RATING REPORT

Treet Corporation Limited

REPORT DATE:
December 15, 2022

RATING ANALYSTS:

Maham Qasim
maham.qasim@vis.com.pk

Basel Ali Assad
basel.ali@vis.com.pk

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	*15 Dec'22*		*31 Dec' 21*	

COMPANY INFORMATION

Incorporated in 1977	**External auditors:** M/s Yousaf Adil Chartered Accountants Lahore
Public Limited Company	**Chairman:** Mr. Imran Azim
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Syed Shahid Ali
Syed Shahid Ali & Family – 38.99%	
Joint Stock Companies – 7.28%	
NIT – 6.47%	

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): FY22: PKR (303m); FY21: PKR 548m; FY20: PKR (2.7b)

Tier-1 Equity: FY22: PKR 3.2b; FY21: PKR 3.3b; FY20: PKR 1.9b

RATING RATIONALE

The ratings assigned to Treet Corporation Limited (TCL) take into the account the group's strong sponsorship profile along with the diversified revenue stream possessed owing to presence in different product segments. Overall risk profile remains on the higher side given that the company was unable to report positive bottom line during the rating review period along with sensitivity to forex movements. The revenue contribution from the flagship line, blades and razors, demonstrated slight downward trajectory in terms of production and volumetric sales owing to decreased demand in wake of current economic scenario adversely impacting the purchasing power of the target market. On the flip side, battery segment turned profitable in the outgoing year due to BMR, economies of scale and product line extensions. The ratings reflect dip in gross margins in the outgoing year stemming from delay in transferring input cost to end consumers coupled with increased contribution by low margin generating battery segment in the revenue mix. The ratings reflect capex carried out on BMR in blades division for operational efficiencies and significant capacity enhancement for hemodialysis concentrates; positive outcomes from both initiatives are projected to contribute to financial flexibility of the company. On the other hand, high market rates scenario prevalent along with sizable funding carried, finance cost may put a drag on company's profitability further going forward. The ratings incorporate that the overall improvement in liquidity evidenced during the rating review period is solely due to adjustment in taxation expense/asset recording originating from profit or loss reported by TCL in different financial periods. Hence, the same is not a true representation of the company's liquidity position. The current ratio and short-term borrowing coverages are below 1.0x; however, the same have improved and are expected to improve further through significant debt retirement by end of next financial year.

Stemming from financing procured for capital projects undertaken and to meet working capital requirements coupled with dip in equity, leverage indicators have increased during the rating review period; the same continue to be higher than the rating benchmarks for the assigned rating. The ratings factor in company's current focus on reprofiling of its debt mix with conversion of short-term debt into long-term debt to rectify the asset mismatch present. Furthermore, the demerger of the company's battery segment into a separate company has faced delays and is still underway; the same is likely to be finalized in the ongoing year. The spinoff is expected to contribute to uplifting the liquidity position along with assisting in deleveraging the company's capital structure. In addition, rights issue amounting to Rs. 5.0-6.0b is planned by end of ongoing year which will provide significant equity injection; the same will be utilized in paying off short-term borrowings, ultimately having a two-pronged positive effect on leverage indicators. Going forward, ratings will be dependent on the sustenance of margins and overall management of business risk, incremental cash flow generation and cost savings from recent capital expenditure and materialization of expected equity injection within stipulated timeframe to improve capitalization and liquidity indicators. Given any of the two plans do not materialize within the stipulated timeframe communicated by the management, the same can warrant a rating decision or outlook change.

Key Rating Drivers:

Segment production statistics & going forward plans:

Blade & Razor Division:

The global blades and razor market was estimated at USD $3.2b in FY22 and is expected to grow at 3% cumulative annual growth rate (CAGR) till FY32. According to the razor and blade market forecast, double edge blade segment was worth USD $1.7b and is expected to sustain its significance due to its popularity, accessibility and low price. Currently, TCL's razor blade division enjoys about 85% local market share and earns handsome foreign exchange by exporting products to over 40 countries around the world. TCL's total installed production capacity for both its plants in the blades and razors division remained unchanged at 2.2b units; however, actual production, dipped to 1.7b units (FY21: 2.1b units) resulting in reduced capacity utilization of 77% (FY21: 94%) during the outgoing year. The reduction in utilization indicators was deliberate in line with management's decision to reduce production of low margin generating products in favor of hygiene blades entailing better margins and growing demand prospects in both local and export markets. Further, the company has also planned to phase-wise increase production capacity for its hygiene blades by 30m units per annum. Capex under Balancing,

