

RATING REPORT

Sitara Chemical Industries Limited (SCIL)

REPORT DATE:

June 13, 2016

RATING ANALYSTS:

Waqas Munir, FRM
waqas.munir@jcrvis.com.pk

Maham Qasim
maham.qasim@jcrvis.com.pk

RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A+	A-1	A+	A-1
Rating Date	07 June'16		31 Dec'14	
Rating Outlook	Stable		Stable	
Outlook Date	07 June'16		31 Dec'14	

COMPANY INFORMATION

Incorporated in 1981	External auditors: M/s Deloitte Yousuf Adil & Co Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Muhammad Khalil
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mian Mohammad Adrees
Mian Mohammad Adrees – 62.5%	
General Public – 12.4%	
Bank, DFI & NBFCs – 10.5%	
Insurance Companies – 6.1%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporates (Oct 2003)*
<http://www.jcrvis.com.pk/images/IndustrialCorp.pdf>

Sitara Chemical Industries Limited (SCIL)

OVERVIEW OF THE INSTITUTION

SCIL was incorporated in 1981 as a public limited company under Companies Ordinance; 1984. The principal activities include operation of Chlor-Alkali plant and textile unit. The chemical division is engaged in the production of caustic soda & other auxiliary products while textile division is involved in production of different types of yarn. The company is listed on Pakistan Stock Exchange

RATING RATIONALE

The assigned ratings take into account Sitara Chemical Industries Limited (SCIL) leading position in the Chlor-alkali sector. Revenue from core chemical division is supplemented by sales from textile division though moderately. In the recent years, management focus has remained on improving the operational efficiency; coal based power plant is expected to lower the fuel cost of the company. Moreover, calcium chloride plant would strengthen the product base. Generation of additional liquidity from the sale of an investment property is viewed positively.

Industry: The chlor-alkali sector is oligopolistic in nature with three players operating in the country. Overall installed capacity of the sector is higher than the demand leading to moderate capacity utilization. The export channel is also utilized; however the extent of the same remains limited. Moreover, the sector is power intensive and remains vulnerable to energy shortage.

Profitability: Over the last five years, sales of the company have largely remained stable growing at a CAGR of around 9%. SCIL market share has remained largely stable in the recent years. The major contributor to the revenue mix continues to be the chemical sector. Caustic soda remains the flagship product representing almost 64% of the total revenue. Net sales revenue of the company declined marginally to Rs. 8.7b during FY15 (FY14: Rs. 8.8b) on account of lower textile segment sales. Overall gross margins reduced to 18.0% (FY14: 24.3%) attributable to depressed prices of caustic soda and yarn and higher fuel expenses as there was higher reliance on expensive sources of electricity generation. Improved prices of caustic soda during the ongoing year reflected positively on the margins. During the outgoing year, the company sold an investment property amounting to Rs. 2b. With gain from sale of investment property offsetting the impact of lower gross profit, profit before tax remained largely unchanged during FY15.

The commercial operations of the 35MW coal based power plant are expected to initiate by end-FY16. The project will substitute expensive fuel arrangements leading to lower fuel cost of the company. Calcium Chloride plant is also expected to start production by end-FY16. Impact of these initiatives on operating performance is expected to be more visible from FY17.

Borrowings: With additional borrowing availed for coal based power plant, debt leverage and gearing ratio increased to 1.2x (FY15: 0.90x; FY14: 0.97x) and 0.76x (FY15: 0.52; FY14: 0.60x) by end-3QFY16. Leverage indicators of the company are expected to improve with majority long term borrowings repayments scheduled in the upcoming years. Given positive momentum in earnings profile; internal cash generation is considered adequate to meet the principal payments due in the coming years.

Sitara Chemical Industries Limited (SCIL)

Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
BALANCE SHEET	MAR 31, 2016	JUN 30, 2015	JUN 30, 2014
Fixed Assets	10,827	8,523	8,788
Stock-in-Trade	1,091	717	882
Trade Debts	1,256	1,187	1,263
Cash & Bank Balances	219	257	437
Total Assets	17,222	14,444	13,386
Trade and Other Payables	1,921	1,497	992
Long Term Debt (<i>*incl. current maturity</i>)	2,444	1,138	1,256
Short Term Debt	3,134	2,461	2,381
Total Equity	8,597	8,198	7,449
INCOME STATEMENT	MAR 31, 2016	JUN 30, 2015	JUN 30, 2014
Net Sales	7,222	8,723	8,807
Gross Profit	1,601	1,572	2,135
Operating Profit	886	1,112	1,146
Profit After Tax	602	986	861
RATIO ANALYSIS	MAR 31, 2016	JUN 30, 2015	JUN 30, 2014
Gross Margin (%)	22.2	18.0	24.3
Net Working Capital	(839)	152	(559)
FFO to Total Debt (x)	0.22	0.17	0.33
FFO to Long Term Debt (x)	0.51	0.53	0.97
Debt Servicing Coverage Ratio (x)	-	0.92	1.56
ROAA (%)	5.1	7.1	6.5
ROAE (%)	11.3	15.2	15.0

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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	Sitara Chemical Industries Limited				
Sector	Chemical				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating & Instrument Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	06/07/2016	A+	A-1	Stable	Reaffirmed
	12/31/2014	A+	A-1	Stable	Reaffirmed
	3/07/2013	A+	A-1	Stable	Reaffirmed
	2/22/2012	A+	A-1	Stable	Maintained
	5/3/2011	A+	A-1	Negative	Downgrade
Instrument Structure	N/A				
Statement by the Rating Team	JCR-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	JCR-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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