



The Pakistan Credit Rating Agency Limited

Rating Report

Tariq Glass Industries Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Dec-2021	A+	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Tariq Glass Industries Limited (the “Company” or “TGL”) ratings reflect reputable business profile and strong presence in glass industry. TGL has built formidable reputation of being a premier manufacturer of tableware, float glass, container-ware and opal glass in the Country and possess largest state of the art manufacturing facilities to achieve global standards. The float glass facilities can produce clear and coloured float glass, sandblasted glass tinted and reflective glass through an online CVD coating mechanism, and mirrors with spectrum technology. The company has expanded its footprints for manufacturing the opal glass dinnerware by installing the most modern manufactory which is the only plant in Pakistan. In float glass, the competition is duopoly and management asserts to have ~50% market share under the brand name of “Tariq Float Glass”. Demand drivers are closely linked with construction industry where Government has announced various supportive schemes. In tableware and opal glass, TGL has built a legacy over 4 decades and introduced famous brands like Toyo Nasic, Omroc, Nova, Rockware, Gemware and Spinrex. The tableware market is emerging more competitive however, the Company provides innovative, value-added products, tailored to the requirements for household and commercial sector with a market share of ~70%. In container-ware, TGL supplies to the beverage industry such as Coke, Pepsi along with other industrial consumers. Key pillars of business strategy include (a) quality and reliability of products (b) economies of scale. The Company is taking cognizance of corporate governance structure with independent oversight and formulated board committees. The Company is led by experienced management team and operations of the Company benefited with sound system of internal controls implemented across organization. Financial profile is demonstrated by healthy coverages, upright working capital management and comfortable cashflows. The capital structure is moderately leveraged mainly comprising long term borrowings on concessionary rates (LTFF) to support capacity expansion and BMR.

The ratings are dependent on upheld sustainable profits and market share while retaining sufficient cash flows and coverages. However, adherence to maintain its debt metrics at an adequate level is a prerequisite.

Disclosure

Name of Rated Entity	Tariq Glass Industries Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21)
Related Research	Sector Study Glass(Dec-21)
Rating Analysts	Nabeel Ashrif nabeel.ashrif@pacra.com +92-42-35869504



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Glass

Profile

Legal Structure Tariq Glass Industries Limited (hereinafter referred to as “the Company” or “TGL”) is a public listed company incorporated under the Companies Act 1913 (now “Companies Act, 2017”).

Background M/s Nasir Sadiq Corporation (Pakistan) Limited was incorporated in 1978 as a private limited company and went public in 1980 where listed on exchange in the year 1984. The Company changed its name to Tariq Glass Industries Limited in 1996. With an operating history of ~37 years company emerged as market leader in glassware industry in Pakistan.

Operations The Company is engaged in the manufacturing and sale of tableware, float glass, container-ware and opal glass with accumulated production capacity of 1385 TPD. TGL’s production facilities are comprised of largest state of the art manufacturing facilities in Pakistan which are located at 33KM Lahore Sheikhpura Road, Sheikhpura, Punjab. Onsite mould workshops, all weather warehousing, international standard packaging, laboratory with latest equipment and eight colour decorating machines are just a few examples of the facilities that TGL offers its valued customers. TGL produces its tableware products on single and double gob press machines as well as H-28 (press & blow) and stretch machines. In Float Glass, TGL is working with two ultra-modern plants that have quickly established recognition not only in Pakistan but also in the international markets. The float glass facilities can produce clear and coloured float glass, sandblasted glass tinted and reflective glass through an online CVD coating mechanism, and mirrors with spectrum technology. The company has expanded its footprints for manufacturing the opal glass dinnerware by installing the most modern manufactory which is the only plant in Pakistan.”

Ownership

Ownership Structure Mr. Omer Baig is the sponsor director of the Company who beneficially owns ~57% shareholding. He owns ~45% shares directly in his name while ~11.8% shares are held through two associates (M/s Omer Glass Industries Limited & M/s M&M Glass (Private) Limited).

Stability Over the years, there has been no major change in the shareholding structure of the company. Shareholding is expected to remain with the sponsoring family.

Business Acumen Since the start of company, Mr. Omer Baig, current MD/CEO and son of Late Mr. Tariq Baig (the Founder), has been involved in the operations of the company and has a strong profile relating to the glass industry. He is a seasoned professional with more than three decade of professional experience. Under his leadership the Company achieved many milestones and became one of the top players in the industry.

Financial Strength As mentioned earlier, Mr. Omer Baig is the man at last mile and maintains a dominant position in the industry. Tariq Glass Industries Limited is the main business of the family. However, they don’t have any strategic stake in other companies.

Governance

Board Structure The overall control of the Company vests with seven members of board of directors. Two are executive directors, including the Managing Director/CEO, while three are non- executive directors and remaining two are independent directors.

