RATING REPORT

Treet Corporation Limited

REPORT DATE:
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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 Outlook	Stable		Stable	
Rating Date	*08 Feb'18*		*20 Dec'16*	
Sukuk (preliminary)	*AA-*		*AA-*	
Rating Outlook	*Stable*		*Stable*	
Rating Date	*08 Feb'18*		*20 Dec'16*	
PTC	AA		AA	
Rating outlook	Stable		Stable	
Rating Date	*08 Feb'18*		*20 Dec'16*	

COMPANY INFORMATION-based on FY 2016-17

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 – 39.4%	
NIT – 8.9%	
Loads Limited (Associated Company) – 5.5%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria:
Industrial Corporate (May 2016) http://jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf
Notching the Issues (June 2016) http://jcrvis.com.pk/docs/criteria_instrument_16.pdf

OVERVIEW OF THE INSTITUTION

Treet Corporation Limited (TCL) was incorporated in 1977 as a public limited company and is listed on the Pakistan Stock Exchange. The group is principally engaged in the manufacturing and sale of razors and razor blades, soaps, corrugation packaging, motorbikes, lead acid batteries and pharmaceutical products. Group's activity also includes establishing and managing educational projects as well as trading chemicals. The head office is located in Lahore, Pakistan while the manufacturing units are located in Lahore, Gujranwala**,** Hyderabad and Faisalabad.

Profile of Chairman

Dr. Mrs. Niloufer Qasim Mahdi continues to Chair the Board. She holds BA (Hons), MA, M.Litt, and D.Phil degrees from Oxford University.

Profile of CEO

Syed Shahid Ali has been serving as CEO of TCL for more than two decades. Mr. Ali holds a Master's degree in economics, a graduate diploma in development economics from Oxford University and a graduate diploma in management sciences from University of Manchester.

Financial Snapshot

Net Profit: 1QFY18: Rs. 84.9m; FY17: Rs. 215.9m; FY16: Rs. 214.3m

Equity: 1QFY18: Rs. 9.5b; FY17: Rs. 9.4b; FY16: Rs. 8.8b

RATING RATIONALE

The ratings reflect TCL's low business risk emanating from its major reliance on segment having largely inelastic demand. The ratings also take into account demonstrated support by primary sponsor in terms of continuing equity injection. While debt leverage has somewhat increased in FY17, the management intends to rationalize it with further capital injection, going forward. The company is venturing into different businesses to diversify associated risks.

Profitability: During FY17, overall sales of the company increased to Rs. 8.4b (FY16: Rs. 7.6b) on account of increase in sales of razor & razor blades, batteries, motorbikes and additional pharmaceutical business while sales of corrugated packaging declined. Sales of razor & razor blades, soaps and corrugated packaging represented around 94% of total sales of the company. Motorbike segment is expected to continue to operate at a low scale while larger contribution in sales is expected from razors, batteries, pharmaceutical and chemical businesses, going forward. Overall gross margin decreased marginally to 24.8% (FY16: 25.2%) during FY17 on account of lower margins in soaps and motorbikes. During FY17, other income stood higher at Rs. 270.1m (FY16: 231.9m) mainly on account of gain on dilution of equity stake in an associate while net income stood at Rs. 215.9m (FY16: Rs. 214.3m).

Liquidity & Cash Flow: Liquidity profile of the company remained adequate. By end-FY17, short-term investments increased to Rs. 571.7m (F16: Rs. 492.4m) on account of increased investment in listed equities. Funds from Operations (FFO) of the company increased to Rs. 358.6m (FY16: 256.7m) during FY17; cash flows are considered adequate to timely service debt obligations.

Funding: By end-FY17, total short-term borrowings of the company increased to Rs. 5.7b (FY16: Rs. 1.6b). Despite periodic redemption of the company's Participation Term Certificates, gearing stood higher on account of increase in total borrowings. The management plans to partly replace short-term borrowings with equity. Resultantly, debt leverage is projected to decline, going forward.

Expansion projects: Various expansion plans are underway including production of lead acid batteries and initiation of educational project. Commencement of local production of batteries and educational project has witnessed delay; these are expected to come online shortly. In the backdrop of further business diversification, TCL has acquired majority stake in a pharmaceutical company and has also signed an agency agreement with one of the premier epoxy producers for sales & marketing of their industrial chemicals in Pakistan. The company plans to finance upcoming projects mainly through internal sources, going forward. The company's ability to maintain its risk profile while venturing into various new businesses would be tested over time.

