

RATING REPORT

Treet Corporation Limited (TREET)

REPORT DATE:

December 15, 2023

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
Entity	A-/A-2	A-/A-2
<i>Rating Date</i>	<i>December 15, 2023</i>	<i>December 15, 2022</i>
Rating Outlook	<i>Stable</i>	<i>Rating Watch Developing</i>
Rating Action	Maintained	Reaffirmed

COMPANY INFORMATION

Incorporated in 1954	External auditors: M/s Yousuf Adil Chartered Accountants Lahore
Public Listed Company	Chairman of the Board: Mr. Syed Shahid Ali
Key Stakeholders (with stake 5% or more):	Chief Executive Officer: Mr. Syed Sheharyar Ali
<i>Mr. Syed Shahid Ali – 31.41%</i>	
<i>Mr. Syed Sheharyar Ali – 10.58%</i>	
<i>CDC - Trustee National Investment (Unit) Trust (CDC) – 6.47%</i>	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates (May 2023)

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Treet Corporation Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
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<p>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.</p> <p>Chairman Profile: Mr. Syed Shahid Ali has been appointed as the Chairman after 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.</p> <p>CEO Profile: Mr. Syed Sheharyar Ali has been appointed as TCL's CEO post July 2023 elections. Mr. Ali earned his bachelor's degree in sales and marketing operations from Saint Louis University, USA and joined TCL in 2001.</p>	<p>Corporate Profile</p> <p>Treet Corporation Limited ('TREET' or 'TCL' or 'the Company') was incorporated in Pakistan on 22 January 1977 as a public limited company. TREET is a listed company on Pakistan Stock Exchange (PSX). The principal activity of the Company is manufacturing and sale of razors and razor blades along with other trading activities. The registered office of the Company is situated at 72-B, Industrial Area Kot Lakhpat, Lahore. The manufacturing facilities are located in Lahore at 72-B Kot Lakhpat, Industrial Area and in Hyderabad at Hali Road.</p> <p>The Company's other business segments include manufacturing and sales of batteries, soaps, motorbikes, corrugated boxes and paper and board. They have a 56% holding in Renacon Pharma which produces hemodialysis concentrates (pharmaceutical products).</p> <p>Major Business Segments of the Industry:</p> <p>Blade and Razor Blade: TCL's Razor & Blade segment holds a market share of 85% in the blades market of Pakistan with 45 plus export destinations including Saudi Arabia, China, Dubai, Tajikistan, Uzbekistan, Bangladesh, Turkey, Russia, Kyrgyzstan, Afghanistan etc.. The total installed production capacity in FY23 for both the blades and razors remained unchanged at 2.23 bln units. However, actual production further dipped to 1.7 bln units (FY22: 1.72 bln units) by 0.93% resulting in capacity utilization of 76.4% (FY22: 77.1%). The Company has planned a PKR 1.0 bln capex plan to expand its product offering with production of hygiene blades and rubberized handle razors. This will be funded through own sources of the company.</p> <p>Battery: The Company has a market share of around 23-24% in the auto batteries and 12-13% in the Uninterruptible Power Supply (UPS) and Backup batteries. The battery segment witnessed a growth in the production units from 672,711 thousand units to 733,316 units with a capacity utilization rate of 61% (FY22: 56%). However, the installed production capacity remained same at 1.2 mln units. The Company is currently supplying Sealed Maintenance Free (SMF) automotive batteries to all Original Equipment Manufacturers (OEMs) except for Honda, Toyota and Suzuki.</p> <p>Hemodialysis Concentrates (Renacon Pharma): TCL has a market share of 65% in the Hemodialysis Concentrates segment. The Company produces Hemodialysis concentrates (measured in thousand sessions), the subsidiary Renacon Pharma Ltd. (RPL). During the year output increased to 2,473 sessions (FY22: 2,294 sessions) resulting in capacity utilization of 103% (FY22: 96%) in FY23. Total installed capacity remained unchanged at 2,400 sessions. By keeping in view, the growing demand of its product in local and international market, RPL is also in the process of enhancing its production capacity by 10-12 times by installing additional production set-up in FIEDMC, Faisalabad. COD of this project is expected by March-April 2024.</p> <p>Soaps, Bikes, and Corrugated Boxes Division: Owing to better profitability margins, the Company has outsourced its soaps production and expects to keep running its soap segment through toll manufacturing in the going forward.</p> <p>The number of bikes manufactured exhibited a downward trend, from 1.2 thousand units to 470 units; however, the installed production capacity remained same at 18 thousand units. In terms of capacity utilization, the performance lack lustered at 2.6% (FY22: 6.9%) in FY23.</p>
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TREET's nameplate installed capacity of the corrugated boxes division remained unchanged at prior year's level to 30,000 metric tons; meanwhile, the production decreased from 23.5 thousand metric tons to 20.4 thousand metric tons and capacity utilization from 78% to 68% during FY23.

