RATING REPORT

Treet Corporation Limited

REPORT DATE:
December 31, 2021

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-2	A-	A-2
Rating Outlook	Rating Watch-Developing		Rating Watch-Developing	
Rating Date	*31 Dec' 21*		*06 Oct' 20*	

COMPANY INFORMATION

Incorporated in 1977	**External auditors:** M/s KPMG Taseer Hadi & Co. Chartered Accountants
Public Limited Company	**Chairman:** Mr. Imran Azim
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Syed Shahid Ali
Syed Shahid Ali & Family – 39.35%	
Joint Stock Companies – 8.41%	
NIT – 6.81%	
Loads Limited (Associated Company) – 5.08%	

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Treet Corporation Limited

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. The head office is located in Lahore, Pakistan while the manufacturing units are located in Lahore, Gujranwala, Hyderabad and Faisalabad.

Profile of Chairman

Mr. Imran Azim was appointed as Chairman of the Board on July 1, 2020. Mr. Imran brings more than a four decades of experience including working in one of the largest financial institutions, and also asset management and manufacturing companies of Pakistan.

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/(Loss): FY21: Rs. 548m; FY20: Rs. (2.7b); FY19: Rs. (2.1b)

Tier-1 Equity: FY21: Rs. 3.3b; FY20: Rs. 1.9b; FY19: Rs. 4.4b

RATING RATIONALE

The ratings assigned to Treet Corporation Limited (TCL) incorporate strong sponsorship profile and diversified revenue stream of the company owing to presence in different product segments. During the outgoing year, operational performance of the company improved in line with higher revenue generation in blades and battery segments with notable improvement in gross margins mainly due to higher profitability in blades and lower negative contribution from battery segment. Curtailment of losses in the battery segment was possible on account of better fixed cost absorption and price rationalization. Localization of resources for battery segment, improved plant efficiency and better inventory management has also reflected positively on the gross margins. The company disposed non-core assets during FY21 and 1QFY21 that generated considerable cash flows to partially offset borrowings and capital gain which supported the bottomline. The company also recorded sizeable other income emanating from reversal of a revaluation deficit on a land and building, export rebate and gain realized on short-term investments. However, liquidity position remains weak with negative funds from operations (before working capital changes) amidst sizeable adjustments related to non-cash other income. The leverage indicators, albeit improved on the back of higher core equity and some decrease in borrowings, remained on a higher side.

The company is in process of executing demerger of battery segment into another company, which is expected to be concluded by 3QFY22; further capital injection in the battery company from an equity partner is expected to augment the equity base and help in lowering short-term borrowings. The management also plans to reprofile part of its short-term financing into long-term loans in order to improve its current ratio. The ratings also factor in ongoing capacity enhancement regarding hemodialysis concentrates and blades segment and frequent BMR to improve operational efficiencies. Steady demand of the company's flagship product i.e., razors and blades in local and export markets and improvement in brand recognition of batteries in the local market bodes well for revenue growth amidst economic expansion. The management expects battery segment to turn profitable in the ongoing year due to BMR and economies of scale. Liquidity position is also projected to improve on the back of higher profitability from core operations. However, given considerable level of short-term borrowings on the balance sheet, increasing trend in markup rates may adversely impact profitability, going forward. The ratings will remain dependent on materialization of expected equity injection within stipulated timeframe to improve capitalization and liquidity indicators while achieving projected revenue growth and profitability.

Key Rating Drivers:

Notable improvement in capacity utilization of blades and battery segment in the outgoing year: Pakistan economy witnessed a V-shaped recovery on the back on continuing accommodative fiscal and monetary policies. The GDP growth rate for FY21 was 3.9% as compared to initially projected growth of 1.5% and a growth of 0.53% in the preceding year. For the ongoing fiscal year, the government projects a GDP growth rate of 5%. On the industrial front, there was a significant rebound in economic activity as Large-Scale Manufacturing (LSM) registered a growth of 9.3% in FY21, as per Pakistan Bureau of Statistics (PBS). According to an industrial production and employment report by PBS (August 2021), average industrial production index for FY21 stood higher at 184.5 (FY19: 166.0). The report covered 2,041 industrial units pertaining to large scale industries which contribute 72% to the large-scale manufacturing (LSM) sector in the Punjab. Overall production of the LSM units was 8.8% higher during Jul-Aug' 2021-22 as compared to Jul-Aug' 2020-21. Automobile sector was one of the highest growing segments with a growth of 51.06% in FY21 and 42.46% in 1QFY22. Meanwhile, the razors and blades segment posted a growth of 14.2% in Jul-Aug' 2021-22 vis-à-vis preceding period. .

