RATING REPORT

Treet Corporation Limited

REPORT DATE:
January 20, 2025

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Latest Rating**	**Previous Rating**
Entity	A-/A2	A-/A2
Rating Date	*January 20, 2025*	*December 15, 2023*
Rating Outlook/Rating watch	*Stable*	*Stable*
Rating Action	Reaffirmed	Maintained

COMPANY INFORMATION	
Incorporated in 1977	**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
Mr. Syed Shahid Ali – 31.41%	
Mr. Syed Sheharyar Ali – 10.58%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Industrial Corporates   **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

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 registered office of the Holding Company is situated at 72-B, Industrial Area Kot Lakhpat, Lahore. The manufacturing facilities of the Holding Company are located in Lahore at 72-B Kot Lakhpat, Industrial Area and in Hyderabad at Hali Road

Corporate Profile

Treet Corporation Limited ("Treet" or "TCL" or "Company") was incorporated in Pakistan on 22 January 1977 as a public limited company. Its shares are quoted 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 of the Company are located at 72-B Kot Lakhpat, Industrial Area, Lahore and at Hali Road, Hyderabad. Furthermore, Company has its sales warehouses located in Lahore, Quetta and Rawalpindi.

Treet Corporation Limited (TCL) operates in multiple segments, including the manufacturing and sale of soaps, motorbikes, corrugated boxes, and paper and board. The Company also holds significant stakes in subsidiaries across various sectors, including a 56% shareholding in Renacon Pharma Limited (RPL), which specializes in the production of hemodialysis concentrates, a 96% stake in Treet Battery Limited (TBL), a 100% ownership in Treet Holding Limited, and a 97.11% holding in First Treet Modaraba.

Operational Profiles:

Production Capacity and Utilization	FY23A	FY24A
Installed Capacity - Blades in Units (mln)	2,230.00	2,230.00
Actual Production - Blades in Units (mln)	1,705.00	1,516.00
Utilization (%)	76.46%	67.98%
Installed Capacity - Batteries in Numbers in Thousands	1,200.00	1,200.00
Actual Production - Batteries in Numbers in Thousands	733.16	646.26
Utilization (%)	61.11%	53.85%
Installed Capacity - Hemodialysis Concentrates in Thousands of Sessions	2,400.00	2,400.00
Actual Production - Hemodialysis Concentrates in Thousands of Sessions	2,473.00	2,358.00
Utilization (%)	103.04%	98.25%
Installed Capacity - Corrugated Boxes MT	30,000.00	30,000.00
Actual Production - Corrugated Boxes MT	20,466.00	18,028.00
Utilization (%)	68.22%	60.09%
Installed Capacity - Bikes in Units	18,000.00	18,000.00
Actual Production - Bikes in Units	470.00	175.00
Utilization (%)	2.61%	0.97%

Blade and Razor Blade: The blades and razors segment reported a decline in utilization levels to 67.98% in FY24 (FY23: 76.46%), with actual production decreasing to 1,516 mln units (FY23: 1,705 mln units). The reduction in utilization reflects heightened competition in export markets and challenging market conditions domestically due to economic constraints. Investments in product development were reported, with a focus on rubberized handle razors and hygiene blades. Export efforts are being pursued with the establishment of a subsidiary in Dubai to strengthen the Company's presence in global markets.

Battery: The batteries segment through its subsidiary TBL recorded a decline in utilization, decreasing to 53.85% in FY24 (FY23: 61.11%). Production levels also reduced to 646,256 units (FY23: 733,316 units). The lower utilization and production levels reflect economic challenges and the increased availability of grid electricity, which affected demand for backup batteries. Concurrently, progress was made in expanding OEM partnerships through new supply agreements with MG and KIA. In addition, product innovation efforts targeted solar-specific batteries to align with growing domestic demand for renewable energy solutions.

Hemodialysis Concentrates (Renacon Pharma): TCL holds a 65% market share in the Hemodialysis Concentrates segment. The production of hemodialysis concentrates, measured in thousands of sessions, is carried out through its subsidiary, RPL. The segment's performance remained steady, with a utilization rate of 98.25% in FY24 (FY23: 103.04%). Total production during FY24 stood at 2,358 thousand sessions (FY23: 2,473 thousand sessions). The Company is currently in the process of increasing its production capacity, to not only accommodate the access local demand but also to target export potential.

Soaps, Bikes, and Corrugated Boxes Division: TREET has outsourced its soaps production to improve profitability and plans to maintain operations in this segment through toll manufacturing going forward.

In the bike manufacturing segment, production volumes declined to 175 units (FY23: 470 units), resulting in a utilization rate of 0.97% (FY23: 2.61%). The reduced output reflects a strategic shift away from this product line, given the prevailing market dynamics and competitive pressures.

Utilization in the corrugated boxes segment decreased to 60.09% (FY23: 68.22%), with installed capacity remaining at 30,000 MT. Actual production fell to 18,028 MT (FY23: 20,466 MT), driven by weaker demand from key sectors, including consumer goods and retail, amid economic challenges and reduced industrial activity. The Company maintained its ability to serve key clients by adhering to international packaging standards despite these headwinds.

Key Rating Drivers

Business Risk Profile

Sector Risk, Razor and Blades; Medium.

Business risk profile of the blades and razors industry in Pakistan is assessed as medium, driven by moderate product demand but heightened exposure to raw material price volatility and competition. The industry benefits from stable domestic consumption, yet reliance on imports for raw materials and frequent currency fluctuations increase cost pressures.

Demand remains supported by consistent consumer preferences and grooming needs, limiting volume volatility. However, increased competition from low-cost alternatives, counterfeit products, and international brands poses challenges to market share and profitability for local players.

The industry's profitability is further constrained by exposure to global steel prices, a primary input. With most raw materials imported, fluctuations in exchange rates directly impact production costs. Additionally, limited control over pricing strategies, owing to market competition and consumer price sensitivity, restricts manufacturers' ability to pass on increased costs.

Margins are also impacted by supply chain disruptions and rising energy costs, which increase production expenses. Regulatory requirements related to product safety and compliance contribute to overhead costs, although not substantial enough to create entry barriers. Overall, while stable demand supports continuity in operations, the combination of external cost pressures, competition, and operational constraints heightens the industry's risk exposure.

Sector risk, Battery Industry: High to Medium.

The business risk profile of the battery industry in Pakistan is assessed as high to medium, primarily influenced by fluctuating raw material costs, energy shortages, and competition. Although demand is supported by the growing need for energy storage solutions and backup power, profitability is affected by exposure to input costs and market dynamics.

Demand for batteries is driven by multiple segments, including automotive, industrial, and household use, reflecting steady market potential. However, dependence on imported lead and other raw materials exposes manufacturers to price volatility and exchange rate fluctuations, directly impacting production costs.

The industry's competitive landscape includes both local manufacturers and imported products, with price sensitivity among consumers limiting the ability of companies to fully pass on increased costs.

Although demand remains stable, the sector faces elevated risks from high input costs, and competition, which collectively impact profitability and operational efficiency.

Sector Risk; Hemodialysis Sector: Low.

The business risk profile for the hemodialysis concentrate production sector in Pakistan is assessed as Low. This evaluation considers the sector's moderate growth prospects, competitive landscape, regulatory environment, and operational challenges.

The sector experiences steady demand due to the increasing prevalence of chronic kidney diseases and the necessity for dialysis treatments. However, the market's expansion is tempered by the limited affordability among patients and the constrained healthcare infrastructure in certain regions.

The competitive environment is characterized by a few established players, such as Renacon Pharma Limited, which holds a significant market share. The presence of dominant entities poses a significant challenge for new entrants and smaller firms attempting to gain market traction.

Regulatory oversight by Pakistani health authorities ensures product quality and safety, which is crucial for patient outcomes. Compliance with these regulations necessitates ongoing investment in quality control and adherence to manufacturing standards.

Operational risks include the reliance on imported raw materials, exposing producers to foreign exchange fluctuations and potential supply chain disruptions. Additionally, the need for specialized equipment and skilled personnel can impact operational efficiency and cost structures.

Going forward, the sector's risk profile may be influenced by factors such as technological advancements, policy changes, and shifts in healthcare funding.

Market Presence

The Company's extensive market presence across key segments, including blades and razors, batteries, and hemodialysis concentrates, supports its business risk profile by providing relative pricing leverage over industry peers. Specifically, the Company holds a market share of 85% in the blades and razors segment, 65% in the hemodialysis concentrate segment, and approximately 15% in the battery segment. This broad presence enables the Company to sustain a competitive position, enhancing its pricing ability in comparison to peers within these industries.

Product Portfolio.

In recent years, the Company has focused on enhancing its product portfolio by expanding into new segments and improving existing offerings. In FY24, TREET broadened its portfolio through the launch of shaving foam in the local market, receiving initial favorable market feedback, as reported by management. Management expects that this product diversification will positively impact on the Company's financial performance in FY25.

Furthermore, the Company is advancing its existing blade products through the development of a twin-blade rubberized handle, anticipated contributing to sales in the second half of FY25. Additionally, production capacity for hygiene razors has been increased to align with market demand. These initiatives collectively strengthen the overall business risk profile of TCL.

Establishment of Subsidiary in UAE.

TREET has established a wholly owned subsidiary, Treet Trading LLC, in the United Arab Emirates (UAE) to enhance its distribution network globally. This entity is intended to expand TREET's access to international markets, with a primary focus on the Gulf Cooperation Council (GCC) region, leveraging the UAE's strategic position in global trade. The subsidiary is expected to manage export channels, aiming to generate operational efficiencies and address logistical challenges that have previously impacted on the company's international trade operations. The incorporation of Treet Trading LLC is anticipated to enhance TCL's global presence and support the company's overall business risk profile.

Financial Risk Profile

Profitability Profile

The consolidated revenue of TCL increased by 7% to PKR 25.09 billion (FY23: PKR 23.35 billion), primarily attributed to domestic sales growth supported by price adjustments and the introduction of new products, such as shaving foams. Export sales declined, impacted by global economic conditions. In addition to the razors and blades segment, the Company's performance was influenced by two other segments, TBL and RPL.

TBL's revenue grew by 6% to PKR 8.7 billion (FY23: PKR 8.2 billion), reflecting contributions from premium product offerings, though backup energy solutions underperformed due to reduced load shedding. RPL recorded a 28% increase in sales to PKR 1.37 billion (FY23: PKR 1.07 billion), driven by increased demand for dialysis products and market expansion. Despite an improvement in the gross margin to 22.77% (FY23: 21.95%), TCL posted a net margin of -0.19% (FY23: 0.12%), reflecting the sustained impact of elevated finance costs.

Capitalization Profile

The equity base expanded following a rights issue during the fiscal year, with paid-up capital increasing to PKR 3,710.29 million (FY23: PKR 1,787.21 million). Total equity, excluding the revaluation surplus, increased to PKR 6,099.22 million (FY23: PKR 3,495.72 million). Debt levels remained substantial, with total debt recorded at PKR 10,684.25 million (FY23: PKR 11,364.27 million). The impact of equity enhancement is reflected in gearing and leverage ratios, with lower gearing and debt leverage of 1.75x (FY23: 3.25x) and 3.04x (FY23: 4.93x) respectively. In November 2024, the company divested approximately 11% of its shares in Treet Battery Limited (TBL), reducing its ownership from 96% to 85%. The proceeds from this divestment were utilized to lower short-term borrowings, which is expected to support the gearing and leverage ratios and provide relief to the capitalization metrics going forward.

Liquidity and Coverage Profile

The liquidity profile has gradually improved over time, supported by profit retention in previous years and the issuance of rights shares during the period under review, contributing to a reduction in the balance sheet mismatch. The current ratio increased to 0.89x (FY23: 0.72x) but continues to report constraint. However, during FY24, the Company's cash at bank increased to PKR 1,096 mln (FY23: PKR 367 mln) which provides some support to the liquidity profile. Similarly, short-term debt coverage improved with reduced short-term debt drawdowns, to 0.91x (FY23: 0.80x), albeit still also remaining constrained. The anticipated sale of TBL shares is projected to further support the liquidity profile, alleviating pressures on its liquidity metrics.

