RATING REPORT

Treet Corporation Limited

REPORT DATE:
October 06, 2020

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*		Negative	
Rating Date	*06 Oct'20*		*24 Sep'19*	
Sukuk (preliminary)	Withdrawn		*A*	
Rating Outlook	-		*Negative*	
Rating Date	*06 Oct'20*		*24 Sep'19*	
PTC	Matured		AA	
Rating outlook	-		Stable	
Rating Date	-		*21 May'19*	

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 – 40.4%	
NIT – 9.4%	
Loads Limited (Associated Company) – 5.3%	

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (May 2019)
https://www.vis.com.pk/kc-meth.aspx

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. Group's activity also includes establishing and managing educational projects as well as trading chemicals. 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): 9MFY20: Rs. (1.6b); FY19: Rs. (2.1b); FY18: Rs. (630.5m)

Tier-1 Equity: 9MFY20: Rs. 4.2b; FY19: Rs. 5.6b; FY18: Rs. 7.8b

RATING RATIONALE

The ratings incorporate TCL's strong sponsorship profile and diversified revenue stream of the company owing to presence in different product segments. Financial risk profile has weakened on account of sizeable losses accumulated over the last three years. Some improvement has been witnessed in operating profits during 9MFY20 on the back of cost control measures and lower negative contribution of the battery segment to company's margins. However, bottom line continued to remain suppressed mainly due to the impact of higher financial charges. The same has resulted in impairment of liquidity profile and risk absorption capacity. Leverage indicators have further deteriorated owing to declining core equity and persistently higher short-term borrowings.

In order to reduce debt levels and restore profitability, the management plans to sell non-core assets and utilize the interest savings achieved from lower borrowings and markup rate during the ongoing year. Capital structure will also be supported by fresh equity injection intended for the Battery segment. Ratings will remain dependent on materialization of aforementioned objectives over reasonable timeframe as projected by the management.

Profitability remained suppressed mainly due to higher financial charges: Sales during 9MFY20 witnessed a modest growth of 2.7% despite some loss in sales during the last 10 days of March'20. The growth in revenue was mainly manifested in higher batteries sale and some increase in pharmaceutical and trading products while other segments reported lower sales as compared to corresponding period last year. As per management, due to lockdown from Covid-19, production was lost for around 48 days and it had an adverse impact on sales in March'20 till May'20. Gross margins increased to 13.4% (FY19: 10.4%; FY18: 15.6%) during 9MFY20 mainly on back of higher gross margins of blades segment and lower negative margin of battery segment. Improvement in battery segment margin was driven by reduction in power cost and economies of scale. In the first week of Nov'19, the company started producing batteries on electricity from the national grid; previously was operating on power produced by diesel generators. Moreover, improvement in battery margins was on the back of higher capacity utilization to 40% (FY19: 23%; FY18: 7%) during 9MFY20.

Given notable decrease in operating expenses to Rs. 1.3b as compared to Rs. 2.2b in the same period last year, operating loss decreased in 9MFY20. Lower operating expenses were mainly due to lower advertisement expenses under selling and distribution expenses. Administrative expenses decreased mainly on account of lower donations of Rs. 35m (FY19: Rs. 211m) to Society for Cultural Education (SCE) and rationalization of employee related costs. Moreover, three highly paid foreign staff members were relieved of their duties after training the local staff of battery segment. Meanwhile, other income decreased to Rs. 56.8m (9MFY19: Rs. 172.0m) mainly due to lower scrap sales of Rs. 21.3m (9MFY19: Rs. 90.6m). Finance cost increased to Rs. 1.3b in 9MFY20 vis-à-vis Rs. 792.0m in the corresponding period last year mainly due to persistently high short-term debt and higher interest rates. Accounting for taxation, net loss increased to Rs. 1.6b during 9MFY20 vis-à-vis Rs. 1.5b in corresponding period last year.

Liquidity position has remained dismal on account of continued losses: Given negative FFO, debt servicing coverage ratio (DSCR) has remained negative during FY19 and 9MFY20. The company has short-term equity investments amounting Rs. 382.7m (FY19: 435.3m; FY18: Rs. 462.5m) at end-9MFY20, around 70% of which constituted shares of a commercial bank.

