The Pakistan Credit Rating Agency Limited

Rating Report

Siddiqsons Tinplate Limited

Report Contents

Rating History

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

Rating Rationale and Key Rating Drivers

The ratings reflect Siddiqsons Tin Plate Limited's (Siddiqsons Tinplate or 'the Company') 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 ~30% 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 tough competition from commercial importers, signifying business risk. The imposition of Anti-Dumping Duty and higher prices of imported tin plate has improved competitiveness of Siddiqsons Tinplate. The capacity utilization remains low. Margins improved as the Company was able to pass on increased raw material cost to customers. The Company is establishing a Cold Rolled Coil steel manufacturing complex to streamline its raw materials supply through backward integration. This is expected to improve margins and profitability once the project comes online. The Company's financial risk profile is considered adequate characterized by moderate leveraging, good coverages and stretched working capital. The Company conducted a right issue to partly finance the expansion project. The Company will utilize long-term loans to finance the project. However, the project will start production ~12 months prior to principle repayments for related loans. This is expected to create cushion for repayment from ensuing cash flows. The ratings take comfort from the financial strength of the Siddiqsons group and demonstrated support from sponsors.

The ratings are dependent upon holding sustained operations and improving margins. Successful and timely execution of the planned CRC project is key to uphold ratings. The maintenance of coverages during expansion phase will be critical. External factors and continuity of anti-dumping duty is considered crucial for the sustainability 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-19),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria | Rating Modifier(Jun-19)
Related Research	Sector Study | Paper and Packaging(Nov-19)
Rating Analysts	Ateeb Riaz | ateeb.riaz@pacra.com | +92-42-35869504

Profile

Legal Structure Siddiqsons Tin Plate Limited (Siddiqsons Tinplate or 'the Company') was incorporated as a public listed company in 1996. The Company is listed on Pakistan Stock Exchange (PSX). The registered office of the Company is situated in Karachi, with production facilities in Karachi, Sindh, and Windhur, Balochistan.

Background STPL was established with the collaboration of Sollac of France and Mitsubishi Corporation, Japan. The Company started commercial operations in May 1999. The Company 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 follows B2B business model. The total capacity of tin plate plant is 120,000 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% 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 rests with Rafi Family since its inception. However, there is no formal succession plan in place.

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. ArcelorMittal S.A, being the world's largest steel producer in the world, has strong financial muscle. The sponsors have supported the Company in the past through right issue to fund Capex and recently recently for expansion project. It is expected that the sponsors will support the Company, if needed.

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 experience and diversified skill mix.

Board Effectiveness The board met four times in FY19 with most of the directors attending three or more meetings. 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 with adequate participation from non-executive and independent directors.

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 year ended June 30, 2019. The board has also established an internal audit department.

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 and previously served in the government for ~35 years at a senior level. The Company's top management possesses 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 inhouse 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 to cater the growing need for integration of information, going forward.

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 manufacturers, 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 imposition of anti-dumping duty on import of ETP is expected to have a positive impact for local manufacturers.

Relative Position The Company is the only tin plate manufacturer in Pakistan and holds ~30% share of the total market in FY19 (FY18: ~31%). 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 In FY19, the Company's top-line grew by ~29% (FY18: ~4%) and clocked in at PKR 3,409mln (FY18: PKR 2,646mln). Almost all growth in top-line came from higher prices of finished goods, as volumes remained stagnant. The Company continues to operate at a low capacity utilization of ~16%, producing 19,478MT in FY19 (FY18: 18,221MT). The capacity utilization is expected to increase once CRC project comes online. In 1QFY20, the top-line stood at PKR 602mln (1QFY19: PKR 561mln), ~7% higher on YoY basis.

