

RATING REPORT

Sitara Chemical Industries Limited (SCIL)

REPORT DATE:

November 17, 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-1	A+	A-1
Rating Date	17 November'17		07 June'16	
Rating Outlook	Positive		Stable	
Outlook Date	17 November'17		07 June'16	

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 – 63.64%	
General Public – 11.15%	
Bank, DFI & NBFCs – 11.88%	
Insurance Companies – 6.74%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporate (May 2016)*<http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf>

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

Profile of the Chairman

Mr. Muhammad Khalil has around 28 years of experience in the field of Chemical Engineering, Marketing and Commerce. He joined SCIL as General Manager Process in 1992 for the Sitara Rayon Project. He holds a M.Sc. degree in Chemical Engineering.

Profile of the CEO

Muhammad Adrees is a renowned businessman. He graduated from Punjab University. He is also the CEO of Sitara Developers and Aziz Fatima Medical & Dental College.

Financial Snapshot

Core Equity: FY17: Rs. 8.6b; FY16: Rs. 7.5b

Assets: FY17: Rs. 19.5b; FY16: Rs. 17.9b

Sales: FY17: Rs. 10.1b; FY16: Rs. 9.8b

Profit After Tax: FY17: Rs. 1.2b; FY16: 0.8b

RATING RATIONALE

The rating assigned to Sitara Chemical Industries Limited (SCIL) take into account its leading position in the Chlor-alkali sector. The company maintains consistent growth in sales with enhance efficiency emanating from rationalized energy cost leading to better margins and improved profitability indicators. Regardless increased debt levels, overall financial risk profile of the institution remains intact reflected by strong internal cash generating capacity enabling timely servicing of its debt obligations.

Rating Drivers**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. Business prospects of the caustic soda sector remains positive characterized by stable and growing demand and strong margins. While the sector is power intensive, availability of power has improved considerably in the recent past.

Profitability:

Net sales of the company increased to Rs. 10.1b (FY16: Rs. 9.8b) during FY17 with both divisions reporting higher sales. Gross margin increased to 22.9% (FY16: 21.8%) attributable to cost savings from the induction of coal fired power plant. Chemical division continues to be the major contributor in the revenue; caustic soda remains the prominent product representing almost 78.4% of total revenue. While profit before tax showed a moderate growth, SCIL recorded tax credit which resulted in higher profit after tax of Rs. 1.2b (FY16: Rs. 769.2m). Over the next three years, sales of the company are projected to grow at a steady Compounded Annual Growth Rate (CAGR) of around 4%.

Operational Efficiency:

SCIL has made some major investments in its operations in the recent years. The availability of 40MW coal fired power plant provides savings in energy cost along with uninterrupted supply of electricity throughout the year. In addition to this, the company also achieved commissioning of Carbon Dioxide (CO2 Food Grade) and Calcium Chloride Prill Plants.

Cash flows and Liquidity:

In line with higher profitability, Funds from Operations (FFO) increased to Rs. 1.5b (FY16: Rs. 1.3b). Resultantly, FFO to total debt increased to 0.28x (FY16: 0.25x). Debt service coverage ratio declined to 1.70x (FY16: 2.93x) at end-FY17, however remained comfortable. Current ratio was reported at 0.88x at end-FY17 (FY16: 0.75x). The company maintains sizeable investments in property. While efforts have been made to liquidate some portion of these investments, the contractual receipts due under the sale agreement have been delayed for which management is pursuing the matter and anticipate that matter will be resolved shortly.

Capitalization and Funding:

Core equity increased by 14.7% and amounted to Rs. 8.6b (FY16: Rs. 7.5b) at end-FY17 with retained profits increasing to Rs. 7.0b (FY16: Rs. 6b). Total borrowing of the company amounted to Rs. 5,305.8m (FY16: Rs. 5,068.6m) at end-FY17 with long term borrowings increasing to Rs. 2.1b (FY16: Rs. 1.7b). With strong internal capital generation, leverage and gearing ratio decreased to 1.04x (FY16: 1.2x) and 0.71x (FY16: 0.8) by end-FY17. Leverage and gearing are expected to improve further with no major borrowings plans and sizeable long term borrowings repayments scheduled in the upcoming years.

Sitara Chemical Industries Limited (SCIL)
Appendix I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	30-Jun-17	30-Jun-16	30-Jun-15
Property, plant and equipment	9,413	8,789	8,523
Stock-in-Trade	1,194	1,104	717
Trade Debts	1,163	1,125	1,187
Cash & Bank Balances	131	188	257
Total Assets	19,525	17,855	14,444
Trade and Other Payables	3,239	2,791	2,122
Long Term Debt <i>(*incl. current maturity)</i>	3,015	2,396	1,138
Short Term Debt	2,291	2,672	1,837
Total Equity	9,851	8,891	8,198
<u>INCOME STATEMENT</u>			
	30-Jun-17	30-Jun-16	30-Jun-15
Net Sales	10,074	9,814	8,723
Gross Profit	2,312	2,129	1,572
Operating Profit	1,187	1,119	1,112
Profit After Tax	1,166	769	986
<u>RATIO ANALYSIS</u>			
	30-Jun-17	30-Jun-16	30-Jun-15
Gross Margin (%)	22.9	21.7	18.0
Net Working Capital	-762	-1,585	152
FFO to Total Debt (x)	0.3	0.2	0.2
FFO to Long Term Debt (x)	0.5	0.5	0.5
Debt Servicing Coverage Ratio (x)	1.7	2.9	0.9
ROAA (%)	6.2	4.8	7.1
ROAE (%)	14.4	10.7	15.2

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	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
	<u>RATING TYPE: ENTITY</u>				
	11/17/2017	A+	A-1	Positive	Maintained
	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.				
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