

## RATING REPORT

### Ittehad Chemicals Limited (ICL)

**REPORT DATE:**

December 31, 2015

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity</b>	A-	A-2	A-	A-2
<b>Rating Date</b>	22 Dec'15		22 Dec'14	
<b>Rating Outlook</b>	Stable		Stable	
<b>Rating Date</b>	22 Dec'15		22 Dec'14	

#### COMPANY INFORMATION

<b>Incorporated in 1991</b>	<b>External auditors:</b> M/s BDO Ebrahim & Co. Chartered Accountants
<b>Public Limited Company</b>	<b>Chairman of the Board:</b> Mr. Mohammad Siddique Khatri
<b>Key Shareholders:</b> Sponsoring Family - 53.9%	<b>Chief Executive Officer:</b> Mr. Abdul Sattar Khatri

#### APPLICABLE METHODOLOGY(IES)

**JCR-VIS Entity Rating Criteria** *Industrial Corporates (Oct 2003)*

<http://www.jcrvis.com.pk/images/IndustrialCorp.pdf>

## Ittehad Chemicals Limited

### OVERVIEW OF THE INSTITUTION

ICL was incorporated as a public limited company in 1991 under the Companies Ordinance, 1984. Privatization of the company took place in 1995 and was listed on Karachi Stock Exchange (KSE) in 2003. The company is engaged in the business of manufacturing and selling caustic and other allied chemicals

### RATING RATIONALE

Ratings assigned to Ittehad Chemicals Limited (ICL) take into account ICL's prominent market share in the chlor-alkali sector which has remained largely stable in the recent years. Operational efficiency of the plant is expected to improve significantly with the conversion on less fuel intensive IEM technology alongwith up-gradation of captive power plant. Ratings also take into account moderate financial risk profile of the institution and volatile product prices translating in susceptible operating performance.

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.

In the recent years, ICL focus has remained on improving the operational efficiency of the plant. Ion Exchange Membrane (IEM)-2 (Phase 1), having capacity of 25,000 metric tons per annum commenced operation in June, 15 while Phase-2 with a similar capacity is expected to be completed by June, 16. Up-gradation of gas fired power plant was also completed during the outgoing year which resulted into lower switchover time while maintenance cost will also reduce. Impact of these initiatives on operating performance is expected to be more visible from the ongoing year.

Over the last five years, sales of the company have largely remained stable growing at a CAGR of 5%. Major contributor to the revenue continues to remain caustic soda representing 63.5% (FY14: 68.8%) of the overall sales revenue. Concentration among top ten customers has increased on a timeline basis. Higher reliance on expensive sources of electricity generation alongwith reduction in prices of caustic soda translated into lower margins during FY15. Subdued operating performance reflected on the bottom line with company reporting loss before tax of Rs. 73.9m during FY15 (FY14: profit before tax of Rs. 281.2m). Accounting for deferred tax benefit amounting to Rs. 161.6m ICL posted profit after tax of Rs. 84.5m (FY14: 200.4m). Gross margins improved during the ongoing year on account of recovery in caustic soda prices and lower fuel cost.

Proportion of long term financing (including current portion) comprises 56% (FY14: 42%) of overall borrowings. Given increase in borrowings to fund CAPEX requirements, gearing of ICL have increased in the recent years and was reported at 1.22x at end-1QFY16. Additional borrowing is planned to partially finance the capital outlay for IEM-2 (Phase 2) while remaining funding will be arranged through issuance of right shares. Current ratio was reported lower at 0.70x at end-FY15 (FY14: 1.14x) as trade and other payables increased on account of payable in lieu of Gas Infrastructure Development Cess (GIDC).

Cash flows remained stressed during FY15 on account of subdued operating performance. With improved profitability during 1QFY16, Funds From Operations (annualized) improved to 478.7m; internal cash generation is considered adequate to meet the principal payments due in the ongoing year.

## Ittehad Chemicals Limited

## Appendix I

<b>FINANCIAL SUMMARY</b>			
	<i>(amounts in PKR millions)</i>		
<b><u>BALANCE SHEET</u></b>	<b>SEP 30, 2015</b>	<b>JUN 30, 2015</b>	<b>JUN 30, 2014</b>
Fixed Assets	3,879	3,914	2,997
Stock-in-Trade	348	171	284
Trade Debts	497	462	610
Cash & Bank Balances	159	119	145
Total Assets	5,613	5,351	4,701
Trade and Other Payables	925	802	437
Long Term Debt <i>(*incl. current maturity)</i>	1,067	1,084	664
Short Term Debt	942	863	931
Total Equity	2,438	2,373	2,301
<b><u>INCOME STATEMENT</u></b>	<b>SEP 30, 2015</b>	<b>JUN 30, 2015</b>	<b>JUN 30, 2014</b>
Net Sales	1,122	4,046	4,104
Gross Profit	228	423	813
Operating Profit	130	31	405
Profit After Tax	65	84	200
<b><u>RATIO ANALYSIS</u></b>	<b>SEP 30, 2015</b>	<b>JUN 30, 2015</b>	<b>JUN 30, 2014</b>
Gross Margin (%)	20.3	10.5	19.8
Net Working Capital	(475)	(608)	214
FFO to Total Debt (x)	0.24	0.001	0.24
FFO to Long Term Debt (x)	0.45	0.002	0.57
Debt Servicing Coverage Ratio (x)	2.39	0.69	1.49
ROAA (%)	4.76	1.7	4.5
ROAE (%)	16.2	5.5	13.7

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](http://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](http://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](http://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
<b>Name of Rated Entity</b>	Ittehad Chemicals Limited				
<b>Sector</b>	Chlor-alkali (Chemical Sector Sub-set)				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	12/22/2015	A-	A-2	Stable	Reaffirmed
	12/22/2014	A-	A-2	Stable	Reaffirmed
	03/18/2013	A-	A-2	Stable	Reaffirmed
04/27/2012	A-	A-2	Negative	Reaffirmed	
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
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