

## Sitara Chemical Industries Limited

Chairman: Mr. Nawaz ul Haq; Chief Executive Officer: Mian Muhammad Adrees

February 12, 2015

### Rating Rationale

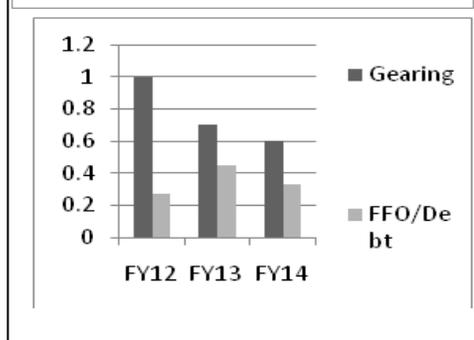
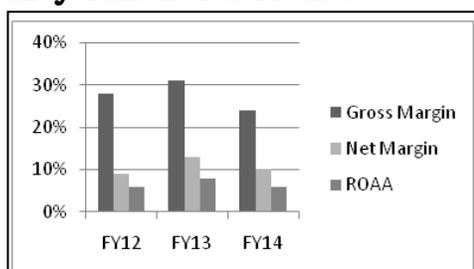
**Analysts:** Amir Shafique  
Maham Qasim

The Chlor-alkali industry is oligopolistic in nature. There are three main players including Sitara Chemical Industries Limited (SCIL), Ittehad Chemicals Limited (ICL), and Engro Polymers Chemicals Limited (EPCL). SCIL had the highest market share in terms of sales at 41.8% (FY13: 41.2%) in FY14. In the recent year, caustic soda prices have seen an increasing trend on average due to less than optimal capacity utilization and inflationary impact. The same, however, could not have a positive impact on gross margins of the sector as unavailability of adequate gas has forced producers to shift to expensive electricity, which is a major input in the electrolyses process of producing caustic soda. Moreover, trends in pricing have made exports uncompetitive to India, which has remained the main export avenue for the industry.

Category	Latest	Previous
Entity	A+/A-1	A+/A-1
	Dec 31,'14	Mar 7,'13
Outlook	Stable	Stable
	Dec 7,'14	Mar 7,'13

Net sales amounted to Rs. 8.8b (FY13: Rs. 8.1b), depicting an increase of 8.6% in FY14. The growth was primarily achieved on the back of prices; albeit decline in capacity utilization. Revenue largely pertained to local sales as the share of exports in sales declined during the year due to higher local prices of caustic soda flakes; the only export based product of the company. Gross margins trended downward to 24.3% (FY13: 31%) in FY14 and 11.8% in 1Q15 mainly due to gas shortages and price competition amongst competitors. The management expects to arrest the declining trend in margins of caustic soda as prices are likely to exhibit stability, going forward. The textile division also depicted growth in sales; however, gross margins remained under pressure during FY14.

### Key Financial Trends



There was no major change in the level of borrowings by end FY14. The plans to setup a 35MW coal fired power plant for which it has opened LC's with banks. The project will be financed through a syndicated musharaka facility of Rs. 2b. Moreover, a LC of Rs. 400m is to be opened by end Dec' 15 for import of calcium chloride plant having an annual capacity of 30,000 MT. SCIL also intends to setup a Sodium Hydro-Sulphate plant with a production capacity of 30MTD. The estimated CAPEX for these projects is around Rs.1.4b; though the timeline has not been finalized. Given the borrowing plans, gearing and debt leverage may trend upwards, going forward. Nevertheless, current leverage indicators indicate sufficient room for further borrowings.

The company holds investment property of Rs. 3.8b (FY13: Rs. 3.7b), which has been partially financed through short-term debt. The management intends to partially dispose-off investment property portfolio. Properties around (at market value) Rs.1.1 b have already been sold during FY14. The sale proceeds would be received in equal installments over a period of 5 years. Moreover, an approval for sale of another property (at market value) worth Rs. 1b has been taken from the board. The sale is expected to be executed in the ongoing year. Given lower probability, FFO to total debt, though still strong, declined during FY14. Moreover, debt service coverage ratio of 1.6x (FY13: 1.5x FY12: 1.2x;) denotes adequate ability to timely honor its financial obligations from internal sources.

(Rs. million)	FY12	FY13	FY14
Net Sales	7,464	8,099	8,807
Net Profit	688	1,036	861
Tier 1 Equity	4,386	5,347	6,102
Total Debt	4,464	3,737	3,638
Gearing	1.02	0.7	0.6
FFO	1,219	1,670	1,219
FFO/Total Debt (x)*	0.27	0.45	0.33
ROAE*	17%	21%	12%
ROAA*	6%	8%	6%

### Overview of the Institution

SCIL was incorporated in 1981 as a public limited company under Companies Ordinance; 1984. The principal activities include operation of Chlor-Alkali plant and textile unit. The chemical division is engaged in the production of caustic soda & other auxiliary products while textile division is involved in production of different types of yarn. The company is listed on all three stock exchanges of Pakistan. The annual accounts of SCIL for FY14 were audited by M. Yousuf Adil Saleem & Co. – Chartered Accountants.