Modernization and Replacement (BMR) amounting to Rs. 500m is expected to be incurred in the first phase with investment of Rs. 250m to be finalized by end-Dec'22. Moreover, the capex is planned to be funded equally by long-term financing and equity contribution. The capacity expansion is projected to come online by end-May' 23 and add Rs. 350m to the topline in FY23; the full year impact of operations will kick in from FY24. In addition, the management projects to close razor division with a topline of Rs. 10.5b in FY23 on account of higher quantum of exports along with forex impact. TCL aims to improve penetration in existing markets coupled with revival of old export destinations including South Africa and Kingdom of Saudi Arabia.

Battery Division:

The battery segment witnessed a growth in production with numbers increasing to 672,711 units (FY21: 575,009 units) and capacity utilization rate recorded at 56% (FY21: 48%). On the other hand, installed production capacity remained the same at 1.2b units. The company is currently supplying Sealed Maintenance Free (SMF) automotive batteries to six Original Equipment Manufacturers (OEMs) and is negotiating with other new entrant(s). The SMF battery line has also received positive reception by the used-car market. In addition, going forward demand for deep-cycle batteries is expected to see an uptick owing to increasing electricity costs, loadshedding and transition to hybrid energy systems by consumers. Additionally, the Daewoo Heavy Vehicle (DHV) battery series, which was introduced in FY21, showed significant growth with a 288% increase in volume. Overall, the total static-use battery segment clocked upwards by 34% in volumetric terms. As per the management, TCL's unique selling point in the battery division is quality due to which the company is able to charge premium pricing.

Hemodialysis Concentrates

Hemodialysis concentrates (measured in thousand sessions), produced under the subsidiary Renacon Pharma Ltd. (RPL), have seen an increase in output to 2,294 sessions (FY21: 2,189 sessions) resulting in improved capacity utilization recorded at 96% (FY21: 91%) FY22. Total installed capacity remained unchanged at 2,400 sessions. TCL is the market leader in this segment with 65% market share nationwide. Therefore, the company has planned to significantly enhance production capacity with the construction of a new plant at Faisalabad Industrial Estate Development and Management Company (FIEDMC) owing to growing local and export demand. The project is expected to increase production by ten times of current capacity and generate revenue around Rs.6.5b in FY25. The total cost of the capex is approximately estimated at Rs.1.8b; out of total funding requirement Rs. 995m was contributed from own sources while the remaining Rs. 805m will be financed through commercial borrowings from Karandaaz/BAFL (Rs. 505m) and Bank Islami (Rs. 300m). Financial close for the project was achieved in Dec'21 while 65% of machinery has also been received. The civil works are expected to be completed by end-June'23 with commercial operations projected to begin in July'23.

Corrugated Boxes, Bikes & Soaps Division

TCL's nameplate installed capacity of the corrugated boxes division remained unchanged at prior year's level; meanwhile, the production and capacity utilization increased during FY22. It is estimated that Pakistan's installed capacity of brown paper is well over 1m metric tons a year, with growing off-take catching up this number. In addition, Sino-Russian and other investments are likely to attract more affiliates to join CPEC and related economic ventures, positively impacting the corrugated boxes division once the political turmoil settles. TCL's key customers for the segment include Pepsico, Lotte, PSO, Engro, waves, Shell, Nippon etc. The number of bikes manufactured also exhibited a slight improvement; however, in terms of capacity utilization the performance remains lackluster. Moreover, the company outsourced production of its soap line to third-party vendors in the outgoing year to achieve better margins. Breakdown of installed production capacities, actual production and capacity utilization of all divisions are presented in the table below:

	Installed Capacity		Actual Production		Capacity Utilization	
(Per annum capacity)	**FY21**	**FY22**	**FY21**	**FY22**	**FY21**	**FY22**
Blades (units in millions)	2,230	2,230	2,094	1,721	94%	77%
Corrugated boxes (units in MT)	30,000	30,000	20,513	23,578	68%	79%
Bikes (units)	18,000	18,000	677	1,245	4%	7%
Soap (units in MT)	5,000	5,000	2,780	0	56%	0%
Batteries (numbers)	1,200,000	1,200,000	575,009	672,711	48%	56%