Demerger update: First Treet Manufacturing Modaraba (FTMM) and Treet Battery Limited (TBL) had filed a joint petition before the Lahore High Court, Lahore ('the Court') seeking approval for a Scheme of Arrangement ('the Scheme') for demerger, bifurcation and reconstruction of the battery undertaking and business of the Modaraba ('the Business'). On January 10, 2023, the Court sanctioned the Scheme. The Court, in its order, specified April 01, 2019, as the effective date of demerger.

As per the Scheme, from and on the effective date the Business was duly transferred and vested in Treet Battery Limited (TBL) in the following manner:

1. The battery undertaking and business subsisting immediately preceding the sanction date was, without further act or deed, matter or thing, process or procedure, separated from the FTMM and transferred to and vested in TBL on the sanction date. The transfer and vesting of the battery undertaking was free from all mortgages or charges or other encumbrance.
2. The separation from the FTMM and transfer to and vesting in TBL was treated as having taken effect from the effective date i.e. April 01, 2019, and as from that time and until the sanction date i.e. April 01, 2023, the Business was deemed to have been owned and held for and on account and for the benefit of TBL and all profits, dividends, bonus shares, right shares and entitlements accruing or arising to FTMM from or on account of the Business were treated as profits, dividends, bonus share, right shares and entitlements accruing or arising to TBL.
3. As consideration for transfer and vesting of the Business, TBL were to allot 0.9984 ordinary shares to the certificate holders of the FTMM in respect of one certificate in FTMM held by them.

Company's phased PKR 5 bln capital infusion and debt reduction plan: In FY22, the Company announced plans to inject a total equity of PKR 5 bln. Of this, the Company is currently in the process of securing PKR 2.5 bln of these funds through a right issue. The issue consists of 192,307,692 Ordinary Shares of Rs. 10 each at an offer price of PKR 13/- each (i.e. including a premium of PKR 3/- per share). The final offer date was 30 October 2023, while the book closure period was from 14 November 2023 to 20 November 2023. Subscription amount payment date is set between 24 November 2023 and 22 December 2023.

Management plans to raise the remaining PKR 2.5 bln through another right issue at a later point in time.

Key Rating Drivers

Improved export sales and effective cost pass through strengthen topline and gross margins. However, net margins remain constrained by higher financing costs.

In FY23 and 1QFY24, the Company's profitability profile as per the consolidated accounts witnessed improvement amid challenging economic conditions in the country. Growth in the Company's consolidated top line was underpinned by management's heightened focus on export markets, with export revenue from blades experiencing an upswing of ~53% during FY23, reaching PKR 3,566 mln (FY22: PKR 2,323 mln). Simultaneously, domestic sales also recorded an increase, primarily driven by the pass-through of escalating input costs to customers through price adjustments in FY23 and 1QFY24. Moreover, improved sales of high margin products in both export and import markets further supported increase in the top line, despite a decrease in volumes. The same resulted in higher gross margins during the year under review to 22.0% (FY22: 16.9%) in FY23. Gross margins continued this trend in 1QFY24, reaching 23.1%.

The finance burden continued to increase mostly due to an 825 basis points hike in policy rates in the country during FY23. This led to constrained net margins despite an uptick in gross profitability.

Going forward, management plans on capacity enhancement to improve its ability to meet export demand. Moreover, the Company has also announced its decision to venture into the shaving foam market to strengthen their presence in the personal care segment.

Capitalization metrics continued to be under significant stress; however, relief expected from ongoing right issue.

TREET's leverage ratio (as per the consolidated accounts) experienced a slight deterioration to 5.0x (FY22: 4.9x) in FY23. However, gearing ratio (consolidated) improved to 3.3x (FY22: 3.5x) during this period. In FY23, the Company's total liabilities increased by 10.31% mostly due to an increase in trade and other payables of 48%. However, TCL's debt drawdown remained flat with total debt of PKR 11,364 mln (FY22: PKR 11,158 mln) while equity saw an increase of 8.24% to PKR 3,435 mln (FY22: PKR 3,174 mln). These changes reflect the differentiated movement in the capitalization metrics of the Company on a consolidated basis.

Going forward, ratings will remain sensitive to the Company's success in its ongoing right issue to inject PKR 2.5 bln into equity. This is expected to relieve significant stress on its capitalization profile.

Liquidity metrics also remain under stress; relief expected through pending equity injection.

The Company's liquidity profile (consolidated) continues to remain under stress with a current ratio of less than 1.0x at 0.72x (FY22: 0.55x), despite an improvement of 31% during the year. Going forward with the expected equity injection, reduction in short-term borrowing and gradual reduction in long-term debt will relieve stress of the Company's consolidated liquidity position. Ratings will remain sensitive to projected improvement in liquidity from the aforementioned development.

