



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
28-Aug-2020	BBB	A2	Stable	Maintain	-
30-Aug-2019	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. Performance of the company during outbreak of Covid-19 and in associated lockdown period is expected to be improved due to the launch of new sanitizer segment. 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.

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	Methodology Corporate Ratings(Jun-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Chemical(Jul-20)
Rating Analysts	Sohail Ahmed sohail.ahmed@pacra.com +92-42-35869504

Profile

Legal Structure Reliance Petrochem Industries (Pvt.) Limited 'the Company' was incorporated as a private limited company in 2013.

Background The sponsoring family has been involved in the trading business for several decades. The petrochemicals business was started by Mr. Jai Kumar. Later, the sponsors also became involved in the manufacturing of polypropylene bags.

Operations The Company operates mainly within two segments, polypropylene bags and petrochemicals. The Company produces plastic bags of different types and sizes to meet the demand of export oriented companies for the packaging of wheat, rice and cement etc. Within the petrochemical segment, the Company produces white oils which are sold to clients in the cosmetics, food preservatives, lubricants, pharmaceutical products and textile sectors.

Ownership

Ownership Structure The major stake of ownership rests with Mr. Jawahar Lal (CEO), who holds ~61% of shares. Meanwhile, remaining shares (~39%) are held by Mr. Anil Parkash.

Stability Even though ownership of Reliance Petrochem rests with only two brothers, the ownership of the group companies is well distributed between the sponsoring family.

Business Acumen The sponsoring family has been involved in the business since inception and have extensive experience of the relevant industries. They also successfully manage various group companies operating in diversified business segments.

Financial Strength The various companies that are owned by the sponsoring family include Star Corporation, Reliance Importer and Exporter, Karachi Corporation and Blue Moon Industries (Pvt.) Limited. The group has recently added another company, Latea Pak (Pvt.) Limited. These companies 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 ~21 years and is associated with Reliance Petrochem's board since its inception. Mr. Jai Kumar is a law graduate and carries an overall work experience of ~27 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, 2019.

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 21 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 changes and increase in consumer goods are all the factors that have brought development in these sectors. 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 from 500 Kg up to 2500 Kg. The Company stays up to date with the new technology related to polypropylene products and white-oils.

Revenues The Company's revenue is derived from two segments, polypropylene bags and petrochemicals. Revenue reflected a significant growth of ~35% during 1HFY20 as compared to 1HFY19, as company's topline clocked in at PKR 2,676mln as at end-Dec19 (1HFY19: PKR 1,985mln). This increase is on the back of volumetric increase in local sales and significant increase in exports.

Margins In 1HFY20, the Company's gross margin improved to ~13% (1HFY19: ~11.8%) due to increased export competitiveness. The growth in operating margin was subdued mainly due to increase in export related costs (1HFY20: PKR 62mln, FY19: ~PKR 34mln). As a result, the Company's net margin also declined slightly by 0.4% to ~3.6% during 1HFY20 (1HFY19: ~4%) as net profit clocked in at PKR 97mln (1HFY19: PKR 79mln).

Sustainability Reliance Petrochem is focused on increasing the productivity and efficiency of its operations. The business is expected to grow further as the Company has been able to finalize contracts with foreign traders for exports and imports.

Financial Risk

Working Capital In 1HFY20, Reliance Petrochem's inventory days declined significantly to 70 days (FY19: 150 days) as the Company dispatched orders which had been booked in the previous year. The Company's trade receivable days increased to 44 days (FY19: 36 days) as payment terms with customers vary on a contract to contract basis. As a result, gross working capital days clocked in at 115 days (FY19: 187 days). The Company's trade payable days reduced to 3 days from 4 days and net working capital days clocked in at 111 days (FY19: 183 days). The Company's room to borrow against trade assets increased to PKR 841mln as the Company's net trade assets saw an increase after dispatch of outstanding orders.

Coverages The Company's free cash flows decreased to PKR 175 mln in 1HFY20 (1HFY19: PKR 217mln). Consequently, interest coverage against FCFO deteriorated slightly however still remaining comfortable (1HFY20: 3.1x; 1HFY19: 3.4x). Going forward, sustenance of cash flows from operations is necessary to keep the coverages intact.

Capitalization Reliance Petrochem's capital structure remains moderately leveraged after an equity injection of PKR 195mln. The additional equity reduced the Company's leveraging to ~43.1% at end-Dec19 (FY19: ~53.7%). The Company's debt comprises only short-term borrowings, utilized to finance the working capital requirements. Going forward, the Company is planning to incur capital expenditure to obtain a warehouse for the oil segment.



Reliance Petrochem Industries (Pvt.) Limited Chemicals	Dec-19 6M	Jun-19 12M	Jun-18 12M	Jun-17 12M
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A BALANCE SHEET

1 Non-Current Assets	403	414	249	269
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,859	2,089	2,465	2,068
<i>a Inventories</i>	922	1,139	1,950	1,743
<i>b Trade Receivables</i>	637	668	94	67
5 Total Assets	2,262	2,503	2,714	2,337
6 Current Liabilities	131	98	1,027	839
<i>a Trade Payables</i>	57	44	44	28
7 Borrowings	903	1,272	1,076	1,006
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	35	36	-	-
10 Net Assets	1,193	1,096	612	492
11 Shareholders' Equity	1,193	1,096	612	492

B INCOME STATEMENT

1 Sales	2,676	3,832	3,052	4,791
<i>a Cost of Good Sold</i>	(2,326)	(3,348)	(2,737)	(4,638)
2 Gross Profit	349	483	315	152
<i>a Operating Expenses</i>	(129)	(148)	(91)	(74)
3 Operating Profit	220	335	224	79
<i>a Non Operating Income or (Expense)</i>	(11)	(15)	(1)	2
4 Profit or (Loss) before Interest and Tax	209	320	224	81
<i>a Total Finance Cost</i>	(60)	(123)	(104)	(59)
<i>b Taxation</i>	(52)	(69)	-	-
6 Net Income Or (Loss)	97	128	120	22

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	175	315	100	57
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	116	192	(4)	(2)
<i>c Changes in Working Capital</i>	265	(563)	(54)	(639)
1 Net Cash provided by Operating Activities	380	(371)	(57)	(641)
2 Net Cash (Used in) or Available From Investing Activities	(8)	(7)	(9)	(111)
3 Net Cash (Used in) or Available From Financing Activities	(371)	384	70	701
4 Net Cash generated or (Used) during the period	2	7	4	(51)

D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	39.7%	25.6%	-36.3%	178.1%
<i>b Gross Profit Margin</i>	13.0%	12.6%	10.3%	3.2%
<i>c Net Profit Margin</i>	3.6%	3.3%	3.9%	0.5%
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	8.5%	9.8%	8.6%	2.4%
<i>e Return on Equity (ROE)</i>	16.9%	15.0%	21.7%	4.5%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	115	187	235	150
<i>b Net Working Capital (Average Days)</i>	111	183	230	148
<i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>	14.2	21.3	2.4	2.5
3 Coverages				
<i>a EBITDA / Finance Cost</i>	4.0	3.2	2.6	2.0
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	3.1	2.6	1.0	1.0
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.0	0.0	-1.2	579.4
4 Capital Structure (Total Debt/Total Debt+Equity)				
<i>a Total Borrowings / Total Borrowings+Equity</i>	43.1%	53.7%	63.7%	67.2%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	0.0	0.0
<i>c Average Borrowing Rate</i>	10.4%	10.0%	9.8%	8.8%

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.

Scale	Long-term Rating 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+	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	
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	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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
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- 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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- (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.
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- (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)
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- (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)
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- (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)

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