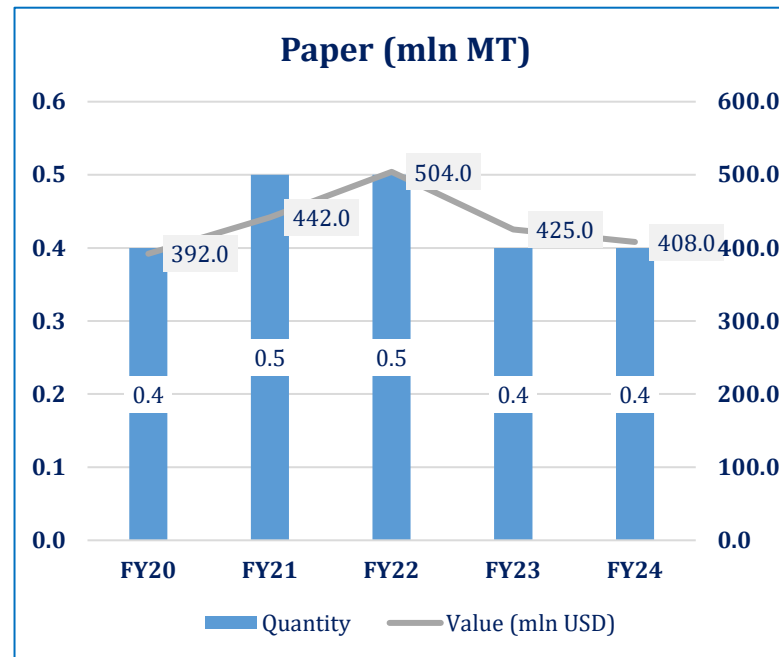
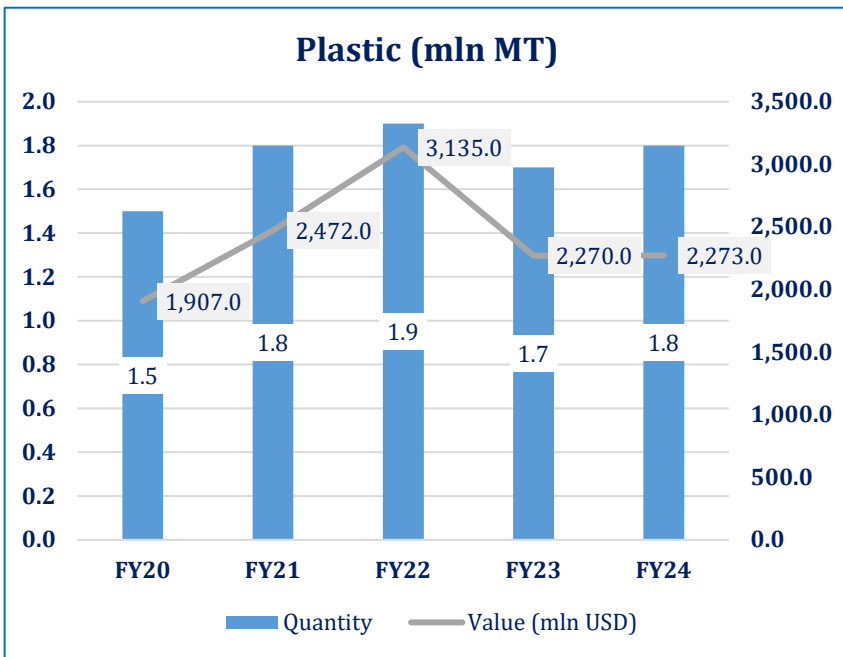
- Pakistan’s Paper & Packaging Sector consists of three major segments - Plastic, Paper, and Tinplate. Plastic and Paper segments occupy the major share of the total market, while other materials such as Tinplate and Glass have relatively smaller sizes.
- The Tinplate segment is dominated by two local manufacturers, namely Pakistan Aluminum Beverage Cans Limited and Siddiqsons Tin Plate Limited (STPL). While the former is the sole producer of aluminum-based beverage cans, STPL is the sole manufacturer of Tinplate for larger Tin cans in the country.

Segment	Plastic	Paper	Tinplate
<b>Type</b>	PET bottles and CPP, BOPP & BOPET film	Paper & Board	Tinplate
<b>Demand</b>	PET bottles: Beverages & Pharmaceuticals Film: Consumer goods such as snacks and confectionary items	Used in a large variety of retail and consumer products	Edible Oil, Ghee, Canned Food & Paints
<b>Market Structure</b>	Oligopoly	Oligopoly	Duopoly
	4 listed players	4 listed players	2 listed players

# Paper & Packaging

## Local | Segment-wise Imports

- Plastic:** During FY24, Plastic imports increased to ~1.8mln MT (FY23: ~1.7mln MT) a YoY increase of ~5.8%. In terms of value, imports increased marginally to USD~2,273mln in FY24 (FY23: USD~2,270mln). However, in PKR terms, the value increased by ~15.7% YoY, in FY24, mainly because of a currency devaluation of ~15.5% YoY.
- Paper:** Imports for the Paper during FY24 remained unchanged at ~0.4mln MT (FY23: ~0.4mln MT). In terms of value, imports clocked in at USD~408.0mln in FY24 (FY23: USD~425.0mln), a YoY decline of ~4.0%.
- Tinplate:** During FY24, imports for the Tinplate remained unchanged at ~0.2mln MT. In terms of value, imports clocked in at USD~5.8mln during FY24 (FY23: USD~5.4mln), a YoY increase of ~7.4%.



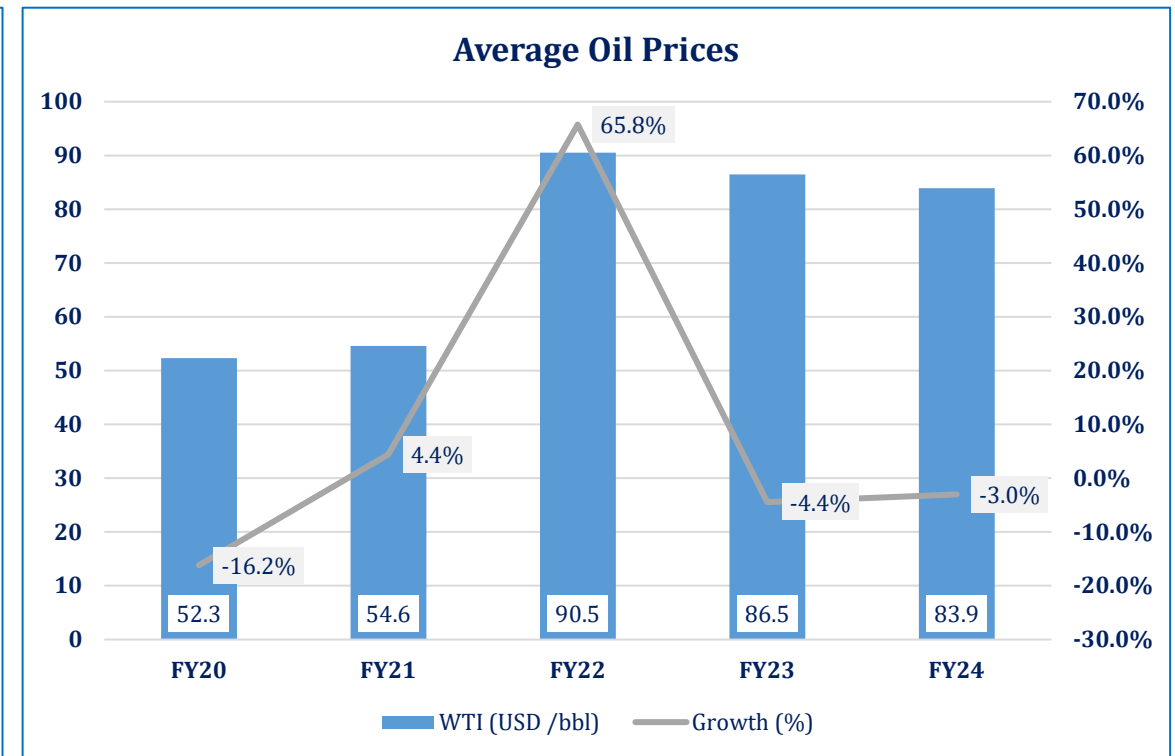
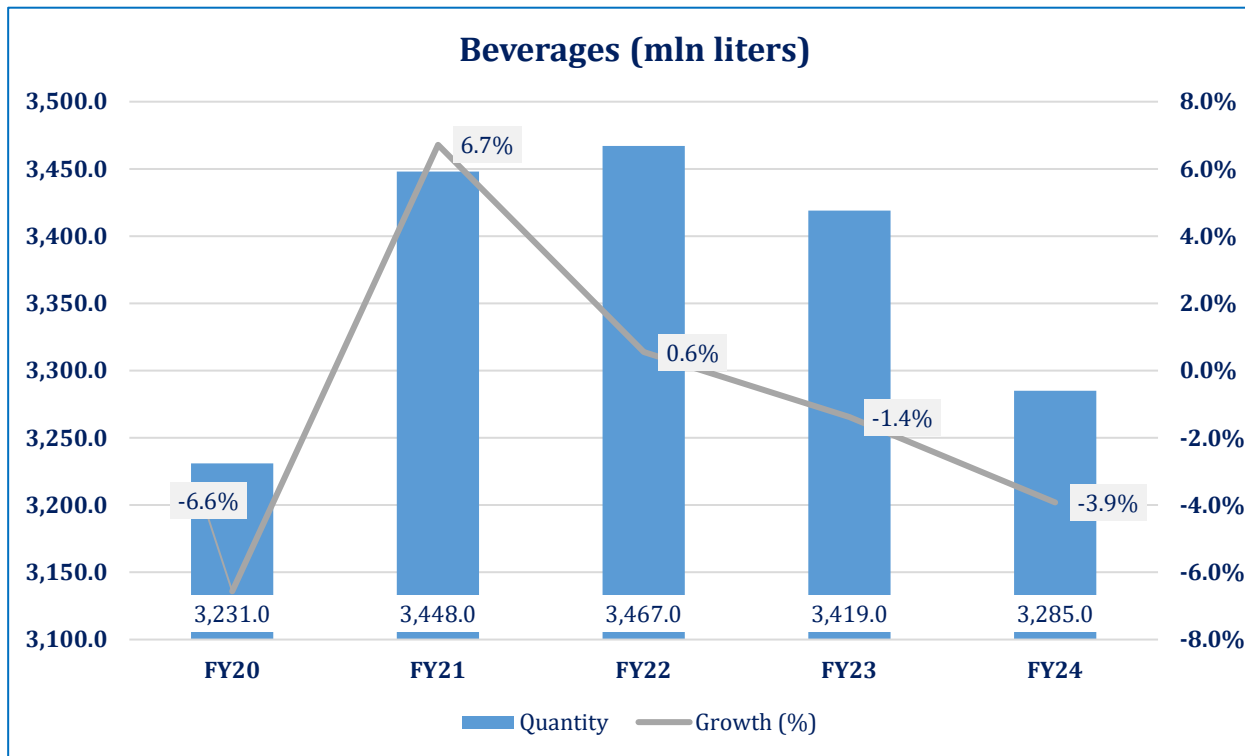
# Plastic Packaging