Coverage profile continued to remain healthy and provides support to ratings.

In FY23, the Company's debt service coverage ratio (DSCR), as per the consolidated accounts, improved to 1.6x (FY22: 1.3x). This improvement is primarily due to a rise in Funds from Operations (FFO), which increased from PKR 522 mln to PKR 1.4 bln over the same period.

Treet Corporation Limited
Appendix I

FINANCIAL SUMMARY (Consolidated Accounts)							(PKR Millions)
<u>BALANCE SHEET</u>	FY19A	FY20A	FY21A	FY22A	FY23A	3MFY24A	
Property, plant and equipment	16,256.6	13,912.2	17,100.0	16,990.0	17,009.5	17,042.1	
Stock in Trade	2,957.0	2,296.9	2,715.0	3,222.3	4,538.9	3,903.4	
Trade debts	1,235.3	878.6	958.2	1,092.9	1,799.1	2,287.9	
Cash and Bank Balances	359.0	476.9	818.7	516.8	367.4	510.2	
Total Assets	24,731.9	22,723.3	25,949.4	25,322.8	27,122.0	28,472.7	
Trade and Other Payables	1,278.7	1,304.1	2,765.6	2,364.9	3,496.3	4,445.1	
Long-term Debt (incl. current portion and lease liability)	201.0	233.6	422.2	1,106.1	2,870.9	3,039.5	
Short-Term Borrowings	13,066.4	13,034.3	10,405.1	10,052.2	8,493.3	8,400.2	
Total Debt	13,267.4	13,267.8	10,827.4	11,158.3	11,364.3	11,439.8	
Total Liabilities	15,671.1	15,928.4	15,845.1	15,653.5	17,267.5	18,724.7	
Paid up Capital	1,654.5	1,698.3	1,748.3	1,787.2	1,787.2	1,787.2	
Equity (excl. Revaluation Surplus)	4,396.5	1,879.0	3,329.3	3,174.0	3,435.5	3,428.5	
<u>INCOME STATEMENT</u>	FY19A	FY20A	FY21A	FY22A	FY23A	3MFY24A	
Net Sales	11,972.1	11,111.6	14,194.7	15,789.9	23,352.7	6,678.5	
Gross Profit	1,246.9	1,309.6	2,546.9	2,669.1	5,126.1	1,542.0	
Operating Profit	-905.5	-426.3	182.5	656.3	2,147.4	844.0	
Finance Costs	1,286.0	1,732.0	1,055.0	1,129.0	1,976.6	680.7	
Profit Before Tax	-1,948.2	-2,184.3	524.5	-55.7	281.3	225.6	
Profit After Tax	-2,124.2	-2,285.3	-50.5	-302.7	28.3	117.4	
<u>RATIO ANALYSIS</u>	FY19A	FY20A	FY21A	FY22A	FY23A	3MFY24A	
Gross Margin (%)	10.4%	11.8%	17.9%	16.9%	22.0%	23.1%	
Net Margin (%)	-17.7%	-20.6%	-0.4%	-1.9%	0.1%	1.8%	
Funds from Operation (FFO)	-1,124.0	-1,084.6	-199.8	522.3	1,405.6	313.1	
FFO to Total Debt* (%)	-8.5%	-8.2%	-1.8%	4.7%	12.4%	10.9%	
FFO to Long Term Debt* (%)	-559.2%	-464.4%	-47.3%	47.2%	49.0%	41.2%	
Gearing (x)	3.0	7.1	3.3	3.5	3.3	3.3	
Leverage (x)	3.6	8.5	4.8	4.9	5.03	5.46	
Debt Servicing Coverage Ratio* (x)	0.1	0.4	0.6	1.3	1.6	1.4	
Current Ratio	0.5	0.4	0.5	0.6	0.7	0.7	
(Stock in trade + trade debts) / STD (x)	0.3	0.2	0.4	0.4	0.7	0.7	
Return on Average Assets* (%)	-17.2%	-9.6%	-0.2%	-1.2%	0.1%	1.7%	
Return on Average Equity* (%)	-96.6%	-72.8%	-1.9%	-9.3%	0.9%	13.7%	

*Annualized, if required

REGULATORY DISCLOSURES		Appendix II			
Name of Rated Entity	Treet Corporation Limited				
Sector	Consumer Goods				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	15/12/2023	A-	A-2	Stable	Maintained
	15/12/2022	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	
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.				
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Due Diligence Meetings Conducted	S.No.	Name	Designation	Date	
	1.	Mr. Syed Ahsan Ali	Group Senior Manager - Treasury	November 22, 2023	
	2.	Mr. Muhammad Azeem	Assistant Manager - Treasury		