

## Caustic Soda

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The chlor-alkali sector is the sub-set of chemical industry with production primarily of caustic soda; other by-products including liquid chlorine, hydrochloric acid and sodium hypochlorite. Main raw material used for the production of caustic soda is rock salt or sea salt. The caustic soda producers based in Punjab use rock salt since it is abundantly available in Kallar Kahar region. However, chlor-alkali players located in south zone use sea salt for caustic soda production. Caustic soda is widely used in a number of industrial processes including manufacture of fertilizer, detergents, soap, paper and board, food and fabric.

The chlor-alkali sector is oligopolistic in nature with three main players competing in the domestic market namely Engro Polymers Chemicals Limited (EPCL), Sitara Chemical Industries Limited (SCIL) and Ittehad Chemicals Limited (ICL). Other than sale of caustic soda and other related chemicals, EPCL also produces Poly Vinyl Chloride (PVC) and PVC compounds. SCIL also operates a textile unit which is engaged in production of different types of yarn. In case of SCIL & ICL, revenue from caustic soda represent more than 60% of total revenue. EPCL operates primarily in Sindh while other two players are based in Punjab. SCIL has the highest installed capacity among the three players. Capacity of the three players is tabulated below:

<b>Table 1: Annual Capacity (Metric Tons)</b>	<b>FY15</b>	<b>FY14</b>	<b>FY13</b>
SCIL	201,300	201,300	201,300
ICL	150,550	125,550	125,550
EPCL	106,000	106,000	106,000
<b>Total</b>	<b>457,850</b>	<b>432,850</b>	<b>432,850</b>

The aggregate capacity of the sector increased to 457,850 metric tons at end-FY15 (end-FY14: 432,850 metric tons) on account of set up of IEM-2 (Phase 1) plant by ICL. Aggregate production was reported at 280,964 metric tons during FY15 vis-à-vis 272,273 metric tons in the previous year depicting low capacity utilization. Barring EPCL, capacity utilization of other two players remained depressed on account of gas load shedding leading to persistent production delays. During FY15, production volume of caustic soda was higher for SCIL while lower production volumes were reported by the other two players. Total production and capacity utilization for FY15 and FY14 are tabulated below:

Table 2: Production and Capacity Utilization	Production (MT)		Capacity Utilization	
	FY15	FY15	FY14	FY13
SCIL	113,196	97,600	56.2%	52.3%
ICL	57,268	59,673	38.0%	47.5%
EPCL	110,500	115,000	104.3%	108.5%
<b>Total</b>	<b>280,964</b>	<b>272,273</b>	<b>61.4%</b>	<b>64.7%</b>

The production process is power intensive; fuel and power expenses represent more than half of the total cost of manufacturing. The captive power plants set up by ICL and SCIL operate on gas and meet only certain portion of the total power requirement. In times of gas load shedding, the production plants operate on WAPDA power supply which is almost twice as expensive translating into higher per unit production cost; thereby, affecting the gross margins of the chlor-alkali sector.

The average prices of caustic soda declined during FY15; however they have depicted an upward trend during the ongoing year. The average prices of caustic soda for the three players are presented in Table 3:

Table 3: Average Prices of Caustic Soda (per MT)	FY15	FY14
SCIL	48,613	50,298
ICL	47,812	51,521
EPCL	48,729	49,388

Given decline in caustic soda prices, gross margins declined across the chlor-alkali sector during FY15. With upward momentum in prices during the ongoing year, margins are expected to improve. Gross margins for 9MFY16, FY15 and FY14 are tabulated below:

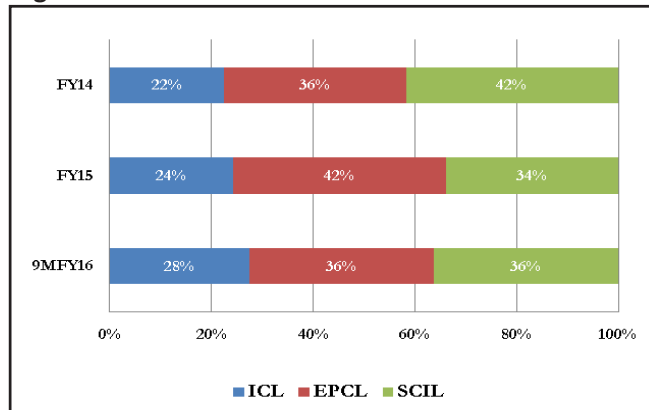
Table 4: Gross Margins (%)	9MFY16	FY15	FY14
SCIL	22.2	18.0	24.3
ICL	17.0	10.5	19.8
EPCL	12.8	9.5	7.1

The aggregate sales of caustic soda declined during FY15 and amounted to 220,165 MT (FY14: 240,521 MT) owing to subdued demand; the same amounted to 171,391 MT during 9MFY16. Sales of the three market players are tabulated below:

Table 5: Liquid Caustic Soda Sales Volume (Metric Tons)	9MFY16	FY15	FY14
SCIL	62,177	74,517	100,416
ICL	47,214	53,248	54,014
EPCL	62,000	92,400	86,091
<b>Total</b>	<b>171,391</b>	<b>220,165</b>	<b>240,521</b>

During 9MFY16, SCIL had the highest market share in terms of local sales of caustic soda followed by EPCL and ICL. EPCL primarily generates its sales in southern region of the country while SCIL and ICL sales are concentrated in the north. Market share and sales revenue of each market player are presented below:

**Figure 1: Market Share**



<b>Table 6: Sales Revenue (PKR billion)</b>	<b>9MFY16</b>	<b>FY15</b>	<b>FY14</b>
SCIL	7.2	8.7	8.8
ICL	3.4	4	4.1
EPCL	15.6	22.3	23.8
<b>Total</b>	<b>26.2</b>	<b>35</b>	<b>36.7</b>

Barring EPCL, both players posted positive bottom line during FY15. Overall the sector is expected to remain competitive while domestic demand of caustic soda is expected to remain a function of economic growth. Reduction in electricity rate, historical low interest rates, improvement in law and order situation and infrastructure development including establishment of China Pakistan Economic Corridor bodes well for the future outlook of the manufacturing sector.

<b>Financial Summary</b> (amounts in PKR million)	<b>EPCL</b>	<b>SCIL</b>	<b>ICL</b>
Ratings	A-/A-2	A+/A-1	A-/A-2
Outlook	Stable	Stable	Stable
Rating Company	PACRA	JCR-VIS	JCR-VIS
<b>BALANCE SHEET</b>			
Fixed Assets	16,339	8,523	3,914
Stock-in-Trade	2,941	717	171
Trade Debts	437	1,187	462
Cash & Bank Balances	155	257	119
Total Assets	24,242	14,444	5,351
Trade and Other Payables	6,301	1,497	802
Long Term Debt (*incl. current maturity)	8,327	1,138	1,084
Short Term Debt	3,026	2,461	863
Total Equity	5,303	8,198	2,373
<b>INCOME STATEMENT</b>			
Net Sales	22,264	8,723	4,406
Gross Profit	2,773	1,572	423
Operating Profit	778	1,112	31
Profit/(loss) After Tax	(649)	986	84
<b>RATIO ANALYSIS</b>			
Gross Margin (%)	12.5	18.0	10.5
Net Working Capital	(6,781)	152	(608)
FFO to Total Debt (x)	0.006	0.17	0.001
FFO to Long Term Debt (x)	0.008	0.53	0.002
Debt Servicing Coverage Ratio (x)	0.27	0.92	0.69
ROAA (%)	-2.6	7.1	1.7
ROAE (%)	-11.5	15.2	5.5

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