The Pakistan Credit Rating Agency Limited

Rating Report

Siddiqsons Tinplate Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Jun-2019	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect Siddiqsons Tin Plate's established foothold in the tin plate industry as the first and sole local manufacturer of tin plate in Pakistan. Siddiqsons has a market share of ~31% in the local market. The demand for the Company's products has shown growth in the recent past due to increased hygiene consciousness of the public at large and higher use of processed food. However, the company was unable to seize this opportunity due to inconsistent supply of its raw materials and steep competition from commercial importers, signifying business risk. Thus, the top line of the company has remained stagnant with low capacity utilization. The margins have decreased significantly in FY18 due to increase in cost of raw materials owing to rupee devaluation. Although the gross margins returned to historic levels, the net margins remained depressed facet of increased finance costs. The Company plans to establish a Cold Rolled Coil steel manufacturing complex to streamline its raw materials supply and boost margins. This is expected to improve profitability once the project comes online. The Company's financial risk profile is considered adequate characterized by moderate leveraging and good coverages and stretched working capital. The Company conducted a right issue to partly finance the expansion project. The Company will increase borrowings to finance the project. However, the project will start production ~12 months prior to principle repayments for related loans. This will create cushion for repayment from ensuing cash flows. The ratings take comfort from the financial strength of the Siddiqsons group and strong support from the sponsors.

The ratings are dependent upon holding sustained operations and continuity of improved margins. Successful and timely execution of planned CRC project is key to uphold ratings. The maintenance of coverages during expansion phase will be critical for the ratings. Continuity of anti-dumping duty is considered critical for the sustainability of the business risk profile of the Company.

Disclosure	
Name of Rated Entity	Siddiqsons Tinplate Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-18),Methodology | Criteria | Rating Modifier(Jun-18),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study | Packaging(Oct-18)
Rating Analysts	Ateeb Riaz | ateeb.riaz@pacra.com | +92-42-35869504

Profile

Legal Structure Siddiqsons Tin Plate Limited (Siddiqsons Tin Plate) is a public listed company. The Company is listed on Pakistan Stock Exchange (PSX). The registered office of the Company is situated in Karachi, Pakistan, with production facilities in Karachi, Sindh and Windhur, Balochistan.

Background The Company was established in 1996 with the collaboration of Sollac of France and Mitsubishi Corporation, Japan. The Company started commercial operations in May 1999. The Company then established its canning facility in Malir, Karachi in 2009.

Operations The Company is engaged in the manufacturing and sale of Electrolytic Tin Plates (ETP), cans and other steel products. The Company is engaged in B2B business model. The total capacity of tin plate plant is 200,000 MT per annum, while that of canning facility is 4,015,000 cans per annum.

Ownership

Ownership Structure The controlling stake in the Company is held by Rafi Family. The Family holds ~44% shares in the Company directly through individuals, whereas 15.3% shares are held indirectly through Siddiqsons Limited, which is 100% owned by Rafi Family. Around 9.3% shares are held by Arcelor Packaging International, a subsidiary company of ArcelorMittal S.A. The remaining shareholding is held by individuals and financial institutions.

Stability The Company's controlling shareholding structure rests with Rafi Family since its inception. However, there is no formal succession plan regarding succession of ownership.

Business Acumen The sponsor family has strong working knowledge as they are operating in the industry since 1996 and are the first and only manufacturer of tin plate in Pakistan. ArcelorMittal is the largest steel producer in the world, having operations in 19 countries across four continents.

Financial Strength The Rafi family has strong financial strength as reflected by a diverse portfolio of businesses owned by the family. ArcelorMittal S.A, being the world's largest steel producer in the world have strong financial muscle. The sponsors have also demonstrated support in the past through right issue to fund Capex. It is expected that the sponsors will support the Company in the future and this support remains critical for the ratings.

Governance

Board Structure The Company has a seven members board comprising two independent directors, three non-executive directors and two executive directors (including the CEO). The board is chaired by Mr. Tariq Rafi. All directors, except independent directors, represent Rafi Family.

Members' Profile Mr. Rafi is a seasoned business professional and carries a track record of successful business ventures with him. All other members are professionally qualified with extensive professional experience and diversified skill mix.

Board Effectiveness The board has met five times in the FY18. Most of the directors attended more than three board meetings in FY18. The board has established two sub-committees, i) Audit Committee, and ii) Human Resource & Remuneration Committee. Both committees are chaired by non-executive directors. The quality of discussion as reflected in board minutes is good.