Members’ Profile Four of the board members carry extensive experience of the Glass industry, while Mr. Mansoor Irfani is the chairman of board. Other board members are also thorough professionals and carry rich experiences of managing business affairs in different sectors. Tariq Glass frequently arranges different training courses for its executive directors.

Board Effectiveness The board has made two committees namely (i) Audit and (ii) HR Committee, which are chaired by independent directors. During the year, various board meetings were held. Attendance of board members in these meetings remained strong and the meeting minutes are documented adequately.

Financial Transparency The Company has its own internal audit function which reports directly to Audit Committee. The internal audit reports are frequently generated. Head of internal audit function reports directly to audit committee. The auditors of the company M/s Crowe Hussain Chaudhry & Co. Chartered Accountants, issued an unqualified audit opinion on annual financial statements for FY21.

Management

Organizational Structure TGL has a lean organizational structure with an experienced management team; a balanced mix of professionals from the FMCG industry. Majority of the senior management is associated with the company for a long time. The organizational structure of the Company is divided into six functional departments, namely:

(i) Internal Audit, (ii) Human Resource/ Administration, (iii) Sales, (iv) Operations, (v) Finance & Accounts and (vi) Information Technology.

Management Team Role of Chairman and Managing Director/CEO has been segregated. Mr. Omer Baig, son of the founder Mr. Tariq Baig (Late) has taken up as Managing Director/CEO. He is assisted by a team of professionals. Mr. Waqar Ullah the CFO of the company is qualified Chartered Accountant.

Effectiveness Currently, the Company has formal board level committees and the management committees who provides direction and implementation guide to achieve the strategic organizational goals.

MIS TGL is currently equipped with latest SAP solution package i.e. SAP S/4 HANA in order to congregate the IT requirements. It was successfully implemented across the company in November 2018 by M/s Abacus Consulting.

Control Environment The corporate structure of the Company is diverged into various departments each having an effective Internal Control System to ensure achievement of overall strategic goals and reliable reporting. The departments are layered into various cadres of management to define clear lines of responsibilities and authorization, accompanied by a robust technological infrastructure for all its manufacturing and support functions. Different portals are being established to be used for customized management needs.

Business Risk

Industry Dynamics Pakistan’s Glass industry has seen a significant demand owing Government’s focus on construction industry. The monetary relief provided by SBP uplifted the bearish economic environment during COVID period. Owing to the amnesty schemes and special tax incentives announced by the Government the housing and construction sector picked up pace and CPEC related activities gained momentum.

Relative Position TGL has evolved to become one of the largest and leading suppliers and manufacturers of tableware, float glass, container-ware and opal glass in Pakistan. In tableware category, management asserts to have 70% of local market share. The company will maintain its leading position in tableware as the focus is on new articles, varieties and designs of tableware products. In float glass category, apart from TGL, there is only one other producer, Ghani Glass Ltd., who shares an equal market as both the companies have almost similar production capacities.

Revenues TGL derives its revenues predominantly from local sales (~92%). During FY21, the top-line of the Company has shown a remarkable growth of ~40% YoY. However, if we consider the average growth of last three years, this figure seems in line with the previous years’ growth. Last year, revenue was declined due to COVID-19 pandemic scenario.

Margins Gross margin increased to ~21.5% on back of economies of scale due to expansion in float glass capacity and controlled cost of production (FY20: 16.2%, FY19: 19.6%). Accordingly, operating margin increased by ~6% (FY20: 12.3%, FY19: 15.7%). There was a significant decrease of 37% in the finance cost during FY21 as compared to last year as a result of decrease in borrowings to finance the working capital. Due to this, net margin has increased to ~11% during FY21 as compared to 5.6% in FY20.

Sustainability The COVID-19 outbreak has created various challenges, adding more pressure to the already struggling economy of the country. The management is vigilant and actively evaluate the future earning prospects based upon budgets and financial projections.

Financial Risk

Working Capital As the economy started to improve gradually after the global pandemic, the Company’s gross working capital days have decreased to 80 days in FY21 (FY20: 115 days). Net working capital days are also reduced to 38 days in FY21 (FY 20) translated into better liquidity.

Coverages The Company generated FCFO of PKR~3,536mIn during FY21 (FY20: PKR~1,586mIn). Interest coverage against FCFO has improved to a very comfortable figure of 12.2x (Jun20: 2.9x; Jun19: 8.1x). Going forward, sustenance of cash flows from operations is necessary to keep the coverages intact.

