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
24-Dec-2021	A-	A2	Stable	Maintain	-
24-Dec-2020	A-	A2	Stable	Maintain	-
27-Dec-2019	A-	A2	Stable	Maintain	-
28-Jun-2019	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned rating emanates from Siddiqsons Tinplate Limited's ("STPL" or the "Company") status as the sole manufacturer of tinplate in Pakistan and the Company's moderately leveraged capital. The Company mainly derives its revenues from the sale of Electrolytic Tinplate (ETP). The sales of the Company are highly correlated with the edible oils sector in the local industry. The sales increased by 64% during FY21 and clocked in at PKR ~5.8bln (FY20: PKR ~3.5bln). The increase in sales is primarily attributable to high volumes sold as the Company's competitive position improved compared to the commercial importers due to the rising international steel prices. The raw material inventory maintained by the Company shielded the Company from the effect of rising steel prices. The exports sales kept up the momentum and registered a growth of 116%. The withdrawal of export rebate on steel products by China has resulted as tailwinds for the export sales of the Company. Resultantly, the gross margin of the Company improved significantly to 13.7% during FY21 (FY20: 5.1%). The Company revised its credit policy, which have resulted in better working capital management. The capacity utilization of the Company stood at ~25% (FY20: 20%) which is expected to improve after the establishment of the Cold Rolled Coil (CRC) steel manufacturing complex. This backward integration is expected to streamline the raw materials supply. The Company is currently involved in arbitration with Plant and Machinery (P&M) supplier for the CRC project and is expecting a favorable outcome in the ongoing arbitration. However, an unfavorable outcome can result in an outflow of up to ~PKR 1bln. The Company is currently finalizing the alternate supplier and the project is expected to resume in 1QCY22. The Company is exposed to a modest level of financial risk as its financial risk profile is characterized by moderate capital structure and improved coverages. The Company plans to obtain PKR ~6.9bln debt for the development of the CRC complex. Arcelor Packaging, one of the shareholders of the Company, sold its stake (9.3%) in the Company to the sponsor family in Dec'21. Going forward, the Company aims to improve capacity utilization through a steady supply of raw material from the CRC complex and establish itself as a regional player.

The ratings are dependent upon translation of capital investments into growing profits, holding sustained operations, penetrating new markets and improving margins. The maintenance of coverages during expansion phase will be critical. External factors and continuity of anti-dumping duty on ETP 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 Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Paper and Packaging(Nov-21)
Rating Analysts	Muhammad Junaid | muhammad.junaid@pacra.com | +92-42-35869504

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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 The Company 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 Siddiqsons Tinplate is engaged in the manufacturing and sale of Electrolytic Tin Plates (ETP), cans, and other steel products. The Company follows the B2B business model. The Installed capacity of the tin plate plant is 120,000 MT per annum, while that of the 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 ~41% shares in the Company directly through individuals, whereas ