The Pakistan Credit Rating Agency Limited

Rating Report

Reliance Petrochem Industries (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
	BBB	A2	Stable	Maintain	-
01-Mar-2019	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect adequate business profile of Reliance Petrochem (Pvt.) Limited. The Company is engaged in manufacturing and sale of different varieties of Polypropylene Bags and White-Oils. Recent increase in demand of consumer goods, urbanization and cost effectiveness has boded well for the industry. The industry is considered volatile when it comes to the procurement of raw materials (polymers and base-oils), as they are directly linked with the international prices of crude oil. Thus, the Company's top-line and margins have depicted fluctuations over recent years. However, Reliance Petrochem is focused on increasing the productivity and efficiency of its operations. The business is expected to grow further as the Company is in the phase of signing high-valued and long-term trading contracts with the foreign traders. The Company intends to increase share of exports in its revenue. The profitability may come under pressure due to higher taxes as the Company enjoyed tax benefits for first five years of incorporation. Financial profile of the Company is considered adequate with intermediate leveraging. Coverages have improved recently on the back of better cash flows. Meanwhile, induction of new directors with diversified professional experience is likely to improve the quality of the Board.

The ratings are dependent on sustaining sales revenue and margins, while managing financial risk at low level. Governance framework needs improvement as the Board is dominated by the Sponsoring family. At the same time, prudent management of inventories is considered important. Significant decline in margins and/or profitability, impacting cash flows and coverages, will have negative impact on ratings.

Disclosure

Name of Rated Entity	Reliance Petrochem Industries (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Crtieria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study | Chemical(Jun-19)
Rating Analysts	Ateeb Riaz | ateeb.riaz@pacra.com | +92-42-35869504

Profile

Legal Structure Reliance Petrochem (Pvt.) Ltd. was incorporated in 2013 as a private limited company under the repealed Companies Ordinance 1984.

Background The Sponsoring family is involved in trading business even before the partition of India and Pakistan. Trading businesses of petrochemicals was started by Mr. Jai Kumar, son of Mr. Bool Chand. As the business grew, sponsors also got involved in the manufacturing of polypropylene bags.

Operations Reliance Petrochem is engaged in the manufacturing of polypropylene products. The Company has 48 looms through which different types and sizes of plastic bags are produced. The bags are sold to export oriented companies for packaging of wheat, rice, cement and tea. Reliance Petrochem is also involved in the manufacturing of white oils for which base oils (Group I, Group II and Group III) are imported and then mixed with with other chemicals. White-oils are sold to clients in cosmetics, food preservatives, pharmaceutical products, laxatives, ointments, car lubricants and textile sectors.

Ownership

Ownership Structure The majority of the ownership stake (85%) lies with Mr. Jawahar Lal, who is the CEO of the Company. Whereas, the rest 15% ownership is held by Mr. Anil Perkash who is the Director of Reliance Petrochem.

Stability Although there is no formal succession plan, the business roles are equally divided among the three brothers. Formation of a group holding company or documented succession plan would do well for the stability of the Company.

Business Acumen Business acumen of the sponsors is considered strong, as they are involved in the trading business since long. All the three sponsors have more than two decades of working experience and are associated with the Company since its inception. Mr. Jai Kumar is the elder brother who holds the authority of taking the strategic decisions. His ability to take strong strategic decisions, flexibility and to seize opportunities on the right time has kept the entity on the right track.

Financial Strength On group level, total turnover stands at ~PKR 15bln with assets of PKR ~6bln. Other companies that fall under the group are Star Corporation, Reliance Importer and Exporter, Karachi Corporation and Blue Moon Industries (PVT.) Limited. These companies also belong to the same family and are involved in manufacturing and trading of different products like tea, milk, oils, lubricants and bitumen.

Governance

Board Structure The board of Reliance Petrochem comprises three brothers. Mr. Jawahar Lal is the CEO and heads the board as Chairman. Mr. Anil Parkash (Director) and Mr. Jai Kumar (Managing Director) are the other two board members.

Members' Profile Mr. Jawahar Lal has overall working experience of ~20 years and is associated with Reliance Petrochem's board sicnce its inception. Mr. Jai Kumar is a law graduate and carries an overall work expereince of ~26 years. He is also associated with the board for last six years. Mr. Anil Parkash has strong work experience like other board members and is associated with the board since inception.

Board Effectiveness The effectiveness of the board is being compromised due to relatively small size of the board and domination of sponsoring family. Secondly, board meetings are done on "as and when needed" basis. There is no set pattern for record of minutes of meetings held or agenda based meetings.