# Paper & Packaging

## Business Risk | Plastic

- The Plastic Packaging segment derives its demand from various industries, such as food and beverages. The production of beverages over the past five years (FY20-24) increased at a CAGR of ~0.3%. During FY24, beverage production decreased by ~3.9% YoY (FY23:~-1.4%).
- The price of the major raw material used in the making of plastic, Polyethylene Terephthalate (PET), is correlated with international oil prices. Any volatility in the oil prices and exchange rates is, therefore, a significant source of risk for this segment. The variability in oil prices during FY24 was mainly due to the supply chain disruptions caused by the war in the Middle East and increased raw material prices on a global level due to high inflation and interest rate hikes. However, during FY24, oil prices decreased by ~3.0% YoY due to low demand for oil from major importers like China due to the economic slowdown.

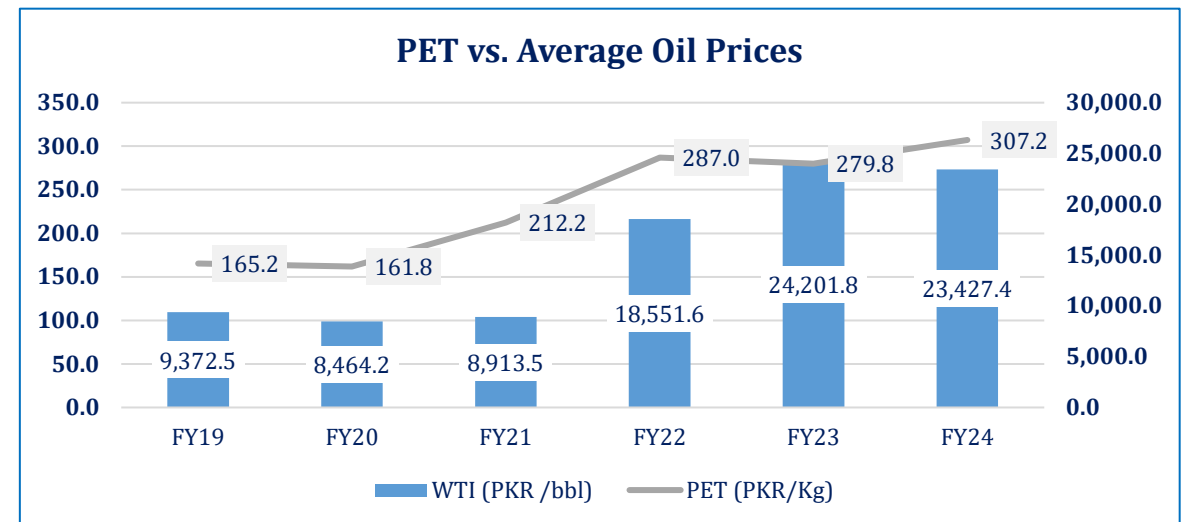
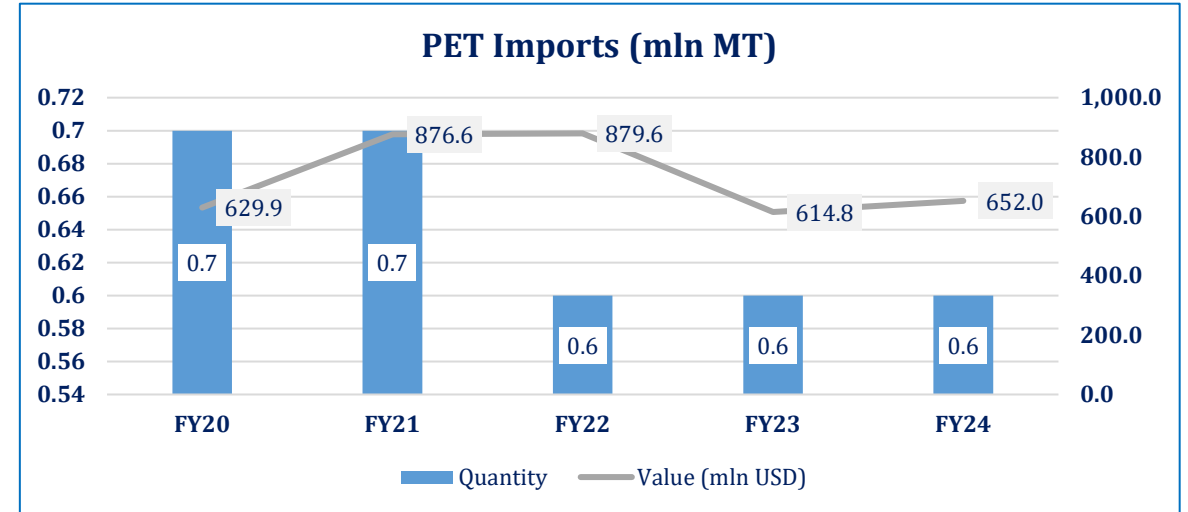




