

Treet Corporation Limited

Chairperson: Dr. Niloufer Mahdi; Chief Executive: Mr. Syed Shahid Ali

April 10, 2015

Analysts: Maimoon Rasheed
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Rating Rationale

Treet Group of Companies (TGC) is a consortium of 6 entities and is principally engaged in the manufacturing & sale of razors, razor blades, soaps, corrugated packaging and motorbikes. Treet Corporation Limited (TCL) is the holding company of the group. TCL is a market leader in double edge having a sizable market share with over 35 years of experience in the local market. The company also has presence in about 26 countries worldwide. The resilience of TGC's core business activity i.e. razor/blades segment to adverse economic cycles is a key rating factor.

Net sales amounted to Rs. 7.1b (FY13: Rs. 6b), depicting 3 year CAGR of 15.3% in FY14. The increase was largely led by volumetric growth in blades and packing material. Gross margins declined to 20.2% (FY13: 22.4%) in line with trend in margins of leading segments i.e. blades, soaps and corrugation. Net profitability improved in FY14 on the back of reduced financial charges and higher operating profits. Given the operational difficulties, the management has discontinued operations in paper and board segment. The paper and board mill was sold off for a consideration of Rs. 162m in FY15. The management may also discontinue the motorbikes segment in 2015.

Total debt* increased to Rs. 0.84b (FY13: Rs. 0.62b) on account of export refinance and running finance. Total outstanding amount of convertible Participation Term Certificates (TCLTCs) was Rs. 1.1b (FY13: Rs. 1.25b) at end FY14. FFO to total debt reduced significantly to 0.11x (FY13: 0.34x) due to regular markup payments on TCTLCs. Earlier, the management delayed markup payments in FY13. TCL plans to issue Sukuk of Rs. 539.5m to meet working capital requirements. The Sukuk are proposed to be issued in perpetuity to existing shareholders in the ratio of one Sukuk against four ordinary shares. Sukuk will have a put option in shares and cash. Profit payment will be made to Sukuk holders in cash on annual basis. The issue will be secured by way of first pari passu hypothecation charge of Rs. 680m over present and future current assets.

TGC is in the process of setting up a project for manufacturing plant of lead acid batteries. The project will have a total outlay of around Rs. 4b to be invested over a period of 1.5 years. Moreover, TGC is planning to establish a university for culture and arts which will be a degree awarding institution. The management has already acquired 15.29 acres of land in Lahore for the university. The project is expected to have a cash outlay of around Rs. 1.5b. Financing for the aforesaid projects is likely to be arranged through multiple sources including internal sources, public issue etc.

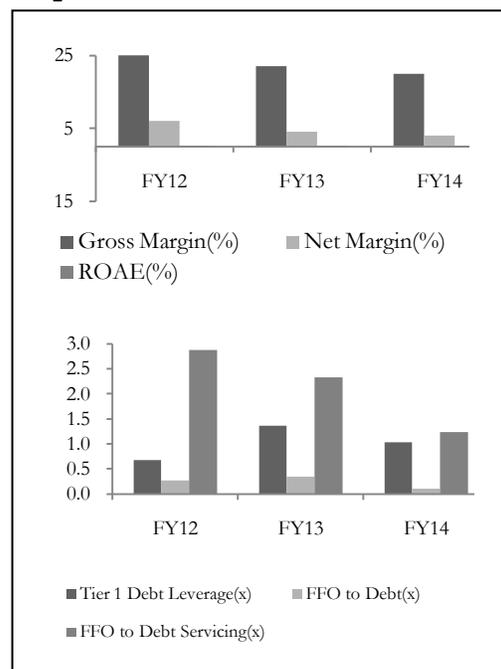
TCL recently segregated the position of CEO and the Chairman. The initiative is in line with governance best practices. However, there is no independent director on the board. Senior level management positions have depicted stability over the year.

Overview of the Institution

TCL was incorporated in January 1977 as a public limited company and is listed on all the three stock exchanges of the country. The group is principally engaged in the manufacturing & sale of blades, soaps, corrugation packaging and motorbikes. The Head Office is in Lahore while the manufacturing units are located in Gujranwala and Hyderabad districts ^[JCR-VIS]

Category	Latest	Previous
Sukuk Rs. 539.5m	AA- April 10, '15	N/A -
Outlook	Stable April 10, '15	Stable N/A

Key Financial Trends



(Rs. million)	FY12	FY13	FY14
Net Sales	5,715	5,954	7,062
Net Profit	421	215	235
Equity	3,967	2,094	2,894
Total Debt*	1,690	620	835
Gearing (x)	0.43	0.30	0.29
FFO	445	212	91
FFO/Total Debt (x)	0.26	0.34*	0.11
ROAE	10.6%	10.3%	8.1%
ROAA	7.9%	3.6%	3.6%

*debt includes bank & ERF borrowings, principal redemption portion of TCTLC (Rs. 37.6m)