Ittehad Chemicals Limited

Chairman: Mr. Muhammad Siddique Khatri, CEO: Mr. Abdul Sattar Khatri

December 29, 2014

Analysts: Maimoon Rasheed
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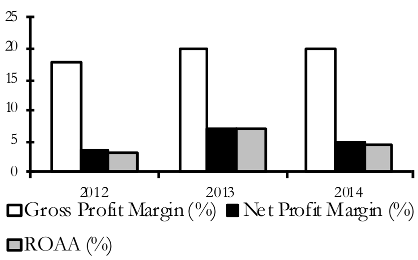
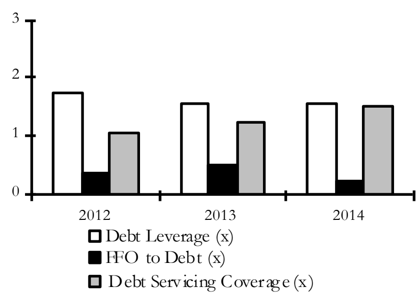
Category	Latest	Previous
Entity	A-/ A-2	A-/ A-2
Outlook	Stable	Stable
	Dec' 22, 14	*Mar' 18, 13*

Key Financial Trends





(Rs. million)	FY12	FY13	FY14
Net Sales	3,752	4,278	4,104
Net Profit	129	295	200
Equity (incl. surplus on PPE)	1,931	2137	2301
Total Debt	1,017	943	1594
Gearing	0.87	0.69	1.03
Debt Leverage (x)	1.73	1.55	1.56
FFO	345	468	380
FFO/Total Debt (x)	0.34	0.5	0.24
ROAE (%)	11.5	23	13.7
ROAA (%)	3.3	7.2	4.5

Rating Rationale

The chlor-alkali sector can be termed as oligopolistic, with three key players; Ittehad Chemicals Limited (ICL) is the pioneer of the three, having installed capacity larger than at least one of the two competitors. Since the advent of Engro Polymers Chemicals Limited, ICL and Sitara Chemical Industries Limited's reach has been limited to the northern region. Sales volumes were lower for all three players in FY14. ICL's market share in caustic soda was recorded at 22.5% in FY14 vis-à-vis 23.8% in the preceding year.

The production process for caustic soda, the main product of ICL, is power intensive; accordingly, fuel expense accounted for as much as 58.4% of cost of sales in FY14. This was however notably lower from the level of 65% in FY13 on the back of improved gas availability in the out-going year. The company is undertaking capex for multiple projects to enhance fuel efficiency. This includes replacement of the less efficient DSA plant by 75 TPD IEM plant entailing capex of Rs. 712m and upgradation of gas fired power plant entailing capex of Rs. 320m; completion of the former is expected to be achieved by January 2015 while work on the latter is expected to commence soon. ICL is considering capex of Rs. 50-60m for the installation of carbon dioxide plant in FY15 as the demand and margins of carbon dioxide are expected to remain high.

Despite notable decline in power related costs, gross margins declined slightly to 19.8% in FY14 (FY13: 20.2%) on account of increase in other cost components and decrease in prices of company's major products during 2HFY14 mainly owing to stiff price competition among the three market players. In 1Q15, margins have compressed further to 16.4%. Production volumes have witnessed a decline in the last three years, on account of which fixed costs have to be absorbed by a lower base. Reduction in margins along with higher financial charges has had a negative impact on the company's profitability and cash flows. Funds from Operations (FFO) were lower at Rs. 380.2m (FY13: Rs. 467.5m) in FY14; in 1Q15, annualized FFO of Rs. 114m was recorded by the company.

Over the last year, the company has acquired additional long term debt to undertake capex. Long term debt is projected to increase further with gearing projected at 1.2x at end FY15 vis-à-vis 1.0x at end 1Q15. At current debt levels, principal payments due in the on-going year is expected to be comfortably met by the internal cash generation; meanwhile efficiency enhancements from the planned capex are likely to enhance the company's cash flows to meet the enhanced debt servicing requirements over the medium to long term.

ICL has upgraded its ERP system by implementing SAP All in place of SAP Business One in March'13. The new system, with seven new integrated modules, has improved efficiency of processes by ensuring real time access to the production data.

Overview of the Institution

ICL was incorporated as a public limited company in 1991 under the Companies Ordinance, 1984. Privatization of the company took place in 1995 and was listed on Karachi Stock Exchange (KSE) in 2003. The company is engaged in the business of manufacturing and selling caustic and other allied chemicals JCR-VIS