# Paper & Packaging

## Raw Material | Plastic

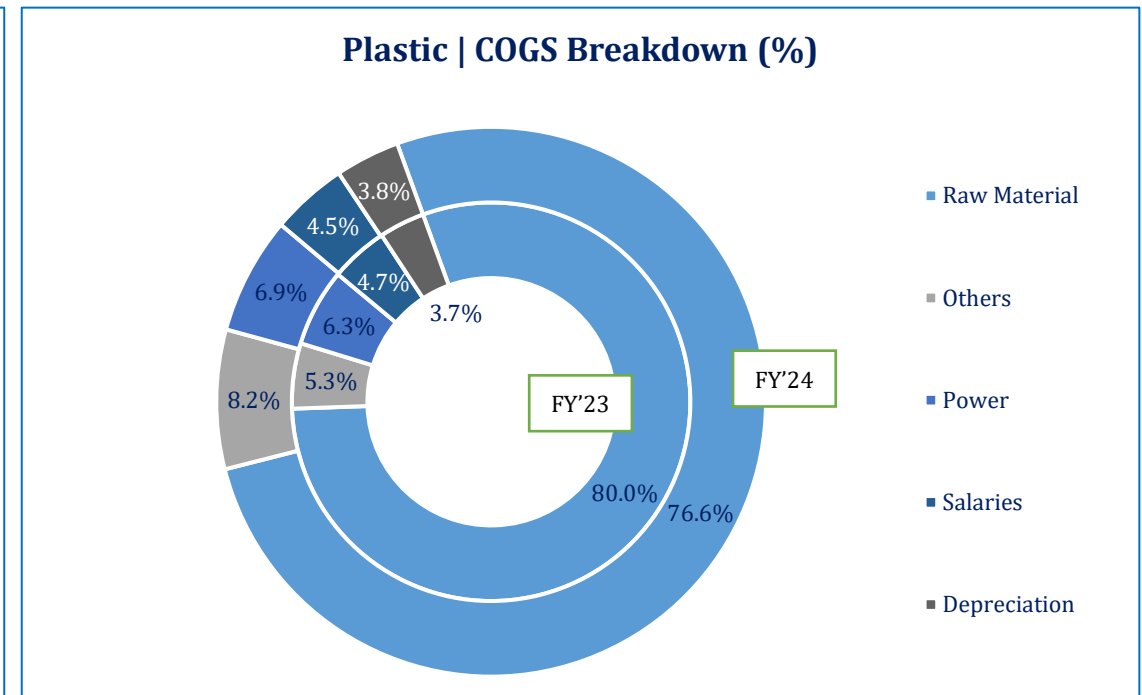
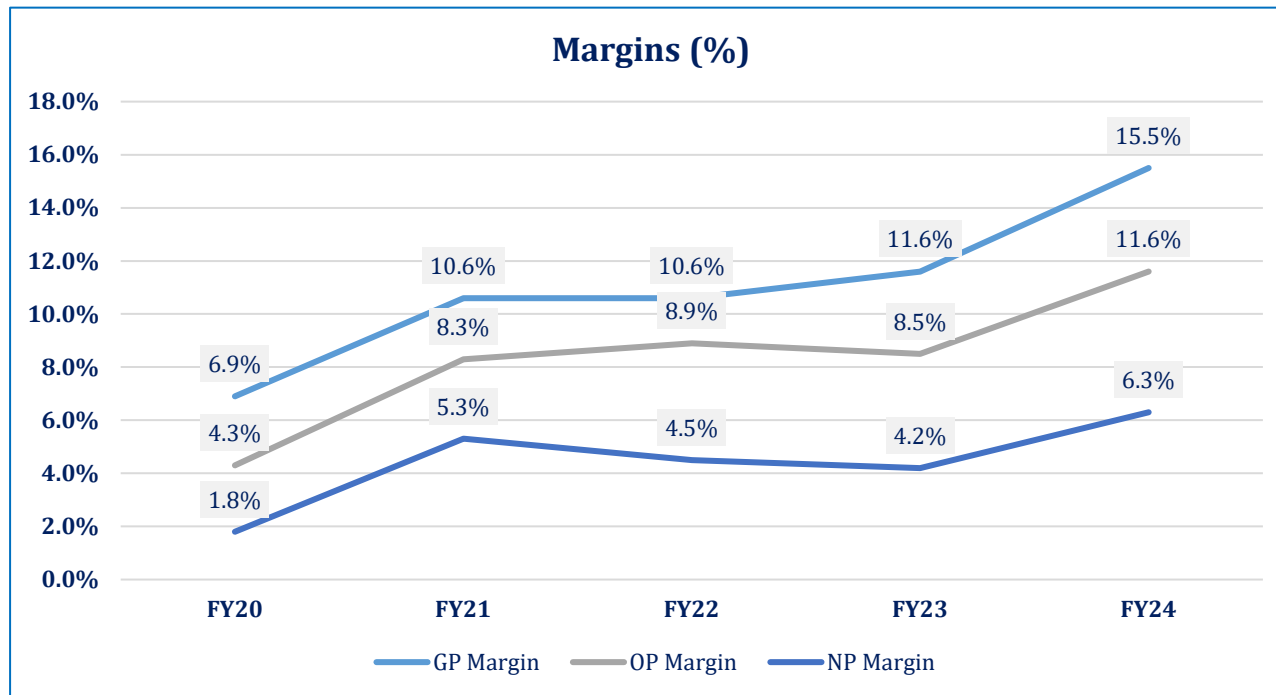
- PET Resin is one of the primary raw materials used in the manufacture of Plastic bottles, films, and other Plastic Packaging. It is made from the derivatives of crude oil, and as can be seen in the price graph next to it, their prices have a similar trajectory. On a global level, the prices of PET witness a mixed trend. However, in Pakistan prices have risen due to rupee depreciation.
- Average crude oil prices declined by ~3.0% YoY from USD~86.5/bbl in FY23 to USD~83.9/bbl in FY24. This was majorly due to high interest rates across the globe, reflecting hawkish monetary policy to tame increasing levels of inflation. Moreover, the demand for crude oil from China (the top crude importer) remained comparatively lower than the previous year.
- Local imports of PET Resin remained almost stable at ~0.6mln MT in FY24. Meanwhile, imports in terms of value clocked in at USD~652.0mln (SPLY: USD~614.8mln), up ~6.1% YoY. The imports of PET resin have grown at a CAGR of ~0.6% during CY20-24.
- Pakistan is almost entirely reliant on imports of PET Resin as there are only two major local suppliers, namely, Pakistan Synthetics Limited and Ecopack Limited. The major exporters of PET Resin to Pakistan are China, Germany, and Thailand.



# Paper & Packaging

## Margins | Plastic

- During FY24, the segment gross revenue grew by ~12.3% YoY (FY22: ~28.2% YoY) while the costs rose ~9.5% YoY. Therefore, average gross margins clocked in at ~15.5% during FY24 (FY22: ~11.6%).
- Moreover, operating profit increased by ~13.9% YoY in FY24 (FY23: ~9.9%), while the net profit registered ~12.9% YoY growth resulting in average net margins improving to ~6.3%. During the year, finance costs rose ~65.1%, as total borrowing increased by ~54.2%
- The segment's direct costs comprise imported raw cellulose, coal, natural gas, and crude oil which together form ~76.6% of the cost of sales. Therefore, volatility in exchange rates and international price levels of these commodities directly impact the segment's cost of production and ultimately profitability.

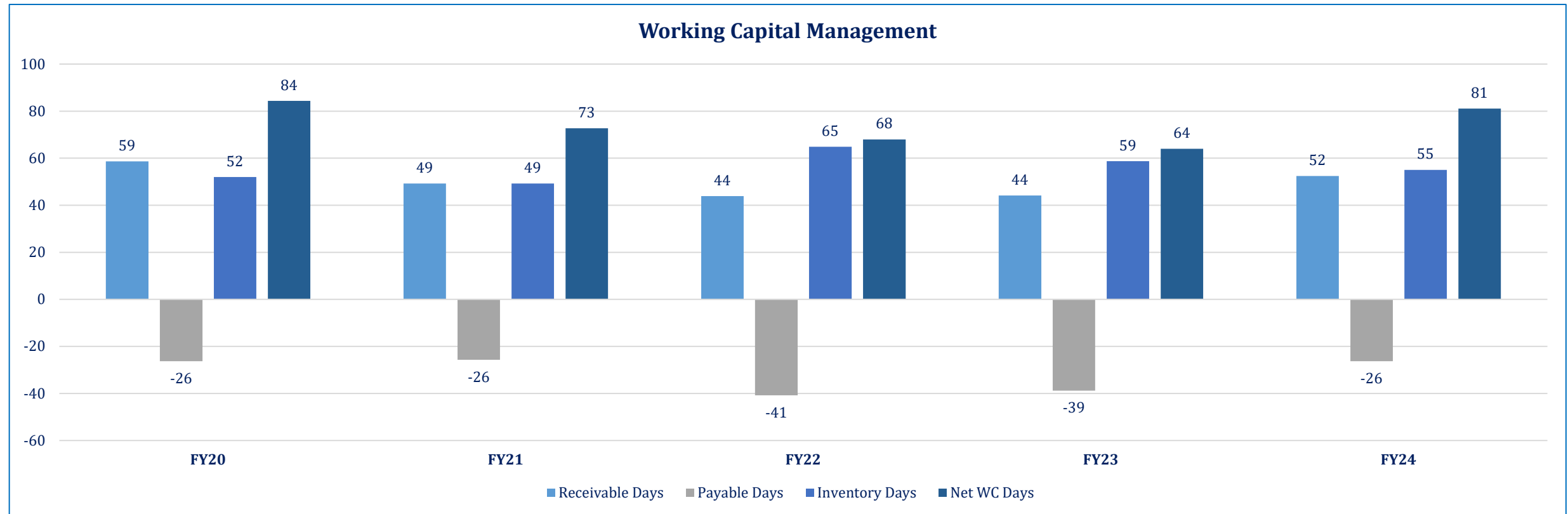


Note : Data is reflective of ~8 PACRA-rated/Listed sector players in FY23, while margins are revenue-weighted

# Paper & Packaging

## Financial Risk | Plastic

- The segment’s working capital is largely a function of inventory and trade receivables and is financed through a combination of short-term borrowings and internal capital. In FY24, the average working capital days of the segment increased to ~81 days (FY23: ~64 days).
- Average inventory days decreased to ~55 days (FY23: ~59 days) whereas average receivable days increased to ~52 days (FY22: ~44 days). Meanwhile, average payable days decreased to ~26 days (FY23: ~39 days).