Capitalization With increase in FCFO, short-term borrowing of TGL has decreased significantly over the years. Long-term loan pertains to last year which was taken for the installation of second float glass unit with 550 TPD capacity. This loan has been planned to be settled in coming 3 year time out of cash flows of respective years. Accordingly, leveraging decreased to ~32.6% in FY21 (FY20: ~54.7%). Short-term borrowings make ~23.96% of total borrowings of the Company.



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Financial Summary

PKR mln

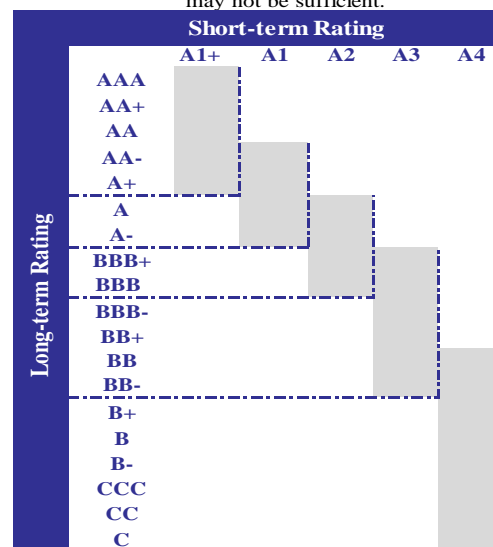
Tariq Glass Industries Limited Glass	Sep-21 3M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	13,359	12,999	10,937	8,506
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	6,541	5,778	6,270	4,954
a Inventories	3,135	2,473	2,964	2,473
b Trade Receivables	1,568	1,158	1,822	1,323
5 Total Assets	19,900	18,777	17,207	13,460
6 Current Liabilities	2,499	2,517	2,228	1,553
a Trade Payables	2,407	2,420	2,011	636
7 Borrowings	4,950	4,926	7,822	5,340
8 Related Party Exposure	135	146	146	-
9 Non-Current Liabilities	694	723	404	429
10 Net Assets	11,621	10,465	6,607	6,139
11 Shareholders' Equity	11,621	10,465	6,607	6,139
B INCOME STATEMENT				
1 Sales	6,685	19,103	13,587	14,389
a Cost of Good Sold	(4,807)	(14,988)	(11,387)	(11,571)
2 Gross Profit	1,878	4,115	2,200	2,818
a Operating Expenses	(164)	(615)	(522)	(556)
3 Operating Profit	1,714	3,500	1,678	2,262
a Non Operating Income or (Expense)	(78)	(228)	(65)	(97)
4 Profit or (Loss) before Interest and Tax	1,636	3,272	1,613	2,165
a Total Finance Cost	(96)	(313)	(568)	(310)
b Taxation	(384)	(849)	(284)	(531)
6 Net Income Or (Loss)	1,156	2,109	762	1,324
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	1,650	3,536	1,586	2,286
b Net Cash from Operating Activities before Working Capital Changes	1,577	3,105	1,095	2,034
c Changes in Working Capital	(1,182)	1,273	(418)	(1,781)
1 Net Cash provided by Operating Activities	395	4,378	676	253
2 Net Cash (Used in) or Available From Investing Activities	(630)	(889)	(2,909)	(3,428)
3 Net Cash (Used in) or Available From Financing Activities	(12)	(2,902)	2,278	3,087
4 Net Cash generated or (Used) during the period	(247)	587	45	(87)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	40.0%	40.6%	-5.6%	18.4%
b Gross Profit Margin	28.1%	21.5%	16.2%	19.6%
c Net Profit Margin	17.3%	11.0%	5.6%	9.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	7.0%	25.2%	8.6%	3.5%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh	41.9%	24.7%	12.0%	23.2%
2 Working Capital Management				
a Gross Working Capital (Average Days)	65	80	115	103
b Net Working Capital (Average Days)	32	38	80	88
c Current Ratio (Current Assets / Current Liabilities)	2.6	2.3	2.8	3.2
3 Coverages				
a EBITDA / Finance Cost	19.3	14.0	3.9	9.4
b FCFO / Finance Cost+CMLTB+Excess STB	6.2	5.4	2.6	4.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.6	1.3	3.9	1.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	30.4%	32.6%	54.7%	46.5%
b Interest or Markup Payable (Days)	46.2	73.0	122.6	158.6
c Entity Average Borrowing Rate	6.7%	4.6%	7.6%	7.9%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating	
Scale	Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	
BB	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
C	
D	Obligations are currently in default.

Short-term Rating	
Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

Entities

- Broker Entity Rating
- Corporate Rating
- Financial Institution Rating
- Holding Company Rating
- Independent Power Producer Rating
- Microfinance Institution Rating
- Non-Banking Finance Companies (NBFCs) Rating

Instruments

- Basel III Compliant Debt Instrument Rating
- Debt Instrument Rating
- Sukuk Rating

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- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

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Conduct of Business

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- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
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- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

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