Margins The Company's gross margin improved to 9.8% in FY19 (FY18: 6.3%) as the Company passed on the increased input costs, due to rupee devaluation, to its customers. The operating margin improved to 7.1% (FY18: 3%) due to trickle-down effect of higher gross margins and better operating cost controls. Non-operating income of PKR 65mln (FY18: PKR 12mln) provided a boost to the bottom-line as net margin improved to 2.5% (FY18: -2.6%). The Company posted net income of PKR 87mln in FY19. In 1QFY20, the gross margin declined to 9.3% (1QFY19: 10%) due to higher raw material costs. The operating margin declined to 5.3% (1QFY19: 6.9%) as operating costs increased. The Company suffered a net loss of PKR 18mln due to higher finance costs (1QFY20: PKR 56mln, 1QFY19: PKR 11mln) in 1QFY20.

Sustainability STPL is pursuing backward integration by setting up a Cold Rolled Coil (CRC) steel complex with a capacity of ~200,000MT. The growth in the Company's revenue is dependent upon the success of CRC complex. The plant is expected to start commercial operation in November 2020 as installation is going according to the timeline and within budget.

Financial Risk

Working Capital In FY19, the Company's net working capital days increased slightly to 166 days (FY18: 162 days) due to substantial increase in inventory days (FY19: 110 days, FY18: 94 days). The Company imported raw material from Russia, in larger quantities, rather than China after imposition of anti-dumping duty. Meanwhile, the Company's trade receivable days decreased (FY19: 61 days, FY18: 72 days) as the credit period was reduced from 30 days to 15 days. The Company's short term trade leverage increased to 23% in FY19 (FY18: 6%) showing adequate room to borrow against working capital. In 1QFY20, the net working capital days increased to 276 days (1QFY19: 217 days) due to slow moving inventory signifying risk.

Coverages The Company's free cash flows increased to PKR 338mln in FY19 (FY18: PKR 106mln) due to higher profitability. Meanwhile, finance costs also increased to PKR 177mln (FY18: PKR 133mln) on the back of increasing benchmark rate. As a result, the Company's coverages improved as interest coverage stood at 2.0x (FY18: 0.8x) and debt coverage stood at 2.0x (FY18: 0.8x). In 1QFY20, the interest coverage declined to 0.9x and the debt coverage declined to 0.9x, due to decline in profitability and higher finance costs.

Capitalization Siddiqsons Tinplate has a moderately leveraged capital structure (FY19: ~37%, FY18: 61%). The leveraging decreased during FY19 as the Company issued right shares to finance the planned Capex. However, the leveraging is expected to increase significantly, going forward, once the Company starts drawing from new approved borrowing lines for planned project. The leveraging increased to ~41% in 1QFY20.