Financial Transparency Deloitte Yousaf Adil, Chartered Accountants are the external auditors of the Company. They gave an unqualified opinion on the Company's financial statements for the periods ended June 30, 2018 and December 31, 2018. The board has also established an internal audit department. The head of internal audit reports directly to the audit committee.

Management

Organizational Structure The Company has established a well-defined management structure divided into functional departments with clear lines of responsibilities.

Management Team The management team is headed by Mr. Munir Qureshi (CEO). Mr. Munir is an Engineer and a graduate in public administration from Harvard University. He has been appointed as the CEO of Siddiqsons Tin Plate in May 2018. He has served in the government for ~35 years at a senior level. The HR base of the Company is strong with top management possessing ample knowledge and expertise of the related business.

Effectiveness The Company has established two management committees to coordinate its operations, namely, i) Technical Committee, and ii) Procurement Committee. Technical committee is the apex management committee. The committees meet on requirement basis.

MIS The Company has implemented Sidat Hyder Financials suit to manage the financial information needs of management. Further, the Company has implemented in-house developed softwares to manage stock and stores. The management is also running a separate payroll software to process payroll data. However, the management is planning to implement SAP ERP to cater the growing need for integration of information.

Control Environment The management has a strong control environment. The Company also maintains strong quality control over its production processes.

Business Risk

Industry Dynamics The industry can be divided into two segments, namely, i) Local manufacturer, and ii) Commercial Importers of ETP. Siddiqsons Tin Plate is the only tin plate manufacturer in Pakistan, while there are several commercial importers of ETP. The increased public hygiene consciousness and untapped market relating to packaging of food items are considered as major demand drivers. Rupee devaluation has increased the cost of raw materials as almost all raw material is imported. The National Tariff Commission has imposed anti-dumping duty on the import of both raw materials and finished goods of the industry.

Relative Position The Company is the only tin plate manufacturer in Pakistan and holds ~31% share of the total market in FY18 (FY17: 32%). The other competitors are various small commercial importers of tin plate. In the recent years, the Company gradually lost its market share due to stiff competition from importers.

Revenues The Company's top line has shown a growth of ~4.3% in FY18 (FY17: 19.7%) and clocked in at ~PKR 2,646mln (FY17: PKR 2,538mln). The increase in top line is mainly attributable to higher prices of finished goods. However, the sales volume declined to 18,221MT in FY18 (FY17: 19,051MT). In 9MFY19, the revenue of the Company increased by ~20% and clocked in at ~PKR 2,369mln. The capacity utilization remains low at ~15% in FY18 (FY17: ~16%) due to low demand.

Margins The gross margins declined in FY18 to ~6.3% (FY17: 12%) due to increase in cost of raw materials owing to devaluation of rupee. However, the gross margins recovered to ~9.3% during 9MFY19 as the Company passed on the increased costs to its customers. Further, the operating and net margins also declined in-line with gross margins in FY18. The net margins remained below normal levels during 9MFY19 due to significant increase in finance costs during the period.

Sustainability Keeping in view the industry dynamics, the demand for the industry's product is expected to increase in the coming years. Siddiqsons Tin Plate is pursuing backward integration by setting up a Cold Rolled Coil (CRC) steel complex with a capacity of ~200,000MT. The sustainability of the Company's revenue is dependent upon the success of CRC complex, which is expected to see growth in the medium term both on local and export fronts. The imposition of anti-dumping duty by National Tariff Commission on commercial imports of ETP is expected to have a positive impact on the top line of the Company especially in local market. The plant will be funded through 65:35 debt to equity ratio and is expected to start commercial operation in July 2020.

Financial Risk

Working Capital Siddiqsons Tin Plate's working capital requirements emanate from financing inventory and receivables. The cash cycle stood at 163 days in FY18 (FY17: 129 days), owing to increase in finished goods inventory days and trade receivable days. For 9MFY19, the cash cycle further increased to 202 days. The working capital increased by ~PKR 435mln in FY18 (FY17: PKR 240mln), mainly triggered by increase in inventories. The Company increased its finished goods inventory in anticipation of increase in prices of raw material.

Coverages The FCFO decreased to ~PKR 106mln in FY18 (FY17: PKR 195mln). The interest coverage ratio stood at 0.8x in FY18 (FY17: 4.3x), mainly caused by significant increase in finance cost and decrease in FCFO. The debt coverage ratio also decreased significantly and stood at 0.8x in FY18 (FY17: 2.1x). For 9MFY19, FCFO were PKR 172mln, showing improvement on the back of improved profitability, while the interest coverage and debt coverage remained at 1.6x and 1.6x, respectively. The interest coverage ratio improved due to improvement in profitability. However, the coverages of the Company are expected to remain under pressure in the near-term due to expected increase in borrowings to finance the planned expansion.