Hemodialysis Concentrates (units in thousand sessions)	2,400	2,400	2,189	2,294	91%	96%

Non-current asset mix largely remained range bound during the period under review: The company's operating fixed assets remained unchanged at Rs. 17.1b (FY22: Rs. 17.0b; FY21: Rs. 17.1b) at end-1QFY23 with cumulative additions in plant and machinery amounting to Rs. 664.9m during the rating review period were offset by proceeds from disposal of long-term investments coupled with depreciation charge booked. Capital work-in-progress amounting to Rs. 1.2b (FY21: Rs. 1.1b) at end-FY22 primarily constituted of civil works worth Rs. 861.1m pertaining to RPL expansion along with other BMR related initiatives of the company. Right-of-use assets decreased to Rs.43.4m (FY21: Rs. 87.8m) due to cancellation of a lease resulting in a deduction of Rs.39.3m at end-FY22. Intangible assets stood Rs. 149.0m (FY21: Rs. 163.8m) at end-FY22 constituting of Oracle software of Rs. 15.4m and goodwill amounting to Rs. 133.6m booked on acquisition of RPL. Moreover, long-term investments decreased to Rs. 735.6m; (FY22: Rs. 759.5m; Rs.786.9m) at end-1QFY23 in line with operational losses reported by associate companies, namely Loads Ltd. and Global Assets (Pvt.) Ltd., in which TCL has maintained shareholding of 12.5% and 28.7%, respectively during the review period.

In addition, long-term deposits and loans also decreased sizably to Rs. 105.7m (FY22: Rs. 105.7m; FY21: Rs. 357.4m) by end-1QFY23 owing to release of deposit worth Rs. 270.0m held in a bank representing 10% advance of sale proceeds against sale of Global Arts (Pvt.) Ltd. (GAL) to Chimera Education (Pvt.) Ltd (CEPL) during FY21. TCL classified GAL of book value Rs.1.8b as held for sale assets in FY20, the transaction was executed on June 30, 2021 for 100% sale of equity interest by TCL to 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 is 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 escrow account also carried markup and classified as fair value through profit and loss.

Growth in topline originating from increase in net sales in most segments barring blades and razors division which showed slight decrease: In the outgoing year, the company's net sales increased by 11.2% primarily as a result of higher sales recorded in the battery division. As a result, the representation of battery segment in the topline rose while blades division remained the main revenue generating division during FY22. Batteries registered a notable increase in sales of 37.1% on the account of both higher volumes and average prices. The company plans to focus on targeting Tier-2 and Tier-3 cities to increase visibility and turnover for their battery product line going forward. Moreover, to further tap the market potential, TCL has new battery series under development for niche buyers focusing on premium quality. Different capacity models are also being introduced in all amperages for starting, lightning & ignition (SLI), solar and backup uses. Revenue generated from the blades segment, despite decreasing to Rs. 7.4b (FY21: Rs 7.6b) due to the management's decisions to reduce production of lower margin products and absorb impact of increased costs of production during FY22, still met sales targets. Corrugated boxes and hemodialysis concentrates contribution to net sales remained relatively stable during the outgoing year. Total exports were recorded slightly lower at Rs.2.3b (FY21: Rs. 2.6b) in FY22 constituting primarily of blades and razors sales amounting to Rs.2.3b (FY21: Rs.2.5b) while hemodialysis concentrates contributed to the remainder with Rs. 54.2m (FY21: Rs.55.2m) during FY22. Breakdown of revenue by segment and their proportion to total sales can be seen below:

	Sales		Proportion of Total Sales	
	FY21	**FY22**	**FY21**	**FY22**
Blades and trading operations	7,519	7,402	53.0%	46.9%
Soaps	745	490	5.3%	3.1%
Corrugated boxes	1,740	2,228	12.3%	14.1%
Bikes	30	51	0.2%	0.3%
Battery	3,562	4,882	25.1%	30.9%
Hemodialysis concentrates	544	715	3.8%	4.5%
Others	55	22	0.3%	0.2%
Total	**14,195**	**15,790**	**100%**	**100%**

TCL's gross profit dipped slightly 16.9% (FY21: 17.9%) during the outgoing year as a result of reduction of gross margin in blades segment to 31% (FY21: 34%) coupled with increased contribution of battery segment in the revenue mix entailing lower margin in comparison to blades segment. The ongoing political and economic uncertainty has adversely impacted the purchasing power of the core target market of the company, therefore in order to meet sale forecasts the increase in raw material cost was not transferred to the end-consumers during the rating review period. As per the management, around 30% increase in the blade segment is projected to be exercised during 2QFY23; the same is expected to bring an uptick in the margins of the company in the ongoing year. Target gross margin for the blades division is projected around 35-37% for FY23.The gross margin of batteries segment reverted to positive 3% during FY22 as opposed to negative 4% in the preceding year as an outcome of improved fixed overhead absorption on account of higher production volumes coupled with increase in retail prices in accordance with market dynamics. Additionally, profitability of battery division exhibited enhancement in line with shifting of procurement of lead to local from imports, improved plant efficiency through the adoption of a loss-based efficiency program, better inventory management and waste reduction. Further, gross margins for hemodialysis and corrugated boxes segments also increased to 21% and 1%, (FY21: 18%, -1%) respectively during FY22 on the back of better absorption of fixed cost components in cost of sales. Soap margins also augmented to 5% from 3% YoY owing to the outsourcing of production to third-party vendors during the outgoing year.

Administrative expenses reduced to Rs. 653.7m (FY21: Rs. 769.3m) mainly due to lower salaries and wages expenses on account of discontinuation of foreign (Korean) outsourced research and development team, which was initially deployed for technology transfer purpose and to train the local production staff of the battery division along with lower legal and professional charges incurred during the outgoing year. Moreover, the distribution costs also decreased to Rs. 1.2b (FY 21: Rs. 1.4b) primarily as result of decrease in employee related expenses stemming from reduction in average number of employees to 2,737 during FY22 in comparison to 2,868 in the previous year coupled with rationalized advertising expense. Other operating expenses also declined to Rs. 163.7m (FY21: Rs. 250.2m) on the account of sizably reduced contribution to the Worker's Profit Participation Fund amounting to Rs. 12.1m (FY21: Rs. 108.5m) in line with reporting of negative bottom line during FY22. Although, the operating expenses have declined in absolute terms; however, the impact of rationalization of expenses in terms of operating scale is more profound. On the flip side, other income was also recorded significantly lower at Rs. 437.0m (FY21: Rs. 1.4b) during FY22 due to a notable reversal of deficit on revaluation of assets of FTMM worth Rs. 916.0m registered in the previous year Moreover, finance cost was recorded at Rs.1.1b (FY21: Rs. 1.0b) owing to higher average benchmark rates along with increased utilization of borrowings during the outgoing year. Resultantly, despite growth in scale of operations, the group reported negative bottom line of Rs. 303.0m at consolidated level during FY22 as opposed to profit after tax of Rs. 547.9m in the preceding year mainly due significant one-off other income recorded in FY21.

During 1QFY23, net sales exhibited upward trajectory and were recorded higher at Rs.5.9b (1QFY22: Rs. 4.0b) on account of upside in sales of blade, battery, corrugation, soap and pharmaceutical products. In addition, the gross margin also improved to 18.1% on account transfer pricing strategy executed during the ongoing year with increase in input cost passed on to the consumers. Operating expenses also increased to Rs. 547.3m during 1QFY23 in comparison to Rs. 418.5m in the corresponding period last year in line with general inflation coupled with increase in scale of operations. In addition, finance cost increased sizably to Rs. 393.1m (1QFY22: Rs. 211.0m) as a combined impact of timeline increase in long-term borrowings to finance the BMR and expansion projects coupled with increase in benchmark market interest rates. Subsequently, with increase in financial and operating expenses, TCL reported loss after tax amounting to Rs. 34.3m during 1QFY23. Going forward, the management plans to concentrate on increasing its visibility in International Modern Trade which will help increase revenue by 10%. Moreover, battery segment is also expected to see notable growth with about 950,0000 units forecasted to be sold in the ongoing year.