TCL's operational performance improved notably in the ongoing year. The combined installed production capacity of both plants of blades segment remained intact at 2.23 billion units in FY21 while the company manufactured 2,094 million units of blades and razors (FY20: 1,590 million units) with higher capacity utilization to 94% (FY20: 71%). Production of double edge razor increased by around two-folds in FY21. In addition, market demand for hygiene razors was about 25% more than its allocated production capacity. Hygiene razor is relatively a high-priced product and extra production was met through 24/7 working shifts. In addition, production of relatively lower-priced products was reduced in consultation with sales and marketing division to create cushion for additional production for hygiene razors. Given the plant operated at nearly full capacity and foreseeing increase in demand of hygiene razors, the management decided to enhance its production capacity by 24m units per annum (current capacity: 96m units per annum) with an estimated capital expenditure of Rs. 250m. The project is underway and expected to be completed by end-FY22. The management expects an incremental revenue of Rs. 312m per annum from the said expansion. The management also intends to increase automation in assembly process of disposable razors during FY22.

Production of batteries under First Treet Manufacturing Modarba (FTMM) increased to 575,009 units (FY20: 429,961 units) during outgoing year with capacity utilization of 48% (FY20: 36%). Growth in auto-sector has augured well and exhibits a positive trajectory going forward. The company is already supplying its Sealed Maintenance Free (SMF) automotive batteries to two automobile Original Equipment Manufacturers (OEMs) and negotiations with some other new entrants are in progress. The company's SMF battery has also been receiving good response in the used car segment. According to the management, deep cycle backup batteries, mainly used in solar power setup and in UPS, also have good growth prospects given incentives in using hybrid energy systems amidst rising electricity cost. A new battery series by the name of DHV (Daewoo Heavy Vehicle) battery has been introduced in Mar '21. DHV can be used either for back-up storage or in heavy vehicle as Starting, Lighting and Ignition (SLI) battery. A total of five different capacity models have been introduced initially in this regard.

Hemodialysis concentrates production by Renacon Pharma Limited (RPL - a subsidiary company) as measured in thousand sessions, increased to 2,189 sessions (FY20: 2,046 sessions) while capacity utilization was slightly lower at 91% (FY20: 96%) on account of increase in installed production capacity to 2,400K sessions per annum (FY20: 2,124K). Given capacity constraints relative to demand of this product, the company is in process of expanding its production capacity by ten-folds to cater to local and international demand. New production facility is under construction at Faisalabad Industrial Estate Development and Management Company (FEIDMC), the largest industrial estate in the country. The new facility is expected to become operational by end-FY22. Total capex on this expansion is estimated at Rs. 1.7b out of which Rs. 900m would be contributed by Treet, Rs. 300m have been arranged under Islamic TERF and long-term loan of Rs. 505m from Karandaz.

Corrugated boxes installed capacity remained at 30,000 MT per annum with a slight increase in capacity utilization to 68% (FY20: 66%). On the other hand, capacity utilization of soap decreased to 56% (FY20: 64%) in FY21 while production capacity remained intact at 5000 MT per annum. Given the soap product of the company largely targets relatively price sensitive consumer market, its demand was adversely affected by increase in prices owing to surge in palm oil prices. Meanwhile, production of bikes declined further with capacity utilization of only 4% (FY20: 15%). Installed production capacities, actual production and capacity utilization of all segments are tabulated below:

	Installed Capacity		Actual Production		Capacity Utilization	
(per annum capacity)	**FY20**	**FY21**	**FY20**	**FY21**	**FY20**	**FY21**
Blades- Units in millions	2,230	2,230	1,590	2,094	71%	94%
Corrugated Boxes- in MT	30,000	30,000	19,675	20,513	66%	68%
Bikes- Units	18,000	18,000	2,717	677	15%	4%
Soap- in MT	5,000	5,000	3,194	2,780	64%	56%
Batteries- Units	1,200,000	1,200,000	429,961	575,009	36%	48%
Hemodialysis Concentrates- in thousand sessions	2,124	2,400	2,046	2,189	96%	91%

Increase in non-current assets mainly due to recognition of revaluation surplus on property and plant and capital work in progress related to RPL expansion: Operating fixed assets stood higher at Rs. 16.0b (FY20: Rs. 12.4b) at end-FY21. The increase was mainly due to revaluation surplus of Rs. 3.2b recorded during FY21 which largely pertained to plant and machinery. In addition, there was a reversal of revaluation deficit of Rs. 916m on land a building of FTMM and addition in plant and machinery of Rs. 289.3m which was related to RPL expansion and routine BMR. Capital work in progress amounted to Rs. 1.15b (FY20: Rs. 1.53b) at end-FY21. This mainly included civil work on building for new plant for RPL expansion project, amounting Rs. 672.9m and plant and machinery in transit worth Rs. 414.2m. Right of use assets amounted to Rs. 86.1m (FY20: Rs. 78.3m) at end-FY21. Intangible assets of Rs. 163.8m (FY20: Rs. 152.1m) pertained to goodwill acquired on acquisition of RPL and oracle software and implementation. Long-term investments stood higher at Rs. 786.9m (FY20: Rs. 426.3m) due to increase in value of investment in an associated concern, namely Loads Limited to Rs. 747.9m (FY20: Rs. 386.8m). The increase in value was due to share of surplus on revaluation of PP&E of Rs. 242.5m (FY20: Nil) along with the impact of Rs. 124.9m of investment pursuant to 100% subscription of right shares issued by Loads Limited during FY21 while percentage shareholding of TCL remained at 12.49%.

Growth in topline largely manifested in battery and blades segments along with notable improvement in margins on the back of curtailment of losses in battery segment: The company recorded net sales of Rs. 14.2b (FY20: Rs. 11.1b) in FY21 while registering a growth of 28% on YoY basis. Blades remained the largest contributor in net revenues with 53% share (FY20: 54%), followed by batteries with a higher proportion of 25% (FY20: 20%) in FY21. Corrugated boxes and hemodialysis concentrates share in topline remained at 12% (FY20: 13%) and 4% (FY20: 5%), respectively. Revenue from blades segment was recorded at Rs. 7.6b (FY20: Rs. 6.0b) in the outgoing year. Growth in sales was driven by post-covid economic recovery and uptick in demand. The company surpassed its sales target despite some production days lost due to steel strip shortage. Battery segment sales were recorded higher at Rs. 3.6b (FY20: Rs. 2.2b) in FY21 on account of volumetric growth of 39% and higher average selling prices; the company sold 572,680 units in FY21 vis-à-vis 412,000 in the preceding year. Total export sales amounted to Rs. 2.5b (FY20: Rs. 2.1b) which largely constituted blades and razors sales (FY21: Rs. 2.5b; FY20: Rs. 2.0b) while the rest comprised revenues from hemodialysis concentrates and batteries amounting Rs. 55.2m and Rs. 19.7m (FY20: Rs. 25.4m and Rs. 50.5m), respectively. Export sales have remained adequately diversified in terms of geographic concentration.

Cost of sales was recorded higher at Rs. 11.6b (FY20: Rs. 9.8b) in FY21. Overall costs of sales were largely rationalized with scale of operations while salaries and wages and other benefits under blades and battery segment increased mainly on account of bonuses and inflationary adjustments. The company generated Rs. 2.5b (FY20: Rs. 1.3b) in gross profits with increase in gross margin to 17.9% (FY20: 11.8%) in FY21. The improvement in gross margin was mainly a function of lower negative margins of battery segment (FY21: -3.8%; FY20: -35.6%) on the back of better fixed cost absorption and price rationalization by the company. Battery prices were increased by 5-11% in a phased manner according to market dynamics. In addition, better inventory management, localization of materials for working capital optimization and improvement in plant efficiency emanating from implementation of overall equipment efficiency-based program, conversion of power source from LPG to natural gas, process wastage reduction and capturing in-house recycling resources have also helped in lowering segment's losses. Blades and hemodialysis concentrates segment margins increased marginally to 34.2% (FY20: 33.1%) and 17.6% (FY20: 16.7%), respectively. Soap margins contracted during the outgoing year due to hike in prices of raw material while corrugated boxes and bikes remained unprofitable in the ongoing year.

