PACKAGES LIMITED

CREDIT POLICY - BUCP

Particulars	Description
Document Title	Credit Policy
Ownership	Sales Department - BUCP
Review Frequency	After every 3 years unless necessitated earlier
Approved By	Audit Committee & Board of Directors
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1. Purpose

This policy outlines the requirements for establishing credit lines and payment terms with the company's customers, as well as the monitoring of those terms. The policy also defines alternatives to be made available to those customers that do not qualify for company credit.

It is designed to promote the sale of Company products while minimizing credit risk to the Company by setting out guidelines for defining and measuring the credit-risk exposure within the company and to assess the risk of losses associated with credit extended to customers.

Customer credit represents significant use of company assets. Because of the high risk involved, the customer credit is, therefore, one of the most important categories of assets to manage properly.

2. Scope

This policy applies to all sales of company products to customers within Pakistan. All departments/ functions responsible for sale, marketing, contract approval, order acceptance, scheduling and shipment of products must adhere to the policy and guidelines given in this policy.

Retail Sales Department lead by Head of Sales and Away From Home Sales Department lead by Manager Food Services are responsible for all the functions relating to their respective product sales.

3. Policy

1. This policy provides guidelines that set:
    - the terms and conditions for selling goods on credit;
    - customer qualification criteria for credit sale;
    - procedure for making collections; and
    - steps to be taken in case of customer delinquency.

2. In order to facilitate the flow of orders and shipment of products, it is Company policy to extend credit only to those customers who demonstrate both the ability to pay and have history of timely payments of debts.

3. The Sales department will evaluate all new and existing customers to determine terms and conditions and level of credit to be extended. The Sales department will also periodically review and re-evaluate payment terms and credit lines of existing customers to support new customer requirements and to manage risk as financial and business conditions change.

4. Goals and objectives

The goals and objectives are to:

- Support the financial goals of Packages and, specifically, to support its sales efforts, while maintaining the highest quality of accounts receivable within the company’s appetite for risk.

- Provide flexible mechanisms to sell to a broad range of customers while ensuring that only prudent credit risks are taken and cash flow is maintained.

- Maintain customer good will during the collection process.
- Keep Senior Management informed about emerging problems including uncollectible accounts and orders held.

5. Responsibilities for Credit & Collections

1. The National Sales Manager is responsible for managing the credit review and approval process and accounts receivable balance to minimize collection exposure in accordance with the overall corporate operational and financial objectives. It is the responsibility of Sales department to authorize all communications with the customers regarding credit acceptance status, credit lines and payment terms and methods.

2. The Sales department shall be responsible for ensuring collection of credit within the defined credit period. In case of non-collection, procedures defined for credit collection should be performed by the Sales Department.

6. Credit Evaluation Process

1. A credit evaluation is performed by the Sales Department in consultation with the Commercial Controller in order to recommend a credit line, payment terms, and any other conditions of sale specific to the customer.

2. The Sales Department establishes limits for all active customers depending upon the following factors:

    - Credit worthiness of the customer;
    - How much credit risk the company is willing to assume;
    - Expected profitability or operating income to be earned; and
    - Potential sales volume expected to be generated.

3. Credit limits are based on trade information and financial soundness when necessary. The department reviews larger limits on a periodic basis. All limits are subject to revision, based on changing levels of credit worthiness.

4. The evaluation process would include reviewing the following five characteristics of customers:

    - Character: Is the customer trustworthy with a history of meeting its debt obligations?
    - Capacity: Will the customer have enough cash flow to make its payments?
    - Capital: Does the customer have enough capital to justify the Credit?
    - Collateral: Does the customer have any assets that can secure the Credit?
    - Conditions: How are both the customer and the economy performing and how are they expected to perform?

5. The standard form of credit is an open credit line without a secured interest. Based on the credit evaluation, the Sales department has the discretion to require some tangible form of security in

order to continue the credit approval process. The additional security requirements can include, but are not limited to, bank guarantees, letter of credit etc.

6. Appropriate documentation of customer evaluation forms should be maintained by the Commercial Controller prior to the opening of the same in system.
7. In respect of the Distributors, Company should enter into agreement setting out the necessary terms and conditions along with credit periods. Commercial Controller shall be responsible for maintaining depository of all agreements and renewing them before their respective expiry date.

Alternatives to Credit

1. The result to the credit evaluation may be a denial of credit to a customer whose risk factors are assessed as too great or whose level of risk is indeterminable due to insufficient information or background history e.g. in case of new customer. The denial of credit does not constitute, and therefore will not be communicated as a rejection of the customer. Alternative payment terms that can be approved by the Sales department and extended to these customers are:

   a) Cash In Advance (CIA) – payment is delivered to company and confirmed by the Sales department prior to dispatch of the shipment.

   b) Cash on Delivery (COD) – payment is collected by the sales personnel on the date the product is delivered to the customer.