Financial Transparency M/s Mushtaq & Co., Chartered Accountants are the external auditors of the Company. The auditor is QCR rated by ICAP and listed in Category "B" of the SBP's panel of auditors. They have expressed an unqualified opinion on the financial statements for the year ended June 30th, 2018. The external audit for FY19 is in progress.

Management

Organizational Structure The Company has a lean management structure and is divided into functional departments. Each department is headed by a department head. All department heads report directly to the Board.

Management Team Mr. Jawahar Lal has overall 20 years of experience in the chemical sector. He is actively involved in day-to-day decision making. The management constitutes educated individuals. Mr. Waseem Raja – CFO – is a Chartered Accountant. Similarly other top-management personnel hold MBA degrees.

Effectiveness There are no formal management committees. All the Department Heads report directly to the CEO to discuss day-to-day developments and issues. The Company maintains adequate IT infrastructure and related controls. Department-wise performance reports are also compiled on a daily basis.

MIS Reliance Petrochem uses oracle based ERP system (Efro Tech). Regular reporting of sales figures, raw materials positions, payables & receivables, and income statement are shared with the top management and Board of Directors on monthly basis.

Control Environment Reliance Petrochem maintains an effective control environment with defined policies and procedures. The Company's internal audit function performs regular reviews on the financial, operational and compliance controls and reports directly to the Directors.

Business Risk

Industry Dynamics The plastic and packaging industry in Pakistan is growing with a fast pace. The rapid urbanization, lifestyle, increase in consumer goods, cost effectiveness and cost of production are all the factors that have brought development in these sectors. The industry is thriving at an average annual growth rate of 15% with a total estimated production capacity of 624,000 MT/annum. Its contribution to the GDP is almost 1.7%. The increased demand for car lubricants, cosmetics, textile and pharmaceutical products in the international and local market have positively affected the petrochemicals industry of Pakistan. On the other hand, trade sanctions on Iran has disabled it to produce certain types of chemicals, which has resulted as an opportunity for Pakistani traders. Geographic position of Pakistan has also given an edge to the traders as they incur lesser shipment cost as compared to India and other neighboring countries, when it comes to trade with Iran and Afghanistan.

Relative Position Relative position of this Company is considered strong as there are only two companies in Pakistan who are manufacturing Jumbo FIBC (Flexible Industrial Bulk Containers). These bags can carry loads of 500 KGs up to 2500 KGS. The Company stays up to date with the new technology related to polypropylene products and white-oils.

Revenues In FY18, sales revenue of the Company clocked in at PKR ~3bln (FY17: PKR 4.8bln). The sales decreased by ~36%, as the Company had more than usual orders in FY17. Sales revenue for 1HFY19 stood at PKR 1,985mln. Overall the sales trend of the Company has remained volatile, as the Company's business is directly linked with the crude-oil market. The Company intends to increase share of exports in revenues to take advantage of rupee depreciation.

Margins In FY18 the gross margin of the Company improved to ~10% (FY17: ~3.2%). The gross margins improved due to lower polymers and base oil prices, on the back of lower crude oil prices. The operating margins also improved to ~7.5% in FY18 (FY17: ~1.5%) due to trickle down effect of improved gross margins. The finance cost of the Company increased by massive 76% during FY18 and clocked in at PKR 104mln (FY17: PKR 59mln). Resultantly, the net margins of the Company stood at ~4% during FY18 (FY17: ~0.5%). The bottom-line of the Company clocked in at PKR 120mln (FY17: PKR 22mln). In 1HFY19, the gross and operating margins of the Company further improved to 12% and 9%, respectively. The margins are expected to sustain during FY19, as crude oil prices did not fluctuate significantly.

Sustainability Reliance Petrochem is focused to increase the productivity and efficiency of its operations. The business is expected to grow further as the Company is in the phase of signing high-valued and long-term contracts with the foreign traders.

Financial Risk

Working Capital Working capital is a function of inventory and trade receivables and is financed partly via in-house generated cash flows and mainly from short-term borrowings. During FY18, net cash cycle increased (FY18: 230 days, FY17: 92 days) on the back of higher inventories. The Company's room to borrow stood at PKR 362mln during FY18 (FY17: PKR 225mln), depicting adequate cushion. During 1HFY19, net working capital days of Reliance Petrochem decreased to 181 days due to lower inventory levels. In 1HFY19, the room to borrow further improved to PKR 452mln. The Company is expected to sustain these levels in FY19.

Coverages Reliance Petrochem's FCFO increased by ~75% on the back of better margins and increased profits. On the other hand, the finance cost in FY18 increased to PKR 104mln (FY17: PKR 59mln). As a result the interest and debt coverages of the Company remained under pressure and stood at 1x. In 1HFY19 coverages improved to 3.4x on the back of improved free cash flows.