Liquidity position showing improvement on a timeline; however, the same is on account of timing differential on taxation expense in line with negative bottom line recorded in FY22 resulting in a tax benefit adjustment in 1QFY23: Funds from operations (FFO) increased considerably to Rs. 648.3 (FY22: Rs. 233.6m; FY21: (199.3m)) in the ongoing year owing to incurrence of loss during FY22 which resulted in significant positive tax adjustment of Rs. 371.5m made in the cash flows for 1QFY23; the same is not a true reflective of the liquidity profile of the company. Subsequently, in line with the one-off adjustment, FFO to long-term borrowings and FFO to total borrowings were recorded

higher at 0.94x (FY22: 0.21x; FY21: (0.47x)) and 0.23x (FY22: 0.02x, (0.02x)) respectively at end-1QFY23. Similarly, debt service coverage also improved to 2.75x (FY22: 1.06x; FY21: 0.81x) by end-1QFY23.

Stock in trade increased on a timeline basis to Rs. 3.7b (FY22: Rs. 3.2b; FY21: Rs. 2.7b) primarily owing to higher raw material and work in process inventory in the blades segment in conjunction with rising costs. Further, trade debts also increased during the rating review period wing to increase in revenues; the aging of receivables is considered adequate. However, receivables overdue for more than three months increased to Rs. 195.8m (FY21: Rs. 66.7m) representing 16.5% of the gross receivables at end-FY22; the probability of recovery of the same is on the lower side as credit loss allowance amount was also reported high at Rs. 90.1m (FY21: Rs. 62.9m). Moreover, short-term investments also declined on a timeline basis in line with liquidation of term-deposit receipts during the period under review. Loans, advances and prepayments were recorded higher at Rs. 2.1b (FY22: Rs. 1.9b; FY21: Rs. 1.8b) in line with scale of operations; the same mainly consist of balances held with statutory authorities along with advances extended to suppliers. The liquidity profile of the company is slightly impacted with aforementioned capital stuck with government; however, it is an exogenous factor beyond the control of the company therefore, no rectification timeline can be presented of the same. Trade and other payables increased on a timeline to Rs. 3.4b (FY22: Rs. 2.4b; FY21: Rs. Rs. 2.8b) at end-1QFY23 in line with increase in operating scale of the business given there was no change in payment terms. Current ratio and coverage of short-term borrowings via stock in trade and trade debts, albeit improving to 0.66x (FY22: 0.55x; FY21: 0.50x) and 0.58x (FY22: 0.43; FY21: 0.35x) respectively at end-1QFY23, still remained below one on the account of high short-term borrowings. Going forward, the company aims to settle its short-term borrowings through equity injection which is expected to significantly improve current ratio and leverage ratios.

Leverage indicators remained strained owing to higher borrowing levels coupled with payment of dividend despite incurrence of loss during the outgoing year: Tier-1 equity has decreased on a timeline basis to Rs.3.2b (FY22: Rs. 3.2 FY21: PKR 3.3b) in line with reporting of loss for both financial periods in the rating time horizon coupled with payment of dividend at Rs.1/share amounting to Rs. 172.5m for FY22 during the outgoing year. Further, with slight decline in revaluation surplus in line with incremental deprecation transferred from surplus on revaluation of PPE, total equity was also recorded lower at Rs. 9.7b (FY22: Rs. 9.7b; FY21: Rs. 10.1b) at end-1QFY23. Debt profile mix largely comprised of short-term borrowings accounting for 91% by end-FY22; however, the proportion is exhibiting a declining trend given procurement of additional long-term borrowing aggregating to Rs. 2.3b during the rating review period to re-profile the balance sheet of TCL and to fund the capacity expansion of hemodialysis facility. The short-term debt amounting to Rs. 1.5b was reprofiled into long-term debt in 1QFY23. Moreover, the new term-finance facility amounting to Rs. 750m was obtained from a DFI having a tenor of 8 years and is payable in 24 quarterly installments amounting to Rs. 31.2m each commencing from March'24. Deferred liabilities pertaining to employee retirement benefits amounted to Rs. 886.9m (FY21: PKR 883m) at end-FY22. Subsequently with increase in total borrowings along with gradual decline in core equity, gearing and leverage indicators increased on a timeline to 3.50x (FY22: 3.52x; FY21: 3.25x) and 5.10x (FY22: 4.93x, FY21: 4.76x) respectively at end-1QFY23.

