

RATING REPORT

Ittehad Chemicals Limited (ICL)

REPORT DATE:

January 02, 2017

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Date	20 Dec'16		22 Dec'15	
Rating Outlook	Stable		Stable	
Rating Date	20 Dec'16		22 Dec'15	

COMPANY INFORMATION

Incorporated in 1991
External auditors: M/s BDO Ebrahim & Co. Chartered Accountants

Public Limited Company
Chairman of the Board: Mr. Mohammad Siddique Khatri

Key Shareholders:
Chief Executive Officer: Mr. Abdul Sattar Khatri

Sponsoring Family – 27.7%

Chemtix Industries Ltd. – 5.5%

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporate (May 2016)*
<http://www.jcrvis.com.pk/home2.aspx>

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. The company is listed on Pakistan Stock Exchange. ICL is engaged in the business of manufacturing and selling caustic soda and other allied chemicals.

Profile of Chairman

Mr. Mohammed Siddique Khatri has about 30 years of experience in the field of Chemical, Textile Industries, Finance and Corporate Affairs of International and local Companies. He is also working as Partner of M/s Ittehad Developers.

Profile of CEO

Mr. Abdul Sattar Khatri carries experience of above 22 years across Chemical Manufacturing, Business Development and Textile Processing Industries. He is also on the Board of Ittehad Developers and Chemi Dyestuffs Industries (Pvt) Limited.

Financial Snapshot

Net equity: 1Q17-Rs.2.8b, FY16-Rs. 2.8b

Net Profit: 1Q17-Rs. 62m, FY16-Rs. 167m

RATING RATIONALE

Ratings assigned to Ittehad Chemicals Limited (ICL) take into account ICL's prominent position in the chlor-alkali sector which has remained largely stable in the recent years. Operating profits have depicted improvement during the outgoing year on account of higher volumetric sales, improved product prices, better supply of cheaper sources of electricity and shift in production on fuel efficient IEM technology.

Industry: The chlor-alkali sector is oligopolistic in nature with three players operating in the country. Demand of caustic soda is largely linked to the overall industrial production. Installed capacity of the sector exceeds product demand leading to moderate capacity utilization. The export channel is also utilized; however the extent of the same remains limited. Improvement in product prices along with better availability of gas reflected positively on gross margins across the sector.

Production Technology: In the recent years, ICL focus remained on implementing production related operational efficiencies. Ion Exchange Membrane (IEM)-II (Phase 1) having capacity of 25,000 metric tons per annum commenced operation in June, 15 while IEM-II (Phase- 2) with a similar capacity was completed in June, 16. With commencement of IEM-II plant, less fuel efficient mercury based DSA plant has been completely shut down and is planned to be disposed. During the ongoing year, ICL plans to replace IEM-I plant with IEM-III plant with a total capital outlay of around Rs. 750m; the initiative is expected to further improve operational efficiencies, going forward.

Operating Performance: Major contributor to the revenue continues to remain caustic soda, representing 70% (FY15: 63.5%) of the overall sales revenue. Better availability of cheaper sources of electricity generation (gas), commencement of fuel efficient IEM-II plant and increase in prices of caustic soda translated into higher margins during FY16. Improved operating performance reflected on the bottom line with company reporting profit after tax of Rs. 167.4m (FY15: 84.5m).

Funding and Cash flows: Proportion of long term financing (including current portion) comprises 60% (FY15: 56%) of overall borrowings. The impact of increased borrowings on gearing levels was mitigated through right share issuance and improved profitability. Additional borrowing is planned to partially finance the capital outlay for IEM-3 while remaining funding will be arranged through issuance of shares. Current ratio was reported at 0.89x at end-1QFY17 (FY16: 0.96x; FY15: 0.70x). Cash flows improved during FY16 on account of improved profitability; Funds From Operations (FFO) were reported at Rs. 387.7m (FY15: Rs. 2.2m) during FY16; some deterioration in FFO was noted during ongoing year on account of lower product prices. DSCR was reported at 0.92x at end-1QFY17 (FY16: 1.33x; FY15: 0.69x).

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Ittehad Chemicals Limited**Appendix I**

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>	SEP 30, 2016	JUN 30, 2016	JUN 30, 2015
Fixed Assets	4,407	4,209	3,914
Stock-in-Trade	489	477	171
Trade Debts	517	501	462
Cash & Bank Balances	111	126	119
Total Assets	6,480	6,249	5,351
Trade and Other Payables	863	821	802
Long Term Debt <i>(*incl. current maturity)</i>	1,455	1,409	1,084
Short Term Debt	1,048	949	863
Total Equity	2,841	2,779	2,373
<u>INCOME STATEMENT</u>	SEP 30, 2016	Jun 30, 2015	JUN 30, 2015
Net Sales	1,031	4,557	4,046
Gross Profit	178	791	423
Operating Profit	78	372	31
Profit After Tax	62	167	84
<u>RATIO ANALYSIS</u>	SEP 30, 2016	June 30, 2015	JUN 30, 2015
Gross Margin (%)	17.3	17.4	10.5
Net Working Capital	(258)	(86)	(608)
FFO to Total Debt (x)	0.095	0.164	0.001
FFO to Long Term Debt (x)	.16	0.275	0.002
Debt Servicing Coverage Ratio (x)	0.92	1.33	0.69
ROAA (%)	3.9	2.9	1.7
ROAE (%)	12.3	9.4	5.4

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.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES					Appendix III
Name of Rated Entity	Ittehad Chemicals Limited				
Sector	Chlor-alkali (Chemical Sector Sub-set)				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	12/20/2016	A-	A-2	Stable	Reaffirmed
	12/22/2015	A-	A-2	Stable	Reaffirmed
	12/22/2014	A-	A-2	Stable	Reaffirmed
	03/18/2013	A-	A-2	Stable	Reaffirmed
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.				
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