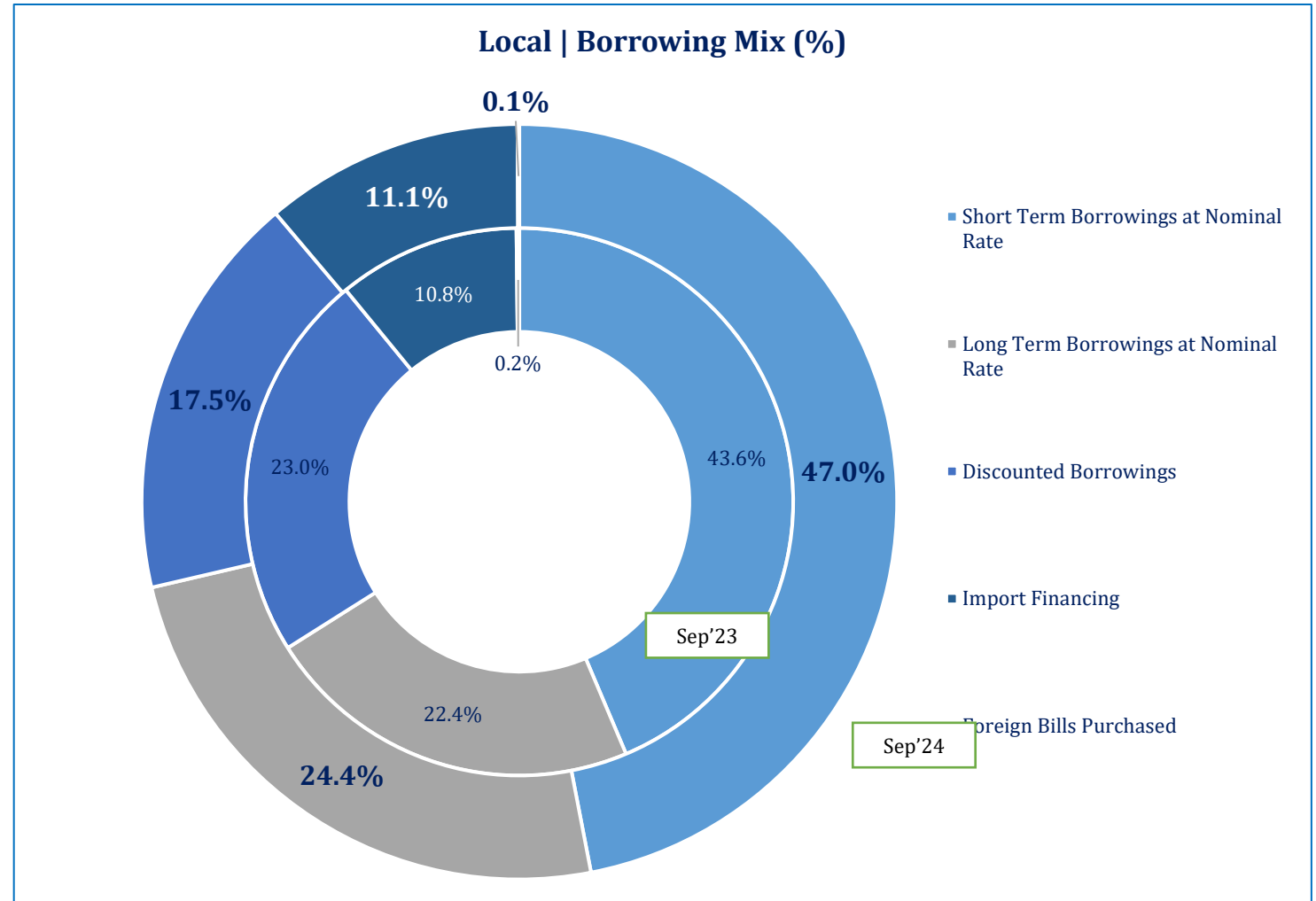


*Note: Working capital cycle is representative of ~8 PACRA rated/listed companies*

# Paper & Packaging

## Financial Risk | Borrowings

- As of end-Sep'24, the segment's overall borrowings stood at PKR~61.2bln, up ~43.4% YoY (end-Sep'23: PKR~42.7bln).
- Short-term borrowings (STBs) at normal rates stood at PKR~28.7bln, up ~54.3% YoY, and held the largest share in the segment's borrowing mix at ~47.0% (SPLY: ~43.6%).
- Long-term borrowings (LTBs) at normal rates stood at PKR~14.9bln, up ~56.1% YoY, and held a share of ~24.4% in overall borrowings (end-Sep'23: ~22.4%).
- Discounted borrowing (LTFF & EFS) stood at PKR~10.7bln (end-Sep'23: PKR~9.8bln), up ~8.8% YoY, and held a share of ~17.5% in the overall borrowing mix.
- Meanwhile, import financing stood at PKR~6.8bln (end-Sep'23: PKR~4.6bln), up ~47.8% YoY, as of end-Sep'24, and held ~11.1% share in the total borrowing mix during the period.



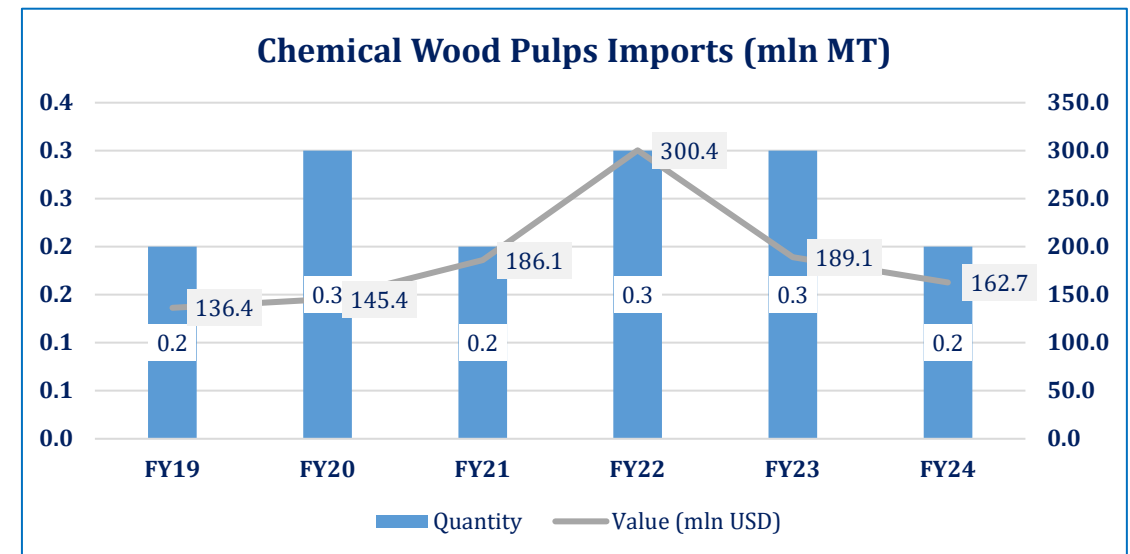
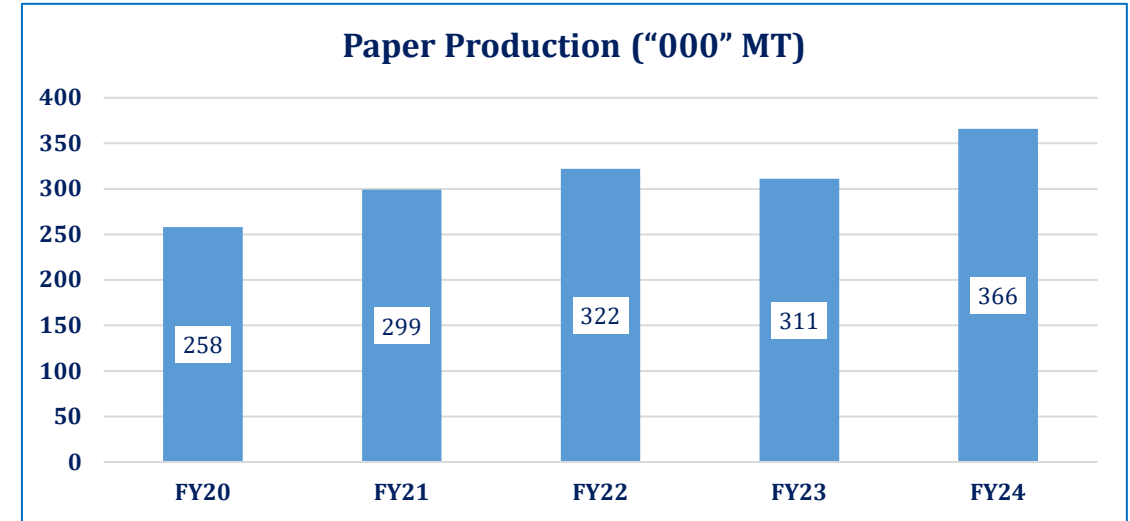
# Paper Packaging