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Financial Summary
PKR mln

Siddiqsons Tinplate Limited	Sep-19	Jun-19	Sep-18	Jun-18	Sep-17	Jun-17
Packaging	3M	12M	3M	12M	3M	12M
A BALANCE SHEET						
1 Non-Current Assets	1,912	1,747	754	597	674	678
2 Investments	621	621	1,029	21	22	21
3 Related Party Exposure	-	-	-	-	-	-
4 Current Assets	2,398	2,190	1,930	1,741	1,604	1,325
a Inventories	*1,500*	*1,223*	*884*	*831*	*825*	*527*
b Trade Receivables	*463*	*614*	*474*	*524*	*438*	*516*
5 Total Assets	4,931	4,557	3,713	2,359	2,300	2,024
6 Current Liabilities	391	256	174	182	176	166
a Trade Payables	*99*	*61*	*23*	*22*	*30*	*28*
7 Borrowings	1,620	1,384	893	1,325	1,184	938
8 Related Party Exposure	220	200	-	-	-	-
9 Non-Current Liabilities	-	-	-	-	-	-
10 Net Assets	2,700	2,718	2,647	852	940	920
11 Shareholders' Equity	2,700	2,718	2,647	852	940	920
B INCOME STATEMENT						
1 Sales	602	3,409	561	2,646	537	2,538
a Cost of Good Sold	*(546)*	*(3,074)*	*(505)*	*(2,481)*	*(477)*	*(2,228)*
2 Gross Profit	56	335	56	166	60	310
a Operating Expenses	(24)	(94)	(18)	(87)	(15)	(90)
3 Operating Profit	32	241	38	79	45	220
a Non Operating Income or (Expense)	*15*	*65*	*(5)*	*12*	*(7)*	*(11)*
4 Profit or (Loss) before Interest and Tax	47	306	34	92	38	210
a Total Finance Cost	*(56)*	*(177)*	*(11)*	*(133)*	*(11)*	*(50)*
b Taxation	*(9)*	*(42)*	*(7)*	*(27)*	*(7)*	*(31)*
6 Net Income Or (Loss)	(18)	87	16	(68)	20	128
C CASH FLOW STATEMENT						
a Free Cash Flows from Operations (FCFO)	*50*	*338*	*37*	*106*	*42*	*195*
b Net Cash from Operating Activities before Working Capital Changes	*(6)*	*169*	*12*	*(13)*	*28*	*148*
c Changes in Working Capital	*(56)*	*(221)*	*(1,055)*	*(435)*	*(278)*	*(240)*
1 Net Cash provided by Operating Activities	(62)	(52)	(1,042)	(448)	(249)	(92)
2 Net Cash (Used in) or Available From Investing Activities	(173)	(1,781)	(164)	48	(3)	(86)
3 Net Cash (Used in) or Available From Financing Activities	236	1,837	1,345	387	246	208
4 Net Cash generated or (Used) during the period	2	5	139	(13)	(6)	30
D RATIO ANALYSIS						
1 Performance						
a Sales Growth (for the period)	-29.3%	28.8%	-15.2%	4.3%	-15.4%	--
b Gross Profit Margin	9.3%	9.8%	10.0%	6.3%	11.1%	12.2%
c Net Profit Margin	-2.9%	2.5%	2.8%	-2.6%	3.8%	5.0%
d Cash Conversion Efficiency (EBITDA/Sales)	9.1%	10.5%	7.4%	6.3%	11.3%	10.0%
e Return on Equity (ROE)	-2.6%	4.9%	3.6%	-7.7%	8.7%	13.9%
2 Working Capital Management						
a Gross Working Capital (Average Days)	288	171	221	165	196	98
b Net Working Capital (Average Days)	276	166	217	162	191	94
c Current Ratio (Total Current Assets/Total Current Liabilities)	6.1	8.6	11.1	9.6	9.1	8.0
3 Coverages						
a EBITDA / Finance Cost	1.0	2.1	3.9	1.3	6.1	5.7
b FCFO / Finance Cost+CMLTB+Excess STB	0.9	2.0	3.5	0.8	4.1	2.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-14.7	1.2	0.0	0.0	0.0	0.3
4 Capital Structure (Total Debt/Total Debt+Equity)						
a Total Borrowings / Total Borrowings+Equity	40.5%	36.8%	25.2%	60.9%	55.8%	50.5%
b Interest or Markup Payable (Days)	57.4	71.7	99.4	71.9	83.7	90.1
c Average Borrowing Rate	12.5%	11.7%	3.8%	11.1%	3.8%	4.8%

Credit Rating Scale & Definitions

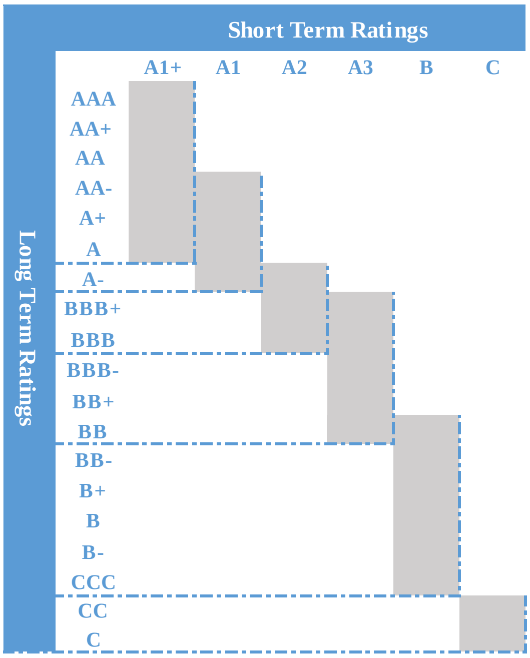
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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