RATING REPORT

Treet Corporation Limited (TCL)

REPORT DATE:
December 09, 2015

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	AA-	A-1	AA-	A-1
Rating Date	*08 Dec'15*		*23 Feb'15*	
Rating Outlook	Stable		Stable	
Outlook Date	*08 Dec'15*		*23Feb'15*	
Sukuk (preliminary)	*AA-*		*AA-*	
Rating Outlook	*Stable*		*Stable*	
Rating Date	*08 Dec'15*		*10 Apr'15*	
PTC	AA		AA	
Rating outlook	Stable		Stable	
Rating Date	*08 Dec'15*		*23Feb'15*	

COMPANY INFORMATION-Based on FY 2014-15

Incorporated in 1977	**External auditors:** M/s KPMG Taseer Hadi & Co. Chartered Accountants
Public Limited Company	**Chairman:** Dr. Mrs. Niloufer Qasim Mahdi
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Syed Shahid Ali
Syed Shahid Ali & Family – 36.4%	
NIT – 12.0%	
Escanaba Limited – 11.0%	
Associated Companies- 8.34%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporate (Oct 2003)*
http://www.jcrvis.com.pk/images/IndustrialCorp.pdf

Treet Corporation Limited

OVERVIEW OF THE INSTITUTION

Treet Corporation Limited (TCL) was incorporated in January 1977 as a public limited company and is listed on all the three stock exchanges of the Pakistan. The group is principally engaged in the manufacturing and sale of blades, soaps, corrugation packaging and motorbikes. The head office is located in Lahore while the manufacturing units are located in Lahore, Gujranwala, Hyderabad and Faisalabad.

RATING RATIONALE

Ratings assigned to Treet Corporation Limited (TCL) reflect its low business risk profile emanating from presence in segments depicting stable sales, leading market position and established brand in the double edge blades segment. Equity base of the company has strengthened on a timeline basis while low level of debt and adequate cash flow coverages provides comfort to assessment of financial risk. Sponsor support is reflected by equity injection by way of right share issuance, twice in the last three years.

Treet Group of Companies (TGC) is a consortium of 6 entities and is principally engaged in the manufacturing & sale of razors, razor blades, soaps, corrugated packaging, motorcycle and batteries. While maintaining foothold in the local market, export sales of razor/blades segment, TGC core business activity, remain subdued during FY15 on account of slowdown and security issues in key export markets. Higher production capacity is expected to augment volumes in the razor/blade segment while margins are expected to sustain. Lower prices of tallow and palm oil are expected to augment margins in the soap segment. In the corrugated packaging segment, the company has broadened its customer base to strengthen sales; volumes are expected to remain a function of overall economic growth. Motorbike segment is expected to continue to operate at a low scale. Overall gross margins have remained intact during FY15 and in the ongoing year. During FY15, margins improved in soap and corrugated packaging segment while margins in blade segment declined marginally, though remained healthy.

Various expansion plans are underway which pertains to new business segments. The company plans to setup a manufacturing facility for the production of lead acid batteries with an annual capacity of 2m units. The total expected project outlay is around Rs. 4b which will be invested over a period of 1.5 years. Financing for the project has been arranged through 150% right issue amounting to Rs. 4b. The company also plans to establish an educational project with an expected project cost of Rs. 1.5b. Moreover, the company also plans to construct a hospital and commercial complex.

While profitability of the company remained intact, Funds Flow from Operations (FFO) to total debt declined attributable to increase finance cost on higher average utilization of borrowings during FY15. Future debt levels are expected to remain low as expansion projects are planned to be mainly financed through raising additional equity. The company plans to issue a perpetual Sukuk amounting to Rs. 539.5m to meet working capital requirements; currently these are financed through short term bank borrowings.

Liquidity profile of the company remained sound. Cash flows are considered adequate to service debt. Availability of undrawn bank lines and marketable investment portfolio provides financial flexibility to the company.

Senior level management positions have depicted stability over the years; the ability of the management to successfully execute new projects will be tested. Induction of an independent director on the Board and as chairman of the audit committee is in line with governance best practices; there is room to further improve corporate governance practices.