Credit Holds and Releases

1. Credit Holds will be placed on every customer with overdue balance amount. Sales department can also place an account or shipment on credit hold when the credit limit exceeds due to any of the following reasons:

   - Payments are overdue or inconsistent
   - Customer faces financial hardship or operational setback
   - Termination of the business relationship with the customer
   - Any other reassessment of risk by the Sales department

2. Once the credit holds are placed over a customer, only Commercial Controller will be authorized for the removal of credit holds after the receipt of approval on email from Head of Sales in case of Retail business and Manager Foods Services in case of AFH. Commercial Controller should also be responsible for maintaining the documentation of approvals for audit purposes.

Customer Credit Lines Review Process

1. The Commercial Controller will periodically review the individual customers based on Customer Risk Portfolio document to be maintained and updated monthly/quarterly and give his recommendations to the Head of Consumer Division.
2. The customer risk portfolio is based on two components, historic trend of latest aging balances behavior pattern and weightage of the customers' overdue balances in entire debt portfolio. Based on the results of Customer risk assessments a Risk score and Risk rating would be assigned to each customer.
3. The criteria of Risks assessment are as follows:

Risks	Criteria
Low Risk	<= mean risk score of consolidated portfolios
Medium Risk	between low risk & high risk
High Risk	>= 5% risk score

4. Risk Score comprises of the following:

Description	Weightage
Roll Rate of the balance receivable (change in buckets of ageing)	70%
Weightage of Overdue balance in the entire customer portfolio	30%

Roll rate is the percentage of customers who become increasingly delinquent on their account. Analyzing roll rates is an effective way to review overall trends and estimate the future potential risk the customer pose.

5. Based on the results of Customer risk portfolio, Risky customers (High and Medium) would be identified for which either of the following actions could be taken:
   - Detailed Reconciliation of the overdue balances;
   - Vigorous follow-up to recover the overdue balance including customer visits;
   - Decision to alter the existing credit limits and terms;
   - Stopping dispatches till outstanding balance is cleared;
   - Denying further credit;
   - Decision for dealing with the customer through distributor;
   - Decision to discontinue business with the customer;
   - Any other action deemed necessary
6. Any potential write off's should be shared with the Senior Management of the company.

7. Collection Process

1. The collections targets are assigned one month in advance to all sales representatives and monitored by National Sales Manager. A receivables aging report is prepared by Commercial Controller and shared after every 10 days with the Sales Department for recovery of past due payments.

2. The Sales department shall have a consistent and courteous approach to collection. All customers are called when they are past due. If no payments are received within 60 days of past due, the account is put on hold and the sales representative is asked to stop further shipments and intimate the customer in writing for settlement of past due balance. If the payment is past due over 1 year, the balance is considered doubtful and full provision is made in the accounts against the outstanding balance above 1 year. The account is then considered for legal action and eventually written off if the payment is not settled despite exhausting all recovery efforts.

8. Terms of Credit Sale

1. The standard corporate payment terms of credit sale are as per credit period and limits approved by the Head of Consumer Division. Prepayment discounts are not offered in the standard corporate payment terms. The company will extend credit to customers if they meet its threshold criteria for the granting of credit.

2. In case of any exceptions to standard terms and conditions of sale, the Head of Sales in case of Retail business and Manager Foods Services in case of AFH shall discuss the case with Head of Consumer Division along with justification for change in credit terms. If Head of Consumer Division is satisfied, the exceptional credit terms may be authorized.

9. Credit Limit and Period

1. Credit limits define the maximum outstanding amount which a particular credit customer is allowed to owe to the Company at any point in time. The purpose of the credit limit is to limit Company's financial exposure in case of delayed payments or customer's financial difficulties.

2. As a general principle, the credit limits are based on estimated or last year average net revenue from the customer.

3. Credit period define the maximum days for which a sale invoice can remain un-paid, independent of credit limit, depending upon the customer assessments made as per evaluation criteria explained above.

4. In line with this policy the credit limits would also be assessed and will be defined for each customer. Subsequently, these credit limits will be adhered to during business transactions with the customers.

5. Initial credit limit and any change in the existing credit limit of the customers will require approval from the Head of Consumer Division. Commercial Controller to ensure that all approvals are documented for audit trial.

10. Credit Authorizations

All credit authorizations within the ambit of this policy will be made by Head of Consumer Division.