# Paper & Packaging

## Business Risk | Paper

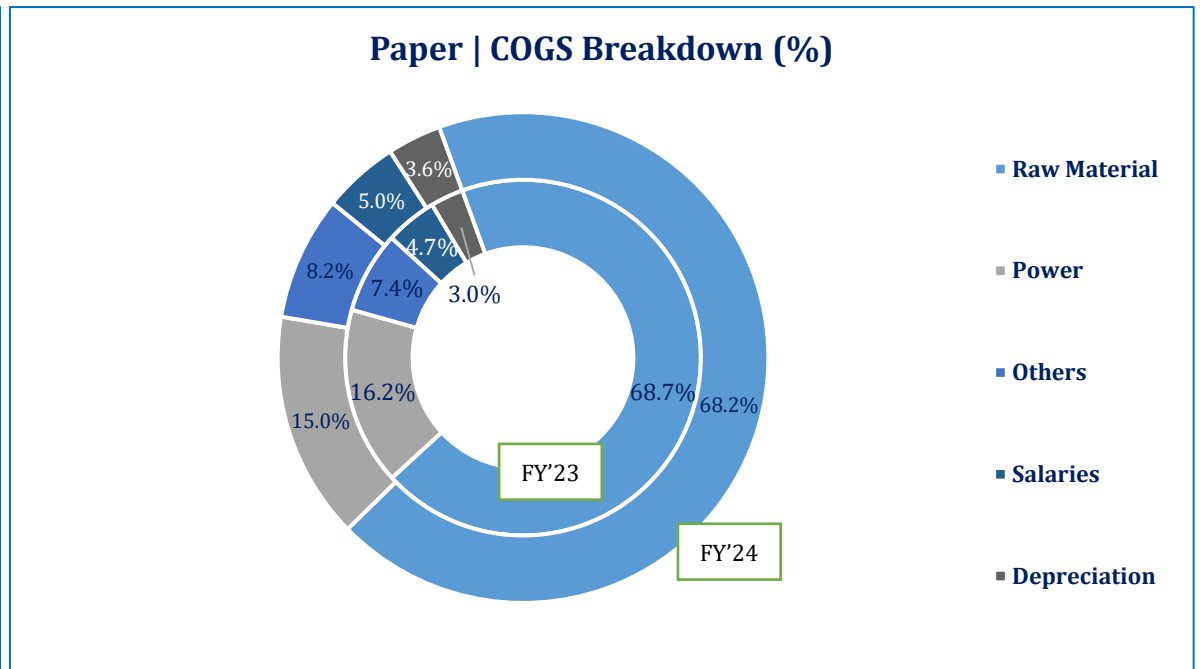
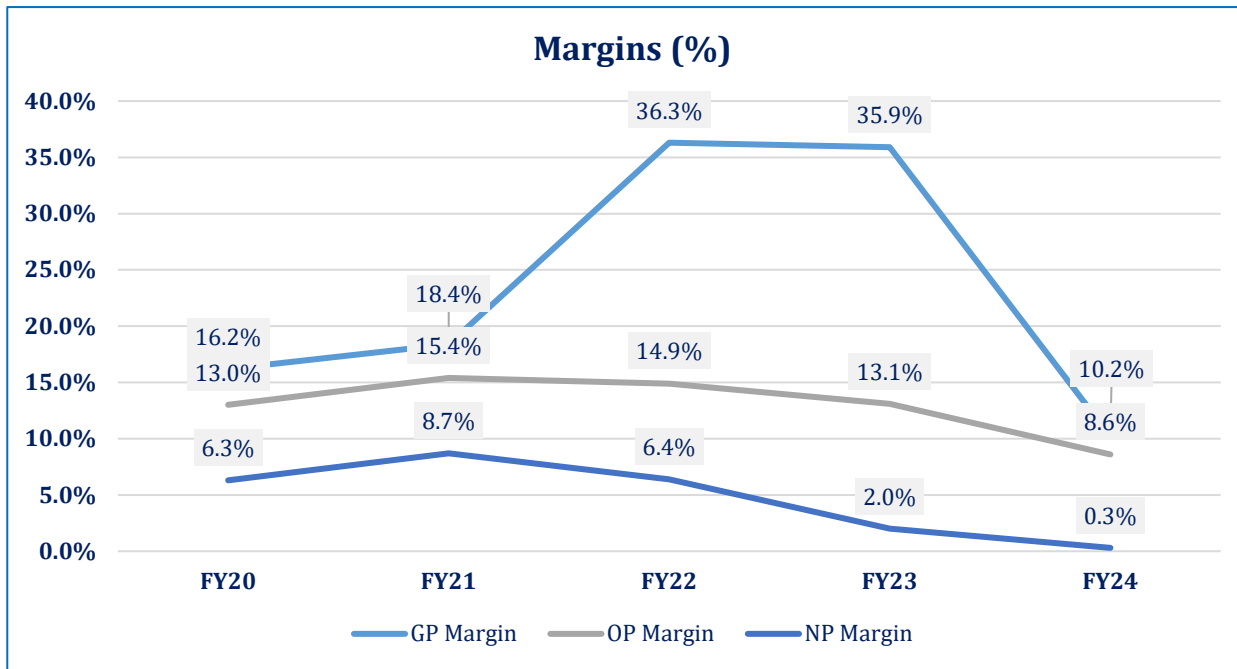
- Over the recent years (FY20-FY24), the Paper Packaging segment has remained largely stable in terms of its quantum of production. This segment is being driven by the growing consumer awareness of sustainable packaging and the stringent rules enforced by various environmental protection organizations (regarding the usage of environmentally friendly packaging items).
- The production levels of Paper over the last five years have experienced a CAGR of ~7.2%. This reflects the stability of the segment as it makes up a significant portion of overall Paper and board production. The production of Paper increased in FY24 to ~366,267MT from ~311,675MT in FY23 with an increase of ~17.6% YoY.
- Chemical wood pulp is one of the main raw materials in the production of Paper Packaging. The imports of wood pulp decreased by ~13.9% YoY in value terms during FY24, with value imported clocking in at USD~162.7mln (SPLY: USD~189.1mln).
- In volumetric terms, the quantity imported decreased by ~0.2mln MT (SPLY: ~0.3mln MT), i.e., ~33.3% YoY.



# Paper & Packaging

## Margins | Paper

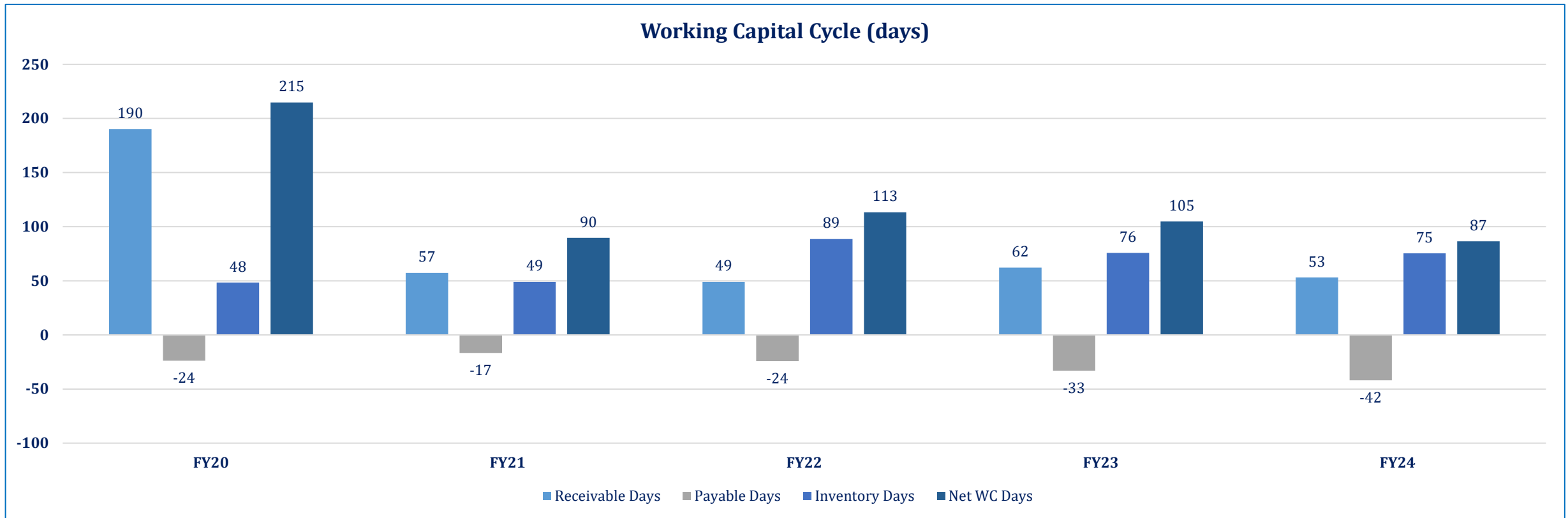
- During FY24, there has been a ~27.6% YoY decrease in the segment's sales revenue. The average gross margins dropped to ~10.2% in FY24 (FY23: ~35.9%). Similarly to this, an increase in the price of imported Paper can be linked to an increase in the cost of wood pulp by more than ~30% during FY22, which was followed by a further devaluation of the Pakistani rupee (PKR) increasing local paper sales.
- Operating profit decreased by ~66.8% YoY in FY24 (FY23: ~31.1%), while the net profit registered a ~29.5% YoY decline resulting in average net margins decline to ~0.3%. During the year, finance costs decreased by ~24.2%, as total borrowing decreased by ~13.5%.
- The segment's direct costs largely consist of imported raw materials, including wood pulp, fibers, cellulose, and cotton. Together, raw materials made up ~68.2% of the total cost incurred by the segment during FY24 (FY23: ~68.7%). Volatility in exchange rates and international price trends has an impact on the direct costs of the segment.



# Paper & Packaging

## Financial Risk | Paper

- The segment's working capital is largely a function of inventory and trade receivables and is financed through a combination of short-term borrowings and internal capital. In FY24, the average working capital days of the sector declined to ~87 days (FY23: ~105 days).
- Average inventory days marginally decreased to ~75 days (FY23: ~76 days) whereas average receivable days decreased to ~53 days (FY23: ~62 days). Meanwhile, average payable days increased to ~42 days (FY23: ~33 days).