Administrative expenses increased to Rs. 769.3m (FY20: Rs. 407.1m) in FY21 primarily due to higher salaries, wages and other benefits along with increase in legal and professional charges and donations. Salaries and other benefits related to battery segment were recorded lower as the battery plant operations are now fully managed by local team except for one expat in the domain of research and development. Distribution costs increased slightly to Rs. 1.3b (FY20: Rs. 1.2b) in FY21 due to higher salaries, wages and other benefits. Finance cost was recorded lower at Rs. 1.1b (FY20: Rs. 1.7b) mainly due to lower average markup rates along with decrease in average short-term borrowings. Other operating expenses increased mainly due to higher contributions towards employee related funds. Other income was recorded significantly higher at Rs. 1.4b (FY20: Rs. 103.7m) largely due to reversal of deficit on revaluation amounting Rs. 916.0m (FY20: Nil), export rebate of Rs. 200.4m (FY20: Rs. 36.9m), and realized gain on short-term equity investments of Rs. 193.1m (FY20: Nil). The company also recorded profit of Rs. 598.6m (FY20: Rs. (370.5m)) from discontinued operations *(disposal of Global Arts Limited)*. Accounting for taxation, the company generated net profit of Rs. 547.9m in FY21 as compared to loss of Rs. 2.7b in the preceding year.

During 1QFY22, net revenue was recorded at Rs. 4.0b (1QFY21: Rs. 3.6b) with gross margins of 17.6%.

Admin and distribution expenses remained largely rationalized with sales. The company recorded other income of Rs. 371.1m which mainly included gain on sale of land categorized as held for sale amounting Rs. 355.6m. Battery operations are expected to become profitable in the ongoing year; management targets to sell 750,000 units of batteries in FY22. The management projects to generate net sales of Rs. 16.3b in the ongoing year with improvement in profitability from core operations. Gross margins are projected to increase to 20.7% in the ongoing year and improve further, going forward, mainly on account of profit generation in battery segment along with the impact of operational efficiencies.

Stressed liquidity position: Despite higher profitability, funds from operations (before working capital changes) remained negative at Rs. 199.3m (FY20: Rs. (2.1)b) in FY21, primarily due to sizeable adjustments relating to other income from reversal of revaluation deficit and gain on disposal of subsidiary company, increase in finance cost and taxes paid. Debt service coverage has remained less than one (FY21: 0.83x; FY20: 0.34x).

Current assets increased to Rs. 7.0b (FY20: Rs. 6.0b) by end-FY21. Stock in trade increased to Rs. 2.7b (FY20: Rs. 2.3b) mainly due to higher finished goods and work in progress inventories of blades segment in line with increase in scale of operations and higher cost. The company usually carries two months inventory for blades, however, due to logistics issues during the year, three months inventories have been kept for smooth operations. Trade debts increased to Rs. 938.8m (FY20: Rs. 878.6m); as a percentage of net sales, trade debts remained at 7% (FY20: 8%). Aging is considered satisfactory given Rs. 321.7m of gross receivables were not past due, Rs. 632.7m were past due for 1-3 months and receivables of Rs. 66.7m were outstanding for more than 3 months. Loss allowance at end-FY21 amounted to Rs. 62.9m (end-FY20: Rs. 70.5m). The company holds short-term investments worth Rs. 398.9m (FY20: Rs. 244.7m) which comprised listed equity investments of Rs. 70.6m (FY20: Rs. 244.6m) and term deposit receipts of Rs. 330m (FY20: Nil). The decrease in listed securities was mainly due to partial liquidation of equity investment in a bank. Loans, advances, deposits and prepayments amounted to Rs. 1.8b (FY20: Rs. 1.7b) and largely constituted balances with statutory authorities of Rs. 1.3b (FY20: Rs. 1.4b) and advances to suppliers of Rs. 303.7m (FY20: Rs. 267.3m). Cash and bank balances stood at Rs. 816.7m (FY20: 476.9m) at end-FY21. However, current ratio and coverage of short-term borrowings via stock in trade and trade debts continued to remain less than one mainly owing to persistently higher short-term borrowings. The company is projecting to reprofile a part of its short-term borrowings into long-term financing during FY22 which would help in improving current ratio.

