Treet Corporation Limited

Chairman & Chief Executive: Mr. Syed Shahid Ali

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Analysts: Maimoon Rasheed
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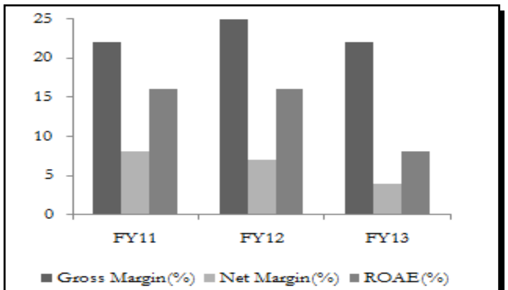
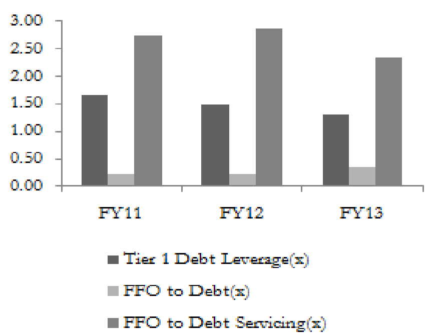
Category	Latest	Previous
Entity	AA-/A-1 *Dec 10,'13*	AA-/A-1 *Mar 07,'12*
TCLTC Rs. 1,254.67M	AA *Dec 10,'13*	AA *Oct 23,'12*
BOND Rs. 510.23M	A+ Dec 10,'13	Nil
Outlook	***Stable*** *Dec 10, '13*	***Stable*** *Mar 07, '12*

Key Financial Trends





(Rs. million)	FY11	FY12	FY13
Net Sales	4,605	5,715	5,954
Net Profit	352	421	214
Equity	2,379	2,761	2,890
Total Debt	1,877	2,040	620*
Gearing (x)	0.79	0.74	0.63
FFO	408	445	212
FFO/Total Debt (x)	0.22	0.22	0.34*
ROAE	15.9%	16.2%	7.6%
ROAA	7.6%	7.9%	3.6%

**debt includes bank & ERF borrowings, principal redemption portion of TCLTC (Rs. 43.9m)*

Rating Rationale

Treet Group of Companies (TGC) is a consortium of six entities with Treet Corporation Limited (TCL) as the holding company. The group, primarily engaged in the manufacture and sale of razor blades, soaps, corrugation packaging, paper & board and motorbikes, has been operating for more than 30 years and exports to over 35 markets globally. The group's on-going efforts to diversify product line with measured expansion in current business segments has kept the business risk under check and remains a key rating factor.

In an effort to reduce financial risk, the group has rationalized debt levels by issuing 96.5% convertible Participation Term Certificates (TCLTC) of Rs. 1.25b in Oct,'12. Resultantly, short-term debt reduced to Rs. 0.58b (FY12: Rs. 1.69) at end-FY13. The company was compliant with all financial covenants incorporated in the TCLTC structure during FY13. These included maintaining debt service coverage, gearing and current ratio within predefined levels. Recently, the board has approved another PTC (Treet Perpetual Bond – BOND) issue of Rs. 510.2m which will be offered to existing shareholders in the ratio of one BOND against four ordinary shares. Payoff to BOND holders will be based on 3% of the face value (Rs. 40) of BOND or cash dividend for the year, whichever is higher. The profit payment in cash related to both PTCs is tax deductible. Moreover, TCL has recently raised funds of Rs. 501.9m through a 15% rights issue. The proceeds from above mentioned issues will be utilized primarily for financing production expansion, working capital requirements and repayment of borrowings, including export refinance.

Total debt of the company (excluding convertible portion of TCLTC) amounted to Rs. 0.62b (FY12: Rs. 2b) at end-FY13. The company utilized proceeds from TCLTC issue to retire short-term borrowings which were substantially reduced during FY13. The said reduction had a favorable impact on FFO to debt (excluding convertible portion of TCLTC) which stood higher at 0.34x at end-FY13 (FY12: 0.22x). Current ratio showcased improvement and stood at 1.91x (FY12: 1.14x) at end-FY13. The company carries short-term debt to the tune of Rs. 0.6b of which 93% represented export refinance facilities availed from various banks. Debt leverage and gearing showcased improvement with expanding equity base and lower debt levels. The expansion in equity base through rights issue and mandatory equity conversion feature of TCLTC is expected to improve the leverage indicators of the company further, going forward. Debt service coverage ratio remains comfortable at 2.33x (FY12: 2.87x). However, with the decrease in debt levels, coverage ratio is expected to strengthen.

Sales of the group grew moderately by 4% to Rs. 5.9b (FY12: Rs. 5.7b) in FY13 in comparison to a 24% increase in the prior year. Blades sales, which account for more than half of the group's revenue base, slowed down in the local market which was compensated by export sales that reached Rs. 1.4b (FY12: Rs. 1.2b). Overall gross margins declined to 22.4% (FY12: 24.8%) on account of rising electricity tariffs, fuel costs as well as inflationary impact on salaries and wages. The company plans to set up a paper and board plant that will enhance production capacity by 6,000-8,000 tons per month. Moreover, it is also seeking feasibility of a captive power project of up to 25MW to address the energy issue. These plans are projected to be financed through internal sources/equity financing. Financial charges increased to Rs. 404m (FY12: Rs. 245m) on account of profit and loss mechanism and minimum profit payment related to TCLTC issued in Oct,'12. This coupled with the increase in operating expenses led to lower profits (FY13: Rs. 214m; FY12: 421m) despite higher investment related income.

In line with the revised Code of Corporate Governance, the company formed a Human Resource & Remuneration Committee. Provisions of the code that include appointment of independent director to the board and separation in the offices of the Chairman and Chief Executive Officer need to be complied with to further strengthen the governance structure.

Overview of the Institution

TCL was incorporated in January 1977 as a public limited company and is listed on all the three stock exchanges of the country. The group is principally engaged in the manufacturing & sale of blades, soaps, corrugation packaging, paper & board and motorbikes. The Head Office is in Lahore while the manufacturing units are located in Sheikhupura, Lahore, Gujranwala and Hyderabad districts JCR-VIS

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		RATING TYPE: Entity		
10-Dec-13	AA-	Stable	A-1	Reaffirmed
07-Mar-12	AA-	Stable	A-1	Reaffirmed
01-Jun-10	AA-	Stable	A-1	Initial
		RATING TYPE: PTC		
10-Dec-13	AA	Stable		Reaffirmed
23-Oct-12	AA	Stable		Final
07-Mar-12	AA	Stable		Reaffirmed
01-Jun-10	AA	Stable		Preliminary
		RATING TYPE: PTC-2		
10-Dec-13	A+	Stable		Reaffirmed