Meanwhile, the coverage profile remains sound with a debt service coverage ratio (DSCR) of 1.36x (FY23: 1.71x), albeit lower on account of elevated financial charges.

Treet Corporation Limited Appendix I

Financial Summary			
Balance Sheet (PKR Millions)	FY22A	FY23A	FY24A
Property, plant and equipment	16,989.96	17,009.54	20,888.55
Right-of-use Assets	43.40	32.05	15.99
Intangible Assets	149.00	134.93	133.61
Long-term Investments	759.55	530.62	498.05
Stock-in-trade	3,222.34	4,538.89	4,322.37
Trade debts	1,092.94	1,799.11	1,793.29
Short-term Investments	102.37	100.67	47.80
Cash & Bank Balances	516.79	367.41	1,095.66
Other Assets	2,446.48	2,574.96	4,470.35
Total Assets	25,322.83	27,088.18	33,265.67
Creditors	894.39	1,627.07	1,256.50
Long-term Debt (incl. current portion)	1,105.60	2,870.94	3,453.75
Short-Term Borrowings	10,052.21	8,493.33	7,230.50
Total Debt	11,157.81	11,364.27	10,684.25
Other Liabilities	3,601.27	4,242.25	6,613.84
Total Liabilities	15,653.47	17,233.59	18,554.59
Paid up Capital	1,787.21	1,787.21	3,710.29
Revenue Reserve	-4,242.49	-4,150.77	-3,750.06
Other Equity (excl. Revaluation Surplus)	5,629.28	5,859.28	6,138.99
Sponsor Loan	0.00	230.00	0.00
Equity (excl. Revaluation Surplus)	3,174.00	3,495.72	6,099.22

Income Statement (PKR Millions)	FY22A	FY23A	FY24A
Net Sales	15,789.92	23,352.71	25,086.31
Gross Profit	2,669.05	5,126.07	5,713.09
Operating Profit	1,073.77	2,135.73	2,360.02
Finance Costs	1,129.47	1,976.63	2,452.40
Profit Before Tax	-55.70	159.10	-92.38
Profit After Tax	-303.00	28.39	-48.58

Ratio Analysis	FY22A	FY23A	FY24A
Gross Margin (%)	16.90%	21.95%	22.77%
Operating Margin (%)	6.80%	9.15%	9.41%
Net Margin (%)	-1.92%	0.12%	-0.19%
Funds from Operation (FFO) (PKR Millions)	573.03	1,438.63	1,051.82
FFO to Total Debt* (%)	5.14%	12.66%	9.84%
FFO to Long Term Debt* (%)	51.83%	50.11%	30.45%
Gearing (x)	3.52	3.25	1.75
Leverage (x)	4.93	4.93	3.04
Debt Servicing Coverage Ratio* (x)	1.29	1.51	1.21
Current Ratio (x)	0.55	0.72	0.89
(Stock in trade + trade debts) / STD (x)	0.47	0.80	0.91
Return on Average Assets* (%)	-1.18%	0.11%	-0.16%
Return on Average Equity* (%)	-9.32%	0.85%	-1.01%
Cash Conversion Cycle (days)	77.85	75.07	82.45

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES	**Appendix II**
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
RATING TYPE: ENTITY				
20/01/2025	A-	A2	Stable	Reaffirmed
15/12/2023	A-	A2	Stable	Maintained
15/12/2022	A-	A2	Rating Watch Developing	Reaffirmed
31/12/2021	A-	A2	Rating Watch Developing	Reaffirmed
6/10/2020	A-	A2	Rating Watch Developing	Downgrade
24/09/2019	A	A2	Negative	Downgrade
21/05/2019	AA-	A1	Stable	Reaffirmed
02/08/2018	AA-	A1	Stable	Reaffirmed
20/12/2016	AA-	A1	Stable	Reaffirmed
08/12/2015	AA-	A1	Stable	Reaffirmed
23/02/2015	AA-	A1	Stable	Reaffirmed
10/12/2013	AA-	A1	Stable	Reaffirmed
06/03/2012	AA-	A1	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	13/11/2024
2	Mr. Muhammad Azeem	Assistant Manager - Treasury	13/11/2024