Stock in trade stood higher at Rs. 3.0b (FY18: Rs. 2.0b) at end-FY19 mainly on account of higher raw material inventory accumulated in battery and blades segment. As per management, increase was partly due to higher cost of raw material owing to rupee depreciation and partly due to additional stock accumulated in anticipation of higher demand. Inventory remained around at the same levels at end-9MFY20. Trades debts amounted to Rs. 1.1b (FY19: Rs. 1.2b; FY18: Rs. 1b) at end-9MFY20. Around four-fifth of these receivables constituted local debtors, out of which only Rs. 28.3m were due from related parties. Receivables amounting Rs. 262.8 were outstanding over 3 months as at end-FY19. *The client has not provided aging of receivables for end-9MFY20.*

Current ratio continues to remain low at 0.46x while coverage of short-term borrowings via stock in trade and trade debts was at 0.31x (FY19: 0.32x; FY18: 0.32x) at end-9MFY20. Advances, deposits and prepayments amounting Rs. 2.1b (FY19: Rs. 2.6b; FY18: Rs. 2.1) at end-9MFY20 majorly pertained to advances to suppliers and advance taxes. Commissioner Inland Revenue (CIR) and Additional Commissioner Inland Revenue (ACIR) have created tax demands of around Rs. 292m in total over different periods. Based upon legal counsel, the management is expecting a favorable outcome of the above cases; therefore, no provision has been recognized in consolidated financial statements.

Weakened capitalization indicators: Tier-1 equity continued to deplete to Rs. 4.2b (FY19: Rs. 5.6b; FY18: Rs. 7.8b) on account of sustained losses by end-9MFY20. Revaluation surplus on property, plant and equipment amounted Rs. 4.6b (FY19: Rs. 4.6b; FY18: Rs. 1.3b) at end-9MFY20. Non-controlling interest has decreased to Rs. 63.3m (FY19: Rs. 339.3m; FY18: Rs. 357.7m) at end-9MFY20 due to loss allocation. Paid-up capital of stood at Rs. 1.7b (FY19: Rs. 1.65b; FY18: Rs. 1.6b) at end-9MFY20.

Debt profile entirely constituted short-term borrowings at end-9MFY20. The long-term debt constituting PTCs, was fully redeemed in November 2019 (FY19: Rs. 178.2m; FY18: Rs. 357.6m). Over the last three years, utilization of short-term borrowings has increased considerably to fund working capital requirements and to finance ongoing capital expenditure. During FY19, capex included addition of plant and machinery amounting Rs. 412.4m in blades segment and capital work in progress (CWIP) of Rs. 810.9m related to blades segment, civil works of Rs. 1.8b related to Institute of Art & Culture (IAC) and Rs. 1.3b mainly pertained to plant and machinery of battery segment. However, capex reduced to Rs. 345m during 9MFY20. Higher short-term debt and lower tier-1 equity led to significant increase in leverage and gearing indicators to 3.99x and 3.20x (FY19: 2.69x and 2.27x; FY18: 1.54x and 1.31x) respectively, by end-9MFY20. The management has ruled out previously intended issuance of sukuk and preference shares.

Measures to reduce debt levels and restore profitability: To bring down level of borrowings and improve capital structure, the management is in negotiations for equity partnership in battery segment; Rs. 3.5b is expected to be injected by end-Dec'20, which would be used to repay debt. Moreover, proceeds of Rs. 3.0b are expected from the sale of IAC in 2QFY21; the said amount will also be utilized to retire short-term borrowings. The company also intends to liquidate short-term investments in stocks of an estimated value of Rs. 500m.

Based on the above-mentioned, total short-term borrowings are projected to decline by Rs. 6.2b by end-FY21 while any surplus amount would be utilized to meet working capital requirements.

Expected gain on sale of Rs. 1.4b from sale of IAC would support the bottom-line in FY21. Fresh equity injection coupled with moderate profit in FY21 is projected to support core-equity by end-FY21. The management has contemplated to mobilize long-term loan of Rs. 470m for the expansion of Renacon in FY21. Given enhanced equity base and decline in borrowings, leverage indicators are projected to improve considerably, going forward.

Corporate Governance: Overall corporate governance framework is supported by adequate board composition and oversight. There have been some changes in senior management team including appointment of new Chief Financial Officer, Group Head of Treasury and Company Secretary during FY20.