Measures to reduce borrowings: The company classified Global Arts Limited (GAL) of book value 1.8Bn as held for sale assets in FY20. The transaction was executed on June 30, 2021 for 100% sale of equity interest by TCL to Chimera Education (Pvt.) Limited (CEPL) at a transaction price of Rs. 2.7b. Out of the total transaction proceeds, the company paid Rs. 81m as expenses incurred related to the sale transaction while Rs. 270m has been kept as long-term deposits as retention money *(10% of the sale consideration of GAL)*, in escrow account with a bank, in accordance with the terms of the share purchase agreement. The retention amount will be released to the group after 18 months from closing date i.e. June 30, 2021. The escrow account carries markup at the rate of 5.5% per annum and classified as fair value through profit and loss.

The company categorized assets worth Rs. 537.4m as held for sale in FY21, which included a piece of land worth Rs. 380.3m, measuring 18 kanals and 11 marlas near GAL. A sale deed was signed between FTMM and the buyer, CEPL, against sale consideration of Rs. 600m. The land has been sold subsequently in 1QFY22. In addition, during FY21, the Board of TCL approved to sell 20 million modaraba certificates of FTMM in the open market. Out of total, TCL sold 581,000 certificates till Jun 30, 2021 and the remaining have been classified as held for sale against value of Rs. 313.6m.

Spin-off of battery segment from FTMM into a separate company i.e., Treet Battery Limited is in progress. The related financial institutions have provided No Objection Certificates. Presently, the company is in process of obtaining regulatory and legal approvals from the regulators. The spin-off is expected to be completed by end-Mar'22. The company expects proceeds amounting Rs. 4b in terms of equity against this transaction out of which Rs. 3b is expected to be received by end-FY22 and added in minority interest. During FY21, the Board approve the conversion of loan provided by TCL to FTMM to the extent of Rs. 6.88b, out of which Rs. 5.04b of borrowings were converted into equity in the outgoing year. Presently, TCL holds 96.38% of the total equity of FTMM, meanwhile, after demerger percentage shareholding would decrease to about 60%.

Leverage indicators, albeit improved, have remained on a higher side: Tier-1 equity increased to Rs. 3.3b (FY19: Rs. 1.9b) by end-FY21 mainly on account of surplus realized on disposal of subsidiary and profit retention. Capital reserves increased to Rs. 5.8b (FY20: Rs. 5.6b) owing to increase in capital reserve of associate. Paid-up capital stood at Rs. 1.7b (FY20: Rs. 1.7b) at end-FY21. Non-controlling interest amounted to Rs. 308.3m (FY20: Rs. 227.5m). Total equity increased to Rs. 10.1b (FY20: Rs. 6.8b) after including revaluation surplus on property, plant and equipment stood of Rs. 6.8b (FY20: Rs. 4.9b). Core equity increased further to Rs. 3.8b by end-1QFY22 mainly in line with profit retention.

Debt profile majorly constituted short-term borrowings which decreased to Rs. 10.3b (FY20: 13.0b) by end-FY21. Long-term borrowings including current portion amounted to Rs. 429.0m (FY20: Rs. 233.7m). During FY21, the company mobilized long-term loan of Rs. 163.5m (FY20: Rs. 58.3m) under SBP refinance scheme for payment of salaries and wages. Another loan amounting Rs. 91.5m was mobilized under TERF (sanctioned amount Rs. 300m) for RPL. RPL has also entered into an agreement with Karandaaz *(a special purpose vehicle setup for promoting access to finance for micro, small and medium-sized businesses)* for financing of Rs. 505m at a markup rate of KIBOR plus 0.25% per annum. Deferred liabilities related to employee retirement benefits amounted to Rs. 883.0m (FY20: Rs. 714.2m). Trade and other payables stood higher at Rs. 2.7b (FY20: Rs. 1.3b) by end-FY21 mainly on account of increase in trade creditors to Rs. 1.15b (FY20: Rs. 460.1m) and accrued liabilities to Rs. 793.3m (FY20: Rs. 173.4m). Trade creditors increased mainly due to higher cost of raw materials and increase in inventories held in line with scale of operations and some surplus kept to mitigate logistics issues. Accrued liabilities mainly increased due to bonuses, incentives and other employee related payments.

With decrease in short-term borrowings and higher equity base gearing and leverage decreased to 2.69x (FY21: 3.22x; FY20: 7.06x) and 3.89x (FY21: 4.71x; FY20: 8.48x), respectively, by end-1QFY22. The management projects decrease in short-term borrowings to Rs. 3.7b by end-FY22 mainly due to debt reprofiling and availability of internal cash flows. Meanwhile, long-term borrowings are expected to increase to Rs. 4.0b. Improvement in capitalization indicators on the back of projected augmentation in equity and lower debt levels remains a key rating factor.