Capitalization Siddiqsons Tin Plate has moderately leveraged capital structure (9MFY19: ~44%, FY18: 61%). The leveraging decreased during 9MFY19 as the Company issued right shares to finance the planned Capex. However, the leveraging is expected to increase significantly (~71%) in FY21 as the Company will finance the expansion with debt, increasing the borrowings of the Company by ~PKR 4.3bln.

Tin Plate Packaging
Financials (Summary) in PKR mln
The Pakistan Credit Rating Agency Limited

PKR mln

Siddiqsons Tin Plate Limited
Listed Public Limited

BALANCE SHEET	Mar-19	Jun-18	Jun-17	Jun-16
	9M	12M	12M	12M
a Non-Current Assets	**1,277**	**597**	**678**	**630**
b Investments (Incl. Associates)	**1,030**	**21**	**21**	**1**
Equity Instruments	-	0	1	1
Debt Instruments	1,030	21	21	-
c Current Assets	**2,866**	**1,741**	**1,325**	**1,019**
Inventory	2,020	831	540	495
Trade Receivables	469	524	516	301
Others	377	386	32	223
d Total Assets	**5,172**	**2,359**	**2,024**	**1,650**
e Debt/Borrowings	**2,103**	**1,325**	**938**	**700**
Short-Term	2,103	1,325	888	700
Long-Term (Incl. Current Maturity of Long-Term Debt)	-	-	50	-
Other Short-Term Liabilities	386	182	166	128
Other Long-Term Liabilities	-	-	-	1
f Shareholder's Equity	**2,683**	**852**	**920**	**822**
g Total Liabilities & Equity	**5,172**	**2,359**	**2,024**	**1,650**

INCOME STATEMENT				
a Turnover	**2,369**	**2,646**	**2,538**	**2,119**
b Gross Profit	220	166	310	255
c Net Other Income	38	11	(12)	(4)
d Financial Charges	(115)	(133)	(50)	(76)
e Net Income	**52**	**(68)**	**128**	**59**

CASH FLOW STATEMENT				
a Free Cash Flow from Operations (FCFO)	172	106	195	180
b Total Cashflows (TCF)	172	106	195	180
c Net Cash changes in Working Capital	(907)	(435)	(240)	147
d Net Cash from Operating Activities	(831)	(448)	(92)	243
e Net Cash from InvestingActivities	(1,710)	48	(86)	(4)
f Net Cash from Financing Activities	2,537	387	208	(244)
g Net Cash generated during the period	(3)	(13)	30	(6)

RATIO ANALYSIS				
a Performance				
Turnover Growth	19%	4%	20%	-10%
Gross Margin	9%	6%	12%	12%
Net Margin	2%	-3%	5%	3%
ROE	4%	-8%	15%	7%
b Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+U	1.6	0.8	2.1	2.5
Interest Coverage (X) (FCFO/Gross Interest)	1.6	0.8	4.3	2.5
Debt Payback (Years) (Total Debt (excluding Covered Short T	0.2	0.0	0.3	0.0
c Capital Structure (Total Debt/Total Debt+Equity)				
Net Cash Cycle (Inventory Days + Receivable Days - Payable I	202	163	129	87
d **Capital Structure** (Total Debt/Total Debt+Equity)	44%	61%	50%	46%

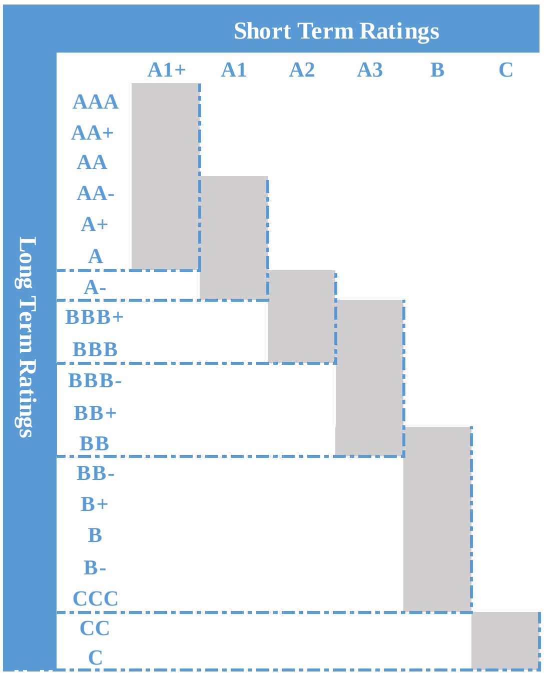
Rating Scale

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