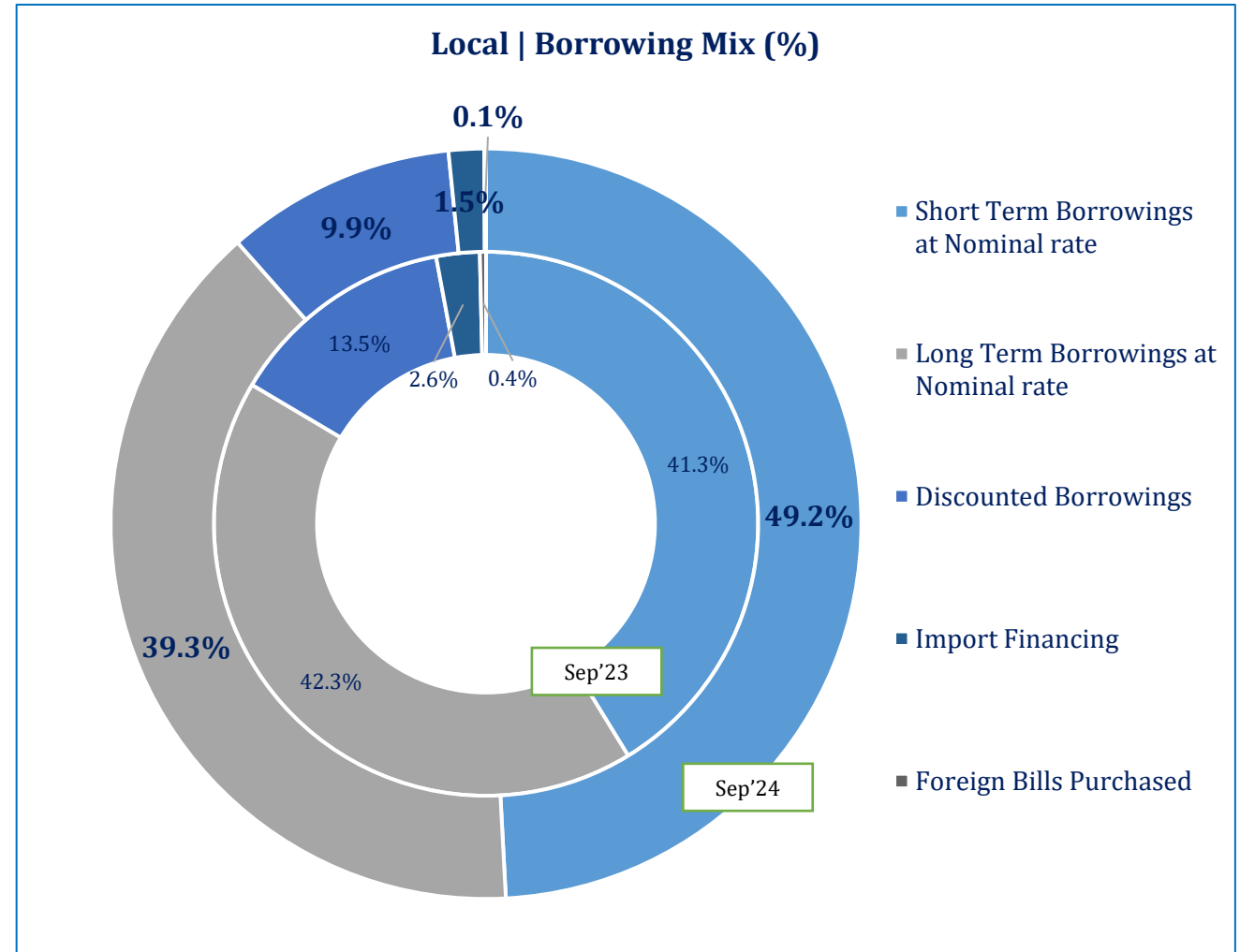
*Note: Working capital cycle is representative of ~10 PACRA rated/ listed companies.*



# Paper & Packaging

## Financial Risk | Borrowings

- As of end-Sep'24, the segment's overall borrowings stood at PKR~132.1bln, up ~58.8% YoY (end-Sep'23: PKR~99.2bln).
- Short-term borrowings (STBs) at normal rates stood at PKR~64.9bln, up ~24.0% YoY, and held the largest share in the segment's borrowing mix at ~49.2% (SPLY: ~41.3%).
- Long-term borrowings (LTBs) at normal rates stood at PKR~51.9bln, up ~24.0% YoY, and held a share of ~39.9% in the overall borrowings (end-Sep'23: ~42.2%).
- Discounted borrowings (LTFF & EFS) stood at PKR~9.9bln (end-Sep'23: ~13.5bln), down ~2.3% YoY and held a share of ~9.9% in the overall borrowing mix.
- Meanwhile, import financing stood at PKR~2.0bln (end-Sep'23: PKR~2.5bln), down ~21.1% YoY as of end-Sep'24, and held ~1.5% share in the total borrowing mix during the period.



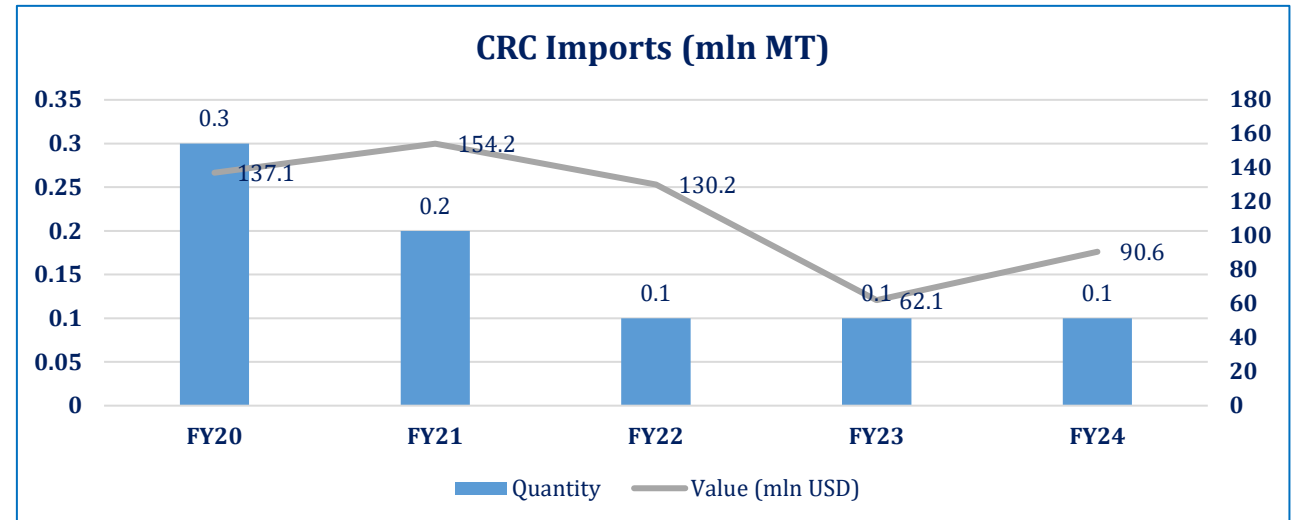
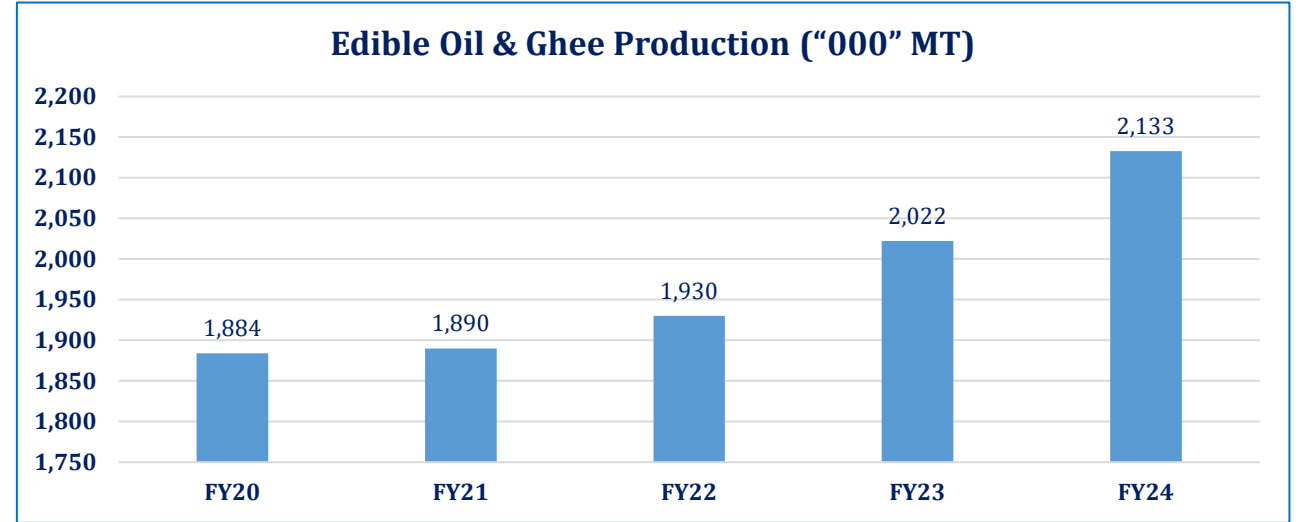
# Tinplate Packaging