Following BoD meeting on July 1, 2020, new Chairman and an independent female director have been appointed. Composition of BoD is presented below:

FY20	FY21
Dr. Mrs. Niloufer Qasim Mahdi *Chairman/Non-Executive Director*	**Mr. Imran Azim** *Chairman/Non-Executive Director*
Syed Shahid Ali *Chief Executive Officer (CEO)*	**Syed Shahid Ali** *Chief Executive Officer (CEO)*
Dr. Salman Afridi *Independent Director*	**Dr. Salman Afridi** *Independent Director*
-	**Miss Sidra Fatima Sheikh** *Independent Director*
Syed Sheharyar Ali *Executive Director*	**Syed Sheharyar Ali** *Executive Director*
Muhammad Shafique Anjum *Executive Director*	**Muhammad Shafique Anjum** *Executive Director*
Mr. Saulat Said *Non-Executive Director*	-
Mr. Imran Azim *Non-Executive Director*	-
Mr. Munir K. Bana *Non-Executive Director*	**Mr. Munir K. Bana** *Non-Executive Director*

Treet Corporation Limited Appendix I

FINANCIAL SUMMARY	*(amounts in PKR millions)*			
BALANCE SHEET	**FY17**	**FY18**	**FY19**	**9MFY20**
Fixed Assets	11,555.3	13,471.7	17,849.7	17,563.3
Long-Term Investments	426.6	457.7	478.3	467.1
Stores & Spares	268.7	267.1	286.8	310.8
Stock-in-Trade	1,350.4	1,950.7	2,957.0	2,962.4
Trade Debts	888.3	1,035.9	1,235.3	1,138.3
Short-Term Investments	571.7	462.5	435.3	382.7
Loans, Advances, Deposits, prepayments and Other Receivables	1,591.8	2,147.4	2,573.5	2,076.0
Other Assets	122.8	90.7	48.2	74.8
Cash & Bank Balances	1,002.2	1,118.2	359.0	538.2
Total Assets	**17,777.8**	**21,001.9**	**26,223.1**	**25,513.6**
Trade and Other Payables	1,348.2	1,334.8	1,777.1	2,080.6
Long Term Redeemable Debt (including current maturity)	537	357.6	178.2	-
Short Term Debt	6,049.6	9,700.4	13,066.4	13,416.7
Other Liabilities	462.4	543.6	715.8	1,200.1
Tier-1 Equity (Inc. min interest)	8,068.8	7,763.6	5,843.2	4,189.0
Revaluation Surplus on Fixed Assets	1,311.6	1,301.8	4,642.4	4,627.3
Total Equity	9,380.4	9,065.4	10,485.6	8,816.3
Paid-up Capital	1,421.4	1,600.8	1,654.5	1,698.3
INCOME STATEMENT	**FY17**	**FY18**	**FY19**	**9MFY20**
Net Sales	8,418.2	9,410.3	11,972.1	8,901.7
Gross Profit	2,014.9	1,467.2	1,246.9	1,188.9
Operating Profit	512.0	(93.4)	(793.2)	(157.7)
Finance Cost	390.8	485.9	1,286.4	1,274.1
Profit (Loss) Before Tax	304.6	(478.8)	(1,948.8)	(1,422.2)
Profit After Tax	215.9	(630.5)	(2,125.2)	(1,632.5)
FFO	358.6	(361.5)	(885.8)	(854.1)
RATIO ANALYSIS	**FY17**	**FY18**	**FY19**	**9MFY20**
Gross Margin (%)	24.8	15.6	10.4	13.4
Net Margin (%)	2.6	-	-	-
Current Ratio (x)	0.72	0.60	0.52	0.46
Net Working Capital	(2,056.8)	(4,393.4)	(7,341.4)	(8,660.6)
FFO to Total Debt (x)	0.05	-	-	-
FFO to Long Term Debt (x)	0.54	-	-	-
Debt Servicing Coverage Ratio (x)	2.0	0.33	-	-
ROAA (%)	1.4	-	-	-
ROAE (%)	2.8	-	-	-
Gearing (x)	0.83	1.31	2.27	3.20
Leverage (x)	1.04	1.54	2.69	3.99
Inventory plus Trade Debts to Short-Term Borrowings (x)	0.40	0.32	0.32	0.31

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 Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING : ENTITY		
06/10/2020	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
		RATING : PTC		
		Matured		
		RATING: SUKUK		
		Withdrawn		

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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.

Due Diligence Meetings Conducted		Name	Designation	Date
	1	Mr. Saqib Hameed	Head of Treasury	15th September, 2020