Corporate Governance: Overall corporate governance framework is supported by adequate board composition and oversight. The board comprises seven members including Chairman and CEO. There are two independent directors on board with a female representation as per best practices. There have been no changes at the senior management level and board composition during the review period. During the outgoing year M/s KPMG Taseer Hadi & Co. retired and M/s Yousuf Adil Chartered Accountants were appointed as external auditors for FY22.

Treet Corporation Limited — Appendix I

FINANCIAL SUMMARY		(amounts in PKR millions)		
BALANCE SHEET	FY19	FY20	FY21	1QFY22
Operating Fixed Assets	16,257	13,912	16,861	17,448
Long-Term Investments	478	426	787	735
Stores & Spares	287	350	342	377
Stock-in-Trade	2,957	2,297	2,683	2,485
Trade Debts	1,235	879	939	945
Short-Term Investments	435	245	399	76
Loans, Advances, Deposits, prepayments and Other Receivables	2,467	1,749	1,801	2,100
Other Assets	257	367	619	369
Assets Held for Sale	-	2,021	537	-
Cash & Bank Balances	359	477	817	847
Total Assets	**24,732**	**22,723**	**25,785**	**25,382**
Trade and Other Payables	1,279	1,304	2,731	2,725
Long Term Debt (including current maturity)	201	234	429	397
Short Term Debt	13,066	13,034	10,292	9,946
Deferred Liabilities	482	714	883	1,288
Other Liabilities	643	642	1,346	581
Total Liabilities	15,671	15,928	15,681	14,937
Tier-1 Equity (Inc. min interest)	4,397	1,879	3,329	3,840
Revaluation Surplus on Fixed Assets	4,664	4,916	6,775	6,605
Total Equity	9,061	6,795	10,105	10,444
Paid-up Capital	1,655	1,698	1,748	1,748
INCOME STATEMENT	FY19	FY20	FY21	1QFY22
Net Sales	11,972	11,112	14,195	4,032
Gross Profit	1,247	1,310	2,547	709
Operating Profit	(793)	(366)	401	291
Finance Cost	1,286	1,732	1,055	211
Other Income	243	104	1,417	371
Profit (Loss) Before Tax	(1,949)	(2,184)	524	449
Profit (Loss) from Discontinued Operations	-	(370)	599	-
Profit After Tax	(2,125)	(2,656)	548	398
FFO	232	(1,084)	(199)	(120)
RATIO ANALYSIS	FY19	FY20	FY21	1QFY22
Gross Margin (%)	10.4	11.8	17.9	17.6
Net Margin (%)	-	-	3.9	9.9
Current Ratio (x)	0.51	0.40	0.50	0.51
Net Working Capital	(7,448)	(9,026)	(6,893)	(6,594)
FFO to Total Debt (x)	0.02	-	-	-
FFO to Long Term Debt (x)	1.15	-	-	-
Debt Servicing Coverage Ratio (x)	1.05	0.34	0.83	0.52
ROAA (%)	-	-	2.3	6.2*
ROAE (%)	-	-	6.5	15.5*
Gearing (x)	3.02	7.06	3.22	2.69
Leverage (x)	3.56	8.48	4.71	3.89
Inventory plus Trade Debts to Short-Term Borrowings (x)	0.32	0.24	0.35	0.34

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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 Ratings
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATINGS : ENTITY		
31/12/2021	A-	A-2	Rating Watch Developing	Reaffirmed
6/10/2020	A-	A-2	Rating Watch Developing	Downgrade
24/09/2019	A	A-2	Negative	Downgrade
21/05/2019	AA-	A-1	Stable	Reaffirmed
02/08/2018	AA-	A-1	Stable	Reaffirmed
20/12/2016	AA-	A-1	Stable	Reaffirmed
08/12/2015	AA-	A-1	Stable	Reaffirmed
23/02/2015	AA-	A-1	Stable	Reaffirmed
10/12/2013	AA-	A-1	Stable	Reaffirmed
06/03/2012	AA-	A-1	Stable	Reaffirmed

Instrument Structure	N/A
Statement by the Rating Team	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	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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Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Saqib Hameed	Head of Treasury	26th November, 2021
2.	Mr. Sarmad Raheel	Treasury Executive	26th November, 2021