# Paper & Packaging

## Business Risk | Tinplate

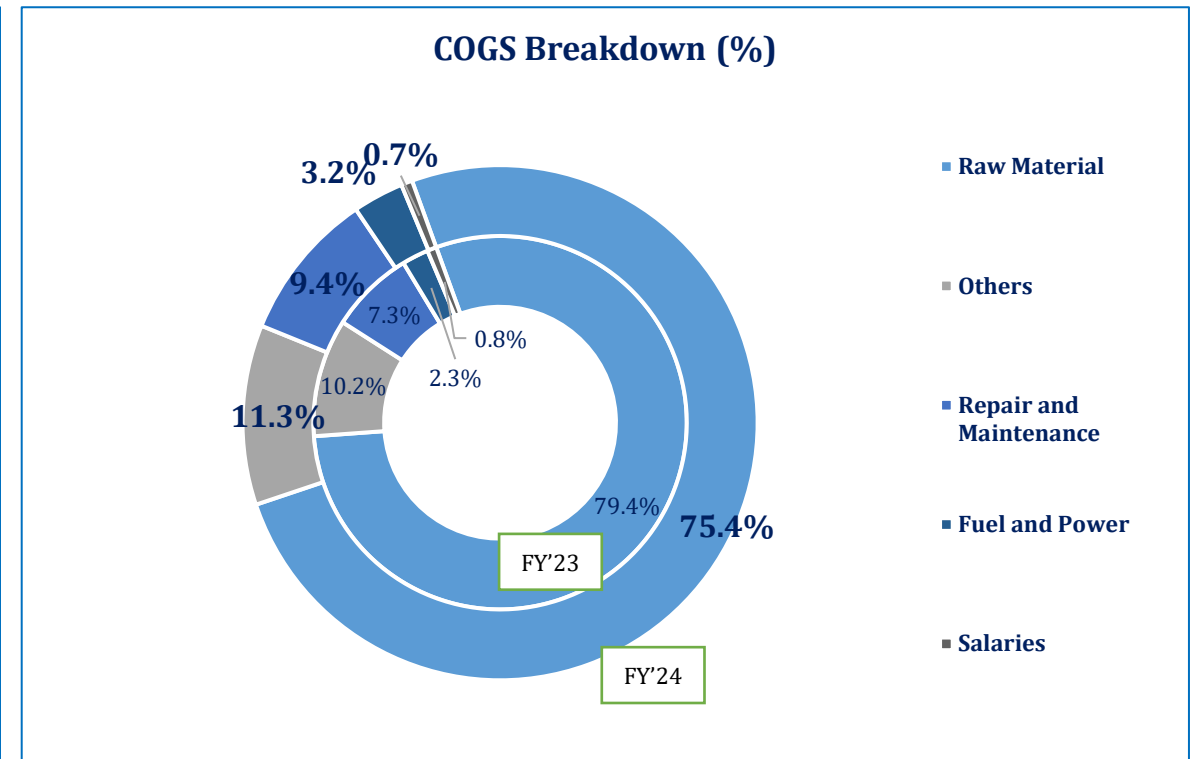
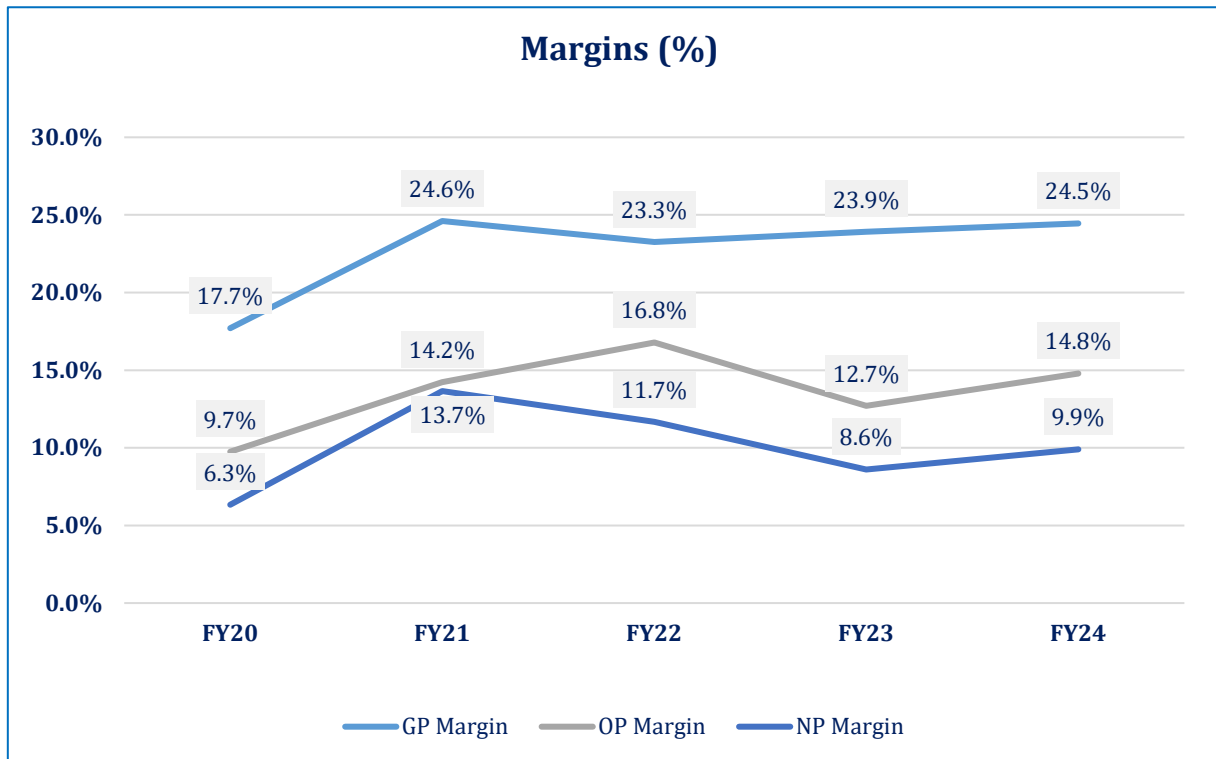
- The edible oil and ghee industries are two of the main demand drivers for the Tinplate Packaging segment. The production levels of ghee and edible oil for the previous five years (FY19-FY24) are displayed in the adjacent graph, depicting an average annual growth rate of ~4.5%.
- In Pakistan, there are two Tinplate producers, namely, Siddiqsons Tin Plate Limited and Pakistan Aluminum Beverage Cans Limited. The National Tariff Commission (NTC) has placed an anti-dumping charge on Tinplate imports from China, South Africa, the EU, and the USA, which has given local manufacturers protection to some extent.
- The imports of CRC have been volatile in previous periods. Since FY20, the imports have dropped from USD~137mln in CY20 to USD~62.1mln in FY23. However, during FY24 the imports increased to USD ~90.6mln, a YoY increase of ~45.9%.
- The National Tariff Commission (NTC) has imposed an anti-dumping duty on CRC imports from Canada and Russia of 14% in FY21. Anti-dumping duty was already applicable to imports from China.



# Paper & Packaging

## Margins | Tinplate

- During FY24, the segment's gross revenue grew at a higher pace, i.e., by ~13.4% YoY (FY22: ~28.2% YoY) while the cost of sales rose ~12.7% YoY. Therefore, the average gross margins clocked in at ~24.5% during FY24 (FY23: ~23.9%).
- Operating profit rose to ~14.8% in FY24 (~12.7% in FY23), while the net profit registered a ~14.1% YoY growth, resulting in average net margins improving to ~9.9% (FY23: ~8.6%).
- The segment's direct costs comprise imported raw material, i.e., CRC. Therefore, volatility in exchange rates and international price levels directly impacts the segment's cost of production and ultimately profitability.

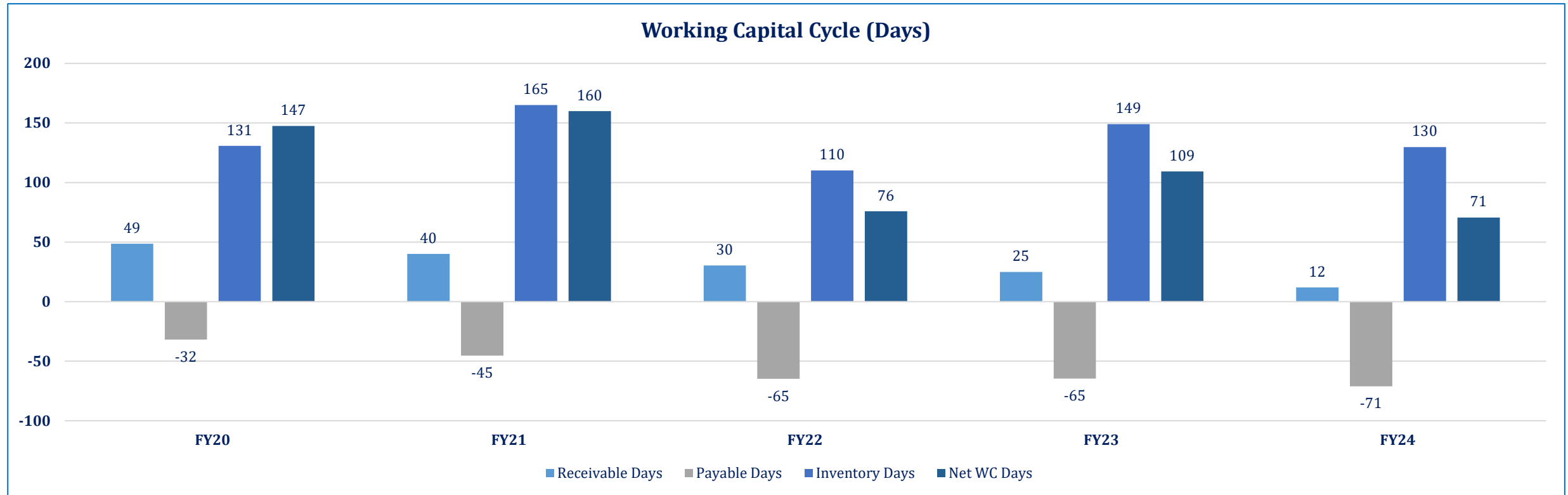


Note : Data is reflective of 2 PACRA-rated/Listed sector players in FY23, while margins are revenue-weighted

# Paper & Packaging

## Financial Risk | Tinplate

- The Tinplate Packaging segment exhibited a decline in its working capital cycle with average net working capital days decreasing to ~71 days at the end of FY24 as compared to ~109 days at the end of FY23.
- In FY24, the inventory days declined to ~130 days (SPLY: ~ 149 days). The average receivable days decreased to ~12 days (FY23: ~25 days), while, the average payable days increased to ~71 days (FY23: ~65 days).