Spin-off of battery segment from FTMM into a separate company i.e., Treet Battery Limited is in progress. The related financial institutions and SECP have provided No Objection Certificates. Presently, the company is in process of obtaining legal approval from Lahore High Court. Previously, the spin-off was expected to be completed by end-Mar'22; however due to delay in court hearings the same is now projected to be finalized during the ongoing year. Presently, TCL holds 96.38% of the total equity of FTMM, meanwhile, after the equity injection percentage shareholding would increase further. In addition, TCL also plans to issue rights shares amounting to Rs. 5.0b out of which Rs. 2b will be contributed by sponsors while the remainder is expected to be received from the open market. However, given the current market conditions, VIS believes the reception of this amount from the market will be a challenging task. Moreover, sponsors will inject a further Rs. 1b in equity into TCL. From this total equity of Rs. 6b, Rs. 3b will be first provided to FTMM as a loan and then converted into equity within two months while the remainder will become part of TCL. Ultimately, the entirety of the equity injection will be utilized in paying off short-term borrowings by end-June'23. Going forward, capitalization indicators will remain sensitive to the company's execution of its plan to issue rights shares given the same will have a two-fold impact on gearing by increasing equity and leverage with sizable augmentation of equity base coupled with reduction in borrowing levels.

Treet Corporation Limited Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY20**	**FY21**	**FY22**	**1QFY23**
Operating Fixed Assets	13,912	17,100	16,990	17,136
Long-Term Investments	426	787	760	736
Stores & Spares	350	344	415	409
Stock-in-Trade	2,297	2,715	3,222	3,654
Trade Debts	879	958	1,093	1,349
Short-Term Investments	245	401	102	84
Loans, Advances, Deposits, prepayments and Other Receivables	1,749	1,824	1,926	2,118
Other Assets	367	622	298	106
Assets Held for Sale	2,021	380	0	0
Cash & Bank Balances	477	819	517	645
Total Assets	**22,723**	**25,950**	**25,323**	**26,237**
Trade and Other Payables	1,304	2,766	2,365	3,424
Long Term Debt (including current maturity)	234	422	1,106	2,750
Short Term Debt	13,034	10,405	10,052	8,627
Deferred Liabilities	714	883	887	1,408
Other Liabilities	642	1,369	1,244	372
Total Liabilities	15,928	15,845	15,653	16,579
Tier-1 Equity (Inc. min interest)	1,879	3,329	3,174	3,248
Revaluation Surplus on Fixed Assets	4,916	6,775	6,495	6,410
Total Equity	6,795	10,105	9,669	9,658
Paid-up Capital	1,698	1,748	1,787	1,787
INCOME STATEMENT	**FY20**	**FY21**	**FY22**	**1QFY23**
Net Sales	11,112	14,195	15,790	5,878
Gross Profit	1,310	2,547	2,669	1,066
Operating Profit	(366)	401	794	518
Finance Cost	1,732	1,055	1,129	393
Other Income	104	1,417	437	(9)
Profit (Loss) Before Tax	(2,184)	524	(56)	85
Profit (Loss) from Discontinued Operations	(370)	599	0	0
Profit After Tax	(2,656)	548	(303)	(34)
FFO	(1,084)	(199)	234	648
RATIO ANALYSIS	**FY20**	**FY21**	**FY22**	**1QFY23**
Gross Margin (%)	11.8	17.9	16.9	18.1
Net Margin (%)	(23.9)	3.9	(1.9)	(0.6)
Current Ratio (x)	0.40	0.50	0.55	0.66
Net Working Capital	(9,026)	(6,966)	(5,850)	(4,263)
FFO to Total Debt (x)	(0.08)	(0.02)	0.02	0.23*
FFO to Long Term Debt (x)	(4.64)	(0.47)	0.21	0.94 *
Debt Servicing Coverage Ratio (x)	0.34	0.81	1.03	-
ROAA (%)	(11.2)	2.3	(1.2)	(0.5)*
ROAE (%)	(33.5)	6.5	(3.1)	(1.4)*
Gearing (x)	7.06	3.25	3.52	3.50
Leverage (x)	8.48	4.76	4.93	5.10
Inventory plus Trade Debts to Short-Term Borrowings (x)	0.24	0.35	0.43	0.58

**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		
	14/12/2022	A-	A-2	Rating Watch Developing	Reaffirmed
	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. Syed Ahsan Ali	Head of Treasury	31st October, 2022	