Ittehad Chemicals Limited

Chairman & Chief Executive: Mr. Muhammad Siddique Khatri

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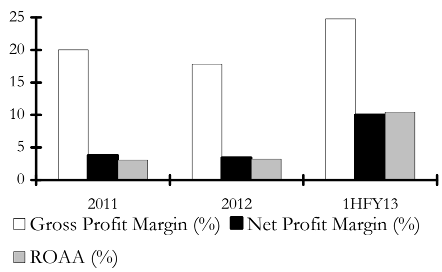
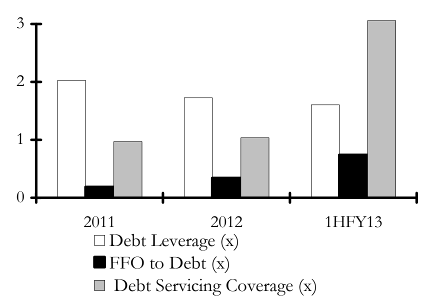
***Analysts**: Maimoon Rasheed*
Waqas Munir, FRM

Category	Latest	Previous
Entity	A-/ A-2	A-/ A-2
Outlook	Stable	Negative
	Mar 18,'13	*Apr 27,'12*

Key Financial Trends





(Rs. million)	FY11	FY12	1H13
Net Sales	3,144	3,752	2,128
Net Profit	119	129	218
Equity (incl. surplus on PPE)	1,809	1,931	2,078
Total Debt	1,439	1,017	991
Gearing	1.36	0.87	0.75
Debt Leverage (x)	2.03	1.73	1.60
FFO	272	345	366
FFO/Total Debt (x)*	0.19	0.34	0.74
ROAE*	11.7%	11.5%	35.2%
ROAA*	3.1%	3.3%	10.6%

**Annualized for 1HFY13*

Rating Rationale

Caustic soda industry has recently experienced favorable dynamics vis-à-vis the problems faced by the industry during the last four years that emanated from entry of another market participant thus creating supply overhang. With partial recoup of capacity utilization, higher prices along with relatively better supply of gas resulted in higher profitability hence strong cash flows during 1HFY13. Initiatives like installation of coal based gasifiers also had a positive impact. Ittehad Chemicals Limited (ICL) was not an exception which enjoys a prominent position in the Chlor-Alkali industry with a market share of around 24% of caustic soda during CY12.

Caustic soda continues to constitute the largest proportion of ICL's sales revenue (FY12: 74.1%; FY11: 72.9%). Installed capacity of caustic soda was lower (FY12: 125,550MT; FY11: 143,550MT) as an obsolete production line in the DSA plant was dismantled by the company. This along with modest increase in overall production resulted in higher capacity utilization (FY12: 67.1%; FY11: 62.0%). To meet its 45MW power requirement, ICL has a 30MW captive power plant which is entirely gas based, whereas remaining requirement is met through WAPDA. On the IT front, ICL is upgrading its existing ERP system by implementing SAP All in one ERP System which is expected to be completed by March 2013. This will ensure real time access to the production data.

Sales revenue has depicted growth during FY12 and in the ongoing year. Concentration among top ten customers remained largely unchanged with revenue from top 10 customers representing around 19% of the overall sales revenue (FY11: 20.2%). Although production volumes increased modestly, higher sales revenue is attributable to revision in selling price across the product range. Margins of the company have remained a function of cost and availability of fuel; the most important component in the production process. Given significant curtailment of gas during FY12 and resultant reliance on expensive fuels, gross margins of the company deteriorated to 17.9% during FY12 as compared to 20.1% in the preceding year. During 1HFY13, gross margins improved to 25.2%. Meanwhile, financial cost of the company subsided on account of declining interest rates and lower outstanding borrowings. Accounting for taxation, ICL posted net profit of Rs. 217.5m (FY12: Rs. 128.6m; FY11: Rs. 118.8m) during 1HFY13.

Following the partial repayments of long term loans, leverage indicators of the company have improved during FY12 and in the ongoing year. ICL plans to replace DSA plant with the more efficient IEM technology for which a capital expenditure (CAPEX) of Rs. 650m is planned for FY13. Moreover, a 17MW coal based power plant with a total CAPEX of Rs. 1.3b is also planned in the future. Both these projects are proposed to be financed through bank borrowings. Going forward, leverage indicators may trend upwards, though expected to remain within manageable limits.

Given improved profitability, equity base of the company has improved on a timeline basis. Current ratio of the company deteriorated to 0.96x (FY11: 1.08x) and further to 0.93x during 1HFY13 on account of current maturities of long term debts and higher utilization of short term working capital lines. Funds from operations (FFO) have remained robust during the ongoing year on account of improved margins. In addition to improved FFO, reduced debt levels resulted in considerably better FFO to total debt ratio. The company is currently well poised to retire its long-term debt falling due in 2013 from internal sources. Debt service coverage was higher at 1.69x (FY12: 1.04x; FY11: 0.97x) at end-1HFY13.

Overview of the Institution

ICL is primarily engaged in the business of manufacturing and selling caustic soda and other allied chemicals. The merger process of Chemi Chloride Industries Limited (CCIL), previously a wholly owned subsidiary of ICL, with and into ICL has been completed during 2QFY13. The production facilities of company are located in Kala Shah Kaku, District Shiekhupura. JCR-VIS

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Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		RATING TYPE: Entity		
18-Mar-13	A-	Stable	A-2	Maintained
27-Apr-12	A-	Negative	A-2	Maintained
07-Sep-10	A-	Negative	A-2	Maintained