*Note: The working capital cycle is representative of 2 listed companies.*

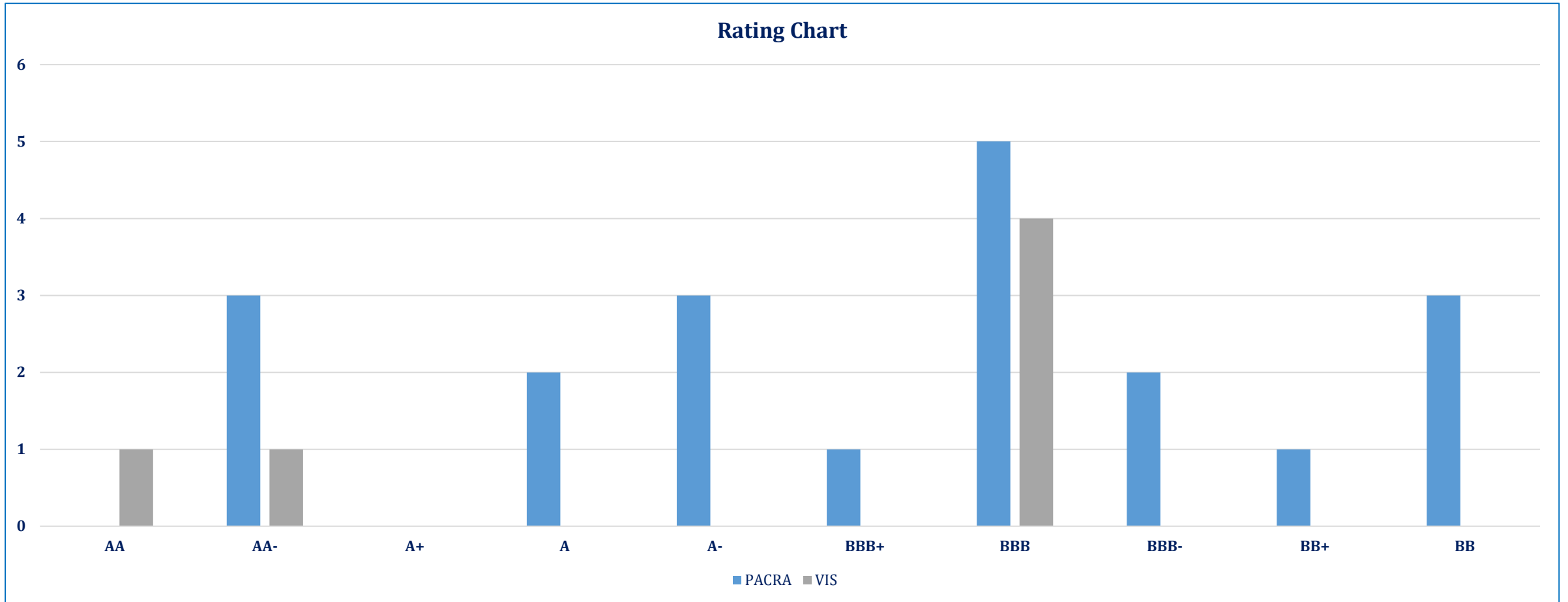
# Paper & Packaging

## Duty Structure

PCT Code	Description	Additional Custom Duty		Custom Duty		Regulatory Duty		Total	
		FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
<b>7209.1690</b> <b>7209.2890</b>	Flat- rolled products of iron or non- alloy steel, of a width of 600 mm or more, cold- rolled (cold- reduced), not clad, plated or coated.	2.0%	2.0%	11.0%	11.0%	10.0%	10.0%	23.0%	23.0%
<b>3901.1000</b> <b>3901.2000</b>	Polymers of ethylene, in primary forms	2%	2%	3%	3%	0%	0%	5%	5%
<b>4703.2100</b> <b>4707.2090</b>	Wood Pulp (Mechanical, Chemical & Other)	2%-6%	2%-6%	0% -20%	0% -20%	0%	0%	2%-26%	2%-26%
<b>4819.1000</b> <b>4819.2000</b>	Cartons, boxes, cases, bags and other packing containers, of Paper, Paperboard	4%	4%	16%	16%	0%	0%	20%	20%
<b>3923.1000</b>	Articles for the conveyance or packing of goods, of Plastics; stoppers, lids, caps and other closures, of Plastics.	6%	6%	20%	20%	15%	15%	41%	41%
<b>8007.001</b>	Tinplate, Sheets or Strips	2%	2%	3%	3%	0%	0%	5%	5%

## Rating Curve

PACRA rates 20 entities in the Sector, with their long-term credit rating ranging from BB to AA category.



# Paper & Packaging

## SWOT

- Highly diversified product mix.
- Government support for local manufacturers in the form of import duties.
- Availability of low-cost labor.
- Increasing trends of urbanization, consumerism, and e-commerce.

Strengths

Weaknesses

- Absence of an industry association for the overall packaging industry.
- Decline in per capita income and high level of inflation, thus reducing the purchasing power of end consumers.

- Increase in exchange rate and volatility of imported raw material prices.
- Increasing awareness regarding harmful environmental impacts of Plastic packaging.

Threats

Opportunities

- Conversion from glass to PET bottles in the beverage industry.
- Opportunity for innovation to move towards more environmentally friendly packaging solutions.



# Paper & Packaging

## Outlook

### Plastic | Stable

- As sustainability continues to dominate the plastic packaging industry, producers are expected to move away from plastic packaging to more sustainable sources like paper or cloth.
- An increase in regulations against the use of plastic especially, a recent ban in FY24 on single-use plastic means that consumers can quickly shift to other packaging materials.
- Despite this, during FY24, the sector's gross revenue grew by ~12.3% YoY (FY23: ~28.2% YoY) while costs rose ~9.5% YoY.
- This is because many of these regulations were not properly implemented in the local markets with many big producers as well as small shopkeepers continuing to rely on plastic as a staple packing product.
- The segment's direct costs comprise imported raw cellulose, coal, natural gas, and crude oil which together form ~76.6% of the cost of sales. Therefore, volatility in exchange rates and international price levels of these commodities directly impact the Segment's cost of production and ultimately profitability. With ongoing geopolitical conflicts, a rise in the prices of these resources could lead to lower margins for the plastic packaging players, along with an expected reduction in demand.

### Paper | Stable

- The production levels of Paper over the last five years have experienced a CAGR of ~7.2%. This reflects the stability of the segment as it makes up a significant portion of overall Paper and board production. The production of Paper increased in FY24 to ~366,267/MT from ~311,675mtn/MT in FY23 with an increase of ~17.6% YoY.
- Many multinational companies have already shifted from plastic packaging to paper. Local stores are also starting to adopt paper packaging, as Companies are increasing their investment in more reliable paper packaging.
- During FY24, there has been a ~27.6% YoY decrease in the segment's sales revenue. The average gross margins dropped to ~10.2% in FY24 (FY23: ~35.9%). Similarly to this, an increase in the price of imported Paper can be linked to an increase in the cost of wood pulp by more than ~30% during FY22, which was followed by a further devaluation of the Pakistani rupee (PKR) increasing local paper sales.
- Looking ahead, the Segment is anticipated to experience growth, driven by the increasing popularity of online shopping and packaged goods.

### Tinplate | Outlook: Stable

- The edible oil and ghee industries are two of the main demand drivers for the Tinplate Packaging Segment.
- The production levels of ghee and edible oil for the previous five years (FY19-FY24) depict an average annual growth rate of ~4.5%.
- Raw materials used in this sort of packaging include materials like aluminum, tin, and steel. The high cost of these raw materials makes this packaging slightly more expensive, however, the growing Pakistani market is increasingly accepting Tinplate packaging for its strength and sophistication.
- This is the reason for the continuous rise in revenue as during FY24, the sector's gross revenue grew by ~13.4% YoY (FY23: ~28.2% YoY) while costs rose ~12.7% YoY.
- Going forward, this segment also faces sustainability concerns, as recycling and disposal of tinplate packaging is an issue attracting stringent regulations.
- Investment is required for advanced manufacturing technology in this sector to continue its growth on sustainable grounds.

# Paper & Packaging

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- Federal Board of Revenue (FBR)
- National Tariff Commission
- Company Financials
- UN Comtrade
- Trade Map
- Globe Newswire
- PACRA database

<b>Research Team</b>	<b>Saniya Tauseef</b> Senior Manager <a href="mailto:saniya.tauseef@pacra.com" style="color: white;">saniya.tauseef@pacra.com</a>	<b>Muhammad Iqbal</b> Research Analyst <a href="mailto:muhammad.iqbal@pacra.com" style="color: white;">muhammad.iqbal@pacra.com</a>
<b>Contact Number: +92 42 35869504</b>		

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