RATING REPORT

The Thal Industries Corporation Limited

REPORT DATE:
November 05, 2018

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	A-	A-2
Rating Outlook	*Stable*	
Rating Action	Initial	
Rating Date	*29th Oct' 2018*	

COMPANY INFORMATION	
Incorporated in 1953	**External auditors:** Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants
Public Listed Company	**Chairperson of the Board:** Mrs. Qaiser Shamim Khan
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Muhammad Shamim Khan
Mr. Muhammad Shamim Khan – 32.3%	
Mrs. Qaiser Shamim Khan – 5.2%	
Mr. Nauman Ahmed Khan – 8.1%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria: Industrial Corporates (October 2003) ***http://www.jcrvis.com.pk/images/IndustrialCorp.pdf***

The Thal Industries Corporation Limited

OVERVIEW OF THE INSTITUTION

The Thal Industries Corporation Limited (TICL) was incorporated as a public limited company in 1953 under the Companies Act, 1913, (now Companies Act 2017). The company is principally engaged in production of refined sugar and allied products. It is listed on Pakistan Stock Exchange with registered office of the company located at 23-Pir, Khurshid Colony, Gulgasht, Multan.

Profile of the CEO

Mr. Muhammad Shamim Khan serves as the Chief Executive Officer (CEO) of the company. He has over 45 years of experience in managing large manufacturing concerns. He has served thrice as the President of Multan Chamber of Commerce.

Financial Snapshot

Total Equity: end-9M18:Rs. 2.0b; end-FY17: Rs. 2.3b; end-FY16: Rs. 1.9b

Assets: end-9M18: Rs 13.1b; end-FY17: Rs. 8.8b; end-FY16: Rs 6.8b

Profit / (Loss) After Tax: 9M18: Rs. (52)m; FY17: Rs.708m; FY16: Rs. 660m

RATING RATIONALE

The ratings assigned to The Thal Industries Corporation Limited (TICL) incorporate its cornerstone position in a diversified industrial conglomerate, "Almoiz Group of Companies" having business interests in beverage, sugar, steel, power generation and textile industry. The ratings incorporate integration with group owned beverage company which caters to the production and regional distribution of one of the leading international soft drink brands. In addition, the company's recent efforts towards revenue diversification through forward integration into co-generation provides support to profitability and partially assists in withstanding the impact of prevailing downturn in sugar prices. However, heightened business risk owing to overall dismal performance of sugar sector translated into weakening of financial risk profile the company. In addition, the sizeable decline in margins, hence profitability, adversely impacted debt coverages.

Cyclicality in sugar sector resulted in downtrend in sugar prices: Sugar sector is cyclical and vulnerable to price fluctuations. Sugarcane support prices, the major input cost, are regulated by provincial governments. Over the last four years, sugarcane price in Punjab has increased slightly at CAGR of 1.4%. On the contrary, retail sugar prices are determined by market dynamics with demand and supply forces. The price elasticity in end-product is not correlated with the raw material cost; hence in cycles of depressed sugar prices, the margins of entire sugar sector declined. Bumper sugarcane crop in the last crushing season led to surplus availability of sugar, resulting in decline in average retail prices to Rs. 53.0/Kg during HY18 vis-à-vis Rs. 61.4/Kg in FY17. As a result of the aforementioned, all players in the sugar sector experienced compression in margins, suppressed profitability and hampered debt repayment capacity. In addition, the sugar sector is exposed to agro-climatic risks which has an impact on the cane output.

Depressed sugar prices adversely impacted profitability in 9M18: The company has exhibited healthy profits in the last few years. However, the sales revenue of the company declined by almost 8% during 9M18 in comparison to the last corresponding period mainly on account of decline in average selling price of sugar. The sugarcane procurement price was maintained at Rs. 180/40 Kg in Punjab and with TICL's production units based in Punjab, coupled with slump in retail prices, the gross margins of the company declined sharply to 2.6% (FY17: 12.4%) during 9M18. Moreover, financial cost increased due to higher utilization of funding lines in the current period to meet higher working capital requirements. The adverse impact of low margins was partially mitigated by higher other income primarily including subsidy amounting to Rs. 433.6m from Federal and Provincial Governments on export of sugar. The company 22.4MW power plant became operational in Dec'17 having a half year impact of about Rs. 1.0b on revenues during 9M18. Despite the aforementioned, the company reported a net loss during 9M18. Going forward, the company expects a positive full year impact of electricity sale, however, the performance of the company will be primarily dependent on the trend in sugar prices.