TREET CORPORATION LIMITED **APPENDIX 1**

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	**SEP 30, 2017**	**JUN 30, 2017**	**JUN 30, 2016**
Fixed Assets	11,506.7	11,555.3	7,840.6
Stock-in-Trade	2,036.8	1,350.4	1,098.1
Trade Debts	1,165.3	888.3	616.9
Cash & Bank Balances	817.8	1,002.2	650.5
Total Assets	19,414.8	17,733.4	12,544.3
Trade and Other Payables	2,437.4	1,348.2	714.0
Long Term Debt- redeemable in Shares	518.0	518.0	691.3
Long Term Debt- redeemable in cash	18.8	18.8	25.1
Short Term Debt	6,134.7	5,659.0	1,558.8
Total Equity	9,518.7	9,380.4	8,798.6
INCOME STATEMENT	**SEP 30, 2017**	**JUN 30, 2017**	**JUN 30, 2016**
Net Sales	2,270.0	8,418.2	7,615.2
Gross Profit	513.8	2,083.8	1,804.4
Operating Profit	122.3	512.0	461.3
Profit After Tax	84.9	215.9	214.3
RATIO ANALYSIS	**SEP 30, 2017**	**JUN 30, 2017**	**JUN 30, 2016**
Gross Margin (%)	22.6	24.8	25.2
Net Working Capital	(1,838.9)	(2,056.8)	1,468.4
FFO to Total Debt (x)	0.10	0.06	0.16
FFO to Long Term Debt (x)	31.2	19.1	10.3
Debt Servicing Coverage Ratio (x)	7.7	2.0	1.7
ROAA (%)	1.8	1.4	1.8
ROAE (%)	4.3	2.8	3.3

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 & Instrument Rating**

Rating History	**Rating Date**	**Medium to Long**	**Short Term**	Rating Outlook	Rating Action
			RATING: ENTITY		
	02/08/2018	AA-	A-1	Stable	Reaffirmed
	12/20/2016	AA-	A-1	Stable	Reaffirmed
	12/08/2015	AA-	A-1	Stable	Reaffirmed
	2/23/2015	AA-	A-1	Stable	Reaffirmed
	12/10/2013	AA-	A-1	Stable	Reaffirmed
	3/06/2012	AA-	A-1	Stable	Reaffirmed
			RATING: PTC		
	02/08/2018	AA		Stable	Reaffirmed
	12/20/2016	AA		Stable	Reaffirmed
	12/08/2015	AA		Stable	Reaffirmed
	2/23/2015	AA		Stable	Reaffirmed
	12/10/2013	AA		Stable	Final
	10/23/2012	AA			
			RATING: SUKUK		
	12/20/2016	AA-		Stable	Reaffirmed
	12/08/2015	AA-		Stable	Reaffirmed
	4/10/2015	AA-		Stable	Preliminary

PTC Issue

TCL issued PTCs amounting to Rs. 1.25b in 2013. The company issued 41,822,250 certificates of Rs.30 each to existing shareholders in the ratio of 1 PTC for every 1 ordinary share. These certificates are listed Pakistan Stock Exchange (PSX). The principal amount of PTCs shall be redeemed through cash and mandatory conversion into ordinary shares through share conversion @ 0.07shares per PTC per annum at a pre-agreed conversion price of Rs.59.14 for 2013 to 2018 and 0.08 shares per PTC at the price of Rs. 51.38 for 2019. The PTCs shall be redeemed through cash @ Rs. 4.14 per annum from year 2013-2018 and Rs. 4.4 for the year 2019. The PTC holder is entitled to a minimum profit of (Category A profit) at Rs. 4.14 per annum for each PTC 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

Proposed Sukuk Structure	TCL plans to issue Sukuk of Rs.539.5m at face value of Rs.40 per Sukuk. 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 by way of Renounceable Offer Letter (ROL); ROL will be trade-able at Pakistan Stock Exchange (PSX). The Sukuk will be listed on Pakistan Stock Exchange (PSX). Sukuk will be converted into ordinary shares maximum ratio of one sukuk to one ordinary share at the option of sukuk holders. The company will give a time bound put option to redeem the sukuk in full or partial payments in cash after expiry of three years (and therafter after every third anniversary of such date). Sukuk will carry voting right equal to one-tenth of ordinary share of the Company. Profit payment will be made to Sukuk holders in cash on annual basis. The profit for each Sukuk will be higher of either the cash dividend (interim plus final) paid by the Company per Ordinary share during the relevant financial year or 6% of Musharkah profit of relevant financial year (divided by number of Sukuks outstanding). The Company will have no option to redeem the Sukuk in cash or to convert them into Ordinary shares.
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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