Treet Corporation Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**SEPT 30, 2015**	**JUN 30, 2015**	**JUN 30, 2014**
Fixed Assets	4,504	4,202.7	3081.5
Stock-in-Trade	1,091.8	1,286.8	968.9
Trade Debts	632.8	482.8	613.9
Cash & Bank Balances	3,105.0	2,790.2	662.7
Total Assets	11,897.6	10,991.0	7,245.4
Trade and Other Payables	969.24	621.4	591.6
Long Term Debt- redeemable in Shares	685.0	685.0	858.2
Long Term Debt- redeemable in cash	31.4	31.4	37.64
Short Term Debt	829.0	1,806.4	797.4
Total Equity	8,764.6	6,980.4	4252.6
INCOME STATEMENT			
Net Sales	1,938.2	6,900.2	7,008.5
Gross Profit	387.3	1,437.4	1,415.6
Operating Profit	88.9	260.2	294.5
Profit After Tax	159.5	242.2	234.6
RATIO ANALYSIS			
Gross Margin (%)	20%	20.8%	20.2%
Net Working Capital	5,008.5	3,491.6	1,966.9
FFO to Total Debt (x)	0.3	0.02	0.11
FFO to Long Term Debt (x)	8.72	1.2	2.4
Debt Servicing Coverage Ratio (x)	2.5	1.1	1.23
ROAA (%)	5.6%	2.7%	3.6%
ROAE (%)	9.8%	5.7%	8.2%

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.

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	Treet Corporation Limited
Sector	Consumer Goods
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
RATING TYPE: ENTITY				
12/08/2015	AA-	A-1	Stable	Reaffirmed
2/23/2015	AA-	A-1	Stable	Reaffirmed
12/10/2013	AA-	A-1	Stable	Reaffirmed
3/7/2012	AA-	A-1	Stable	Reaffirmed
RATING TYPE: PTC RATING				
12/08/2015	AA		Stable	Reaffirmed
2/23/2015	AA		Stable	Reaffirmed
12/10/2013	AA		Stable	Reaffirmed
10/23/2012	AA		Stable	Final
RATING TYPE: SUKUK RATING				
12/08/2015	AA-		Stable	Preliminary
4/10/2015	AA-		Stable	Preliminary

TCLTC

TCL issued TCLTCs amounting to Rs. 1.25b on October 4, 2012. The company issued 41,822,250 certificates of Rs.30each to existing shareholders in the ratio of 1 TCLTC for every 1 ordinary share. These certificates are listed on all stock exchanges of the country. The principal amount of TCLTCs shall be redeemed through cash and mandatory conversion into ordinary shares through share conversion @ 0.07shares per TCLTC per annum at a pre-agreed conversion price of Rs. 59.14 for 2013 to 2018 and 0.08 shares per TCLTC at the price of Rs. 51.38 for 2019.The TCLTC shall be redeemed through cash @ Rs. 4.14 per annum from year 2013-2018 and Rs. 4.4 for the year 2019. The TCLTC holder is entitled to a minimum profit of (Category A profit) at Rs. 4.14 per annum for each TCLTC and contingent profit (Category B profit) based on consolidated profits before tax, WWF, WPPF and finance cost based on pay off matrix. The issue has been secured by way of fixed and floating charge over designated fixed assets. An additional lien has been marked on investment in shares of existing companies amounting to Rs. 250m as a trust security/property.

Proposed Sukuk Structure

TCL plans to issue Sukuk of Rs. 539.5m at face value of Rs. 40/- each. The objective of the issue is to meet working capital requirements of the company. The Sukuk is proposed to be issued in perpetuity to existing shareholders in the ratio of one Sukuk against 10.22 ordinary shares. The instrument will have a put option whereby it may be redeemed in the form of shares or cash. Redemption in cash, however, will be time bound (through put option) and can be made in full or partial payments after expiry of three years (and thereafter after every third anniversary of such date). Profit payment will be made to Sukuk holders in cash on annual basis. The profit for each Sukuk will not be less than 6% of the

	Musharakah profit of the relevant financial year. Musharakah loss if any, for a Musharakah period will be shared between investors and the issuer. The company will have no call option to redeem the Sukuk in cash or to convert them into ordinary shares. Sukuk will be secured by way of first pari passu Hypothecation charge of Rs. 680m over present and future current assets.
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.
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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