Deterioration in otherwise healthy liquidity profile due to limited profitability: Cash flows and the related coverages have remained healthy over the years. However, in line with reduced profitability, Funds from Operations (FFO) declined considerably during the ongoing year. Given decline in FFO and increase in higher debt levels, FFO to total debt decreased; moreover, debt service coverage, otherwise adequate, reduced to less than 1 in 9MFY18. The trade debts also exhibited an increase on a timeline basis mainly due to increase in amount receivable from CPPAGL against sale of electricity. Further, stock in trade increased sizably on a timeline basis on account of recent production of sugar coupled with inability to sell large quantum of produce due to price compression. The trade payables also experienced upward trajectory at end-9M18 mainly owing to higher advances received from customers against sale of sugar along with higher payments to be made to growers. The situation is likely to self-correct moderately given the sugar stock held is expected to be sold to customers against which payables are outstanding. In addition, concentration among top 10 customers remained on a higher side. The concentration slightly increased on a timeline basis on account of higher quantum sales to the associate concern.

High leverage indicators in line with sizeable working capital requirement: The exponential growth in debt levels during the ongoing year is cyclical in nature, mainly pertaining to higher short-term borrowings arranged primarily to finance stock inventory and to finance sugarcane procurement. The short-term borrowings include advance received from directors which is free of charge and payable on demand. Long term debts mainly pertained to borrowing to setup co-generation plants. Long-term debt incorporates sub-ordinated loan from directors, carrying a markup charge, payable at convenience of the company. Given higher short-term borrowings carried on the balance sheet together with lower equity base on account of higher dividend payout and loss incurred during the ongoing year, gearing and leverage indicators have witnessed an increasing trend on a timeline basis.

Room for improvement in corporate governance framework: Senior management team of the company comprises experienced resources having relevant experience in the industry.

The Thal Industries Corporation Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	Sep 30, 2016	Sep 30, 2017	June 30, 2018
Non-Current Assets	3,224	3,940	4,525
Stock-in-Trade	1,509	2,797	5,620
Loans and advances	453	423	303
Trade Debts	625	405	1,420
Taxes recoverable/adjustable	456	483	530
Cash & Bank Balances	59	77	239
Other Assets	463	724	511
Total Assets	6,789	8,849	13,148
Trade and Other Payables	469	1,162	2,500
Short Term Borrowings	1,768	2,207	5,026
Long-Term Borrowings *(Inc. current maturity)*	1,801	2,160	2,366
Other liabilities	861	986	1,257
Tier 1 Equity	1,890	2,334	1,999
INCOME STATEMENT	**Sep 30, 2016**	**Sep 30, 2017**	**June 30, 2018**
Net Sales	10,673	14,919	10,974
Gross Profit	1,342	1,843	291
Operating Profit	949	1,308	(122)
Profit After Tax	660	708	(52)
FFO	941	1,183	160
RATIO ANALYSIS	**Sep 30, 2016**	**Sep 30, 2017**	**June 30, 2018**
Gross Margin (%)	12.6	12.4	2.6
Net Working Capital	410	539	9
FFO to Long-Term Debt	0.52	0.55	0.09
FFO to Total Debt (%)	0.24	0.25	0.03
Debt Servicing Coverage Ratio (x)	2.46	2.02	0.76
ROAA (%)	10.9	9.1	-
ROAE (%)	41.2	33.4	-
Gearing (x)	2.08	2.02	3.92
Debt Leverage (x)	2.58	2.79	5.58

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	The Thal Industries Corporation Limited
Sector	Sugar
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
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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Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
10-29-2018	A-	A-2	Stable	Initial