Capitalization The leveraging stood at ~64% during FY18 (FY17: ~67%). The debt of the Company comprises only short-term borrowings, utilized to finance the working capital requirements. The Company is not planning to add more debt, going forward. In FY19, the leveraging of the Company is expected to be ~60%.

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Financial Summary
PKR mln

Reliance Petrochem Industries (Private) Limited	Dec-18	Jun-18	Jun-17	Jun-16
Chemical	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	240	249	269	189
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	2,297	2,465	2,068	882
a Inventories	*1,806*	*1,950*	*1,743*	*625*
b Trade Receivables	*101*	*94*	*67*	*34*
5 Total Assets	2,537	2,714	2,337	1,072
6 Current Liabilities	854	1,027	839	297
a Trade Payables	*47*	*44*	*28*	*20*
7 Borrowings	992	1,076	1,006	305
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	691	612	492	470
11 Shareholders' Equity	691	612	492	470
B INCOME STATEMENT				
1 Sales	1,985	3,052	4,791	1,723
a Cost of Good Sold	*(1,751)*	*(2,737)*	*(4,638)*	*(1,657)*
2 Gross Profit	234	315	152	65
a Operating Expenses	(56)	(91)	(74)	(36)
3 Operating Profit	179	224	79	29
a Non Operating Income or (Expense)	*(3)*	*(1)*	*2*	*2*
4 Profit or (Loss) before Interest and Tax	176	224	81	32
a Total Finance Cost	*(65)*	*(104)*	*(59)*	*(13)*
b Taxation	*(32)*	-	-	-
6 Net Income Or (Loss)	79	120	22	18
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*217*	*100*	*57*	*(9)*
b Net Cash from Operating Activities before Working Capital Changes	*153*	*(4)*	*(2)*	*(22)*
c Changes in Working Capital	*(60)*	*(54)*	*(639)*	*157*
1 Net Cash provided by Operating Activities	92	(57)	(641)	135
2 Net Cash (Used in) or Available From Investing Activities	(4)	(9)	(111)	(31)
3 Net Cash (Used in) or Available From Financing Activities	(84)	70	701	(53)
4 Net Cash generated or (Used) during the period	4	4	(51)	51
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	30.1%	-36.3%	178.1%	--
b Gross Profit Margin	11.8%	10.3%	3.2%	3.8%
c Net Profit Margin	4.0%	3.9%	0.5%	1.1%
d Cash Conversion Efficiency (EBITDA/Sales)	10.0%	8.6%	2.4%	3.1%
e Return on Equity (ROE)	24.2%	21.7%	4.5%	3.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	185	235	94	29
b Net Working Capital (Average Days)	181	230	92	25
c Current Ratio (Total Current Assets/Total Current Liabilities)	2.7	2.4	2.5	3.0
3 Coverages				
a EBITDA / Finance Cost	3.1	2.6	2.0	5.0
b FCFO / Finance Cost+CMLTB+Excess STB	3.4	1.0	1.0	-0.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	-1.2	623.0	0.0
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	58.9%	63.7%	67.2%	39.3%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Average Borrowing Rate	12.4%	9.8%	8.8%	3.5%

Rating Scale | Corporate

2019

Credit Rating Scale & Definitions

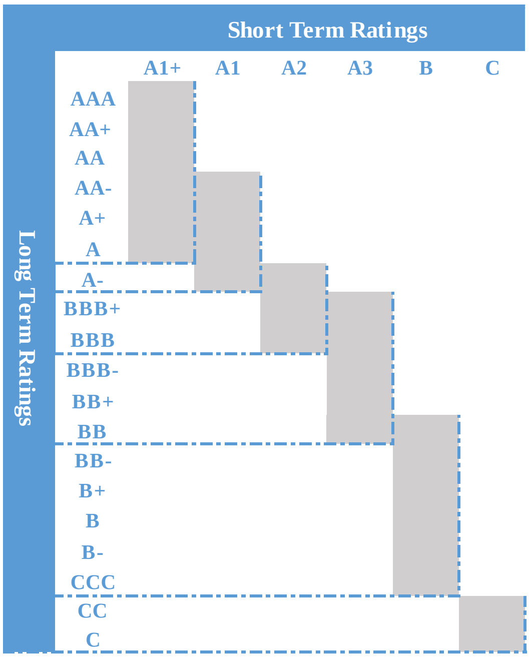
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ 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.
A+ 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.
BBB+ 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.
BB+ 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.
B+ 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.
CCC CC C	**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.
D	Obligations are currently in default.

Short Term Ratings

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.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

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

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
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

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(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.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(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)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(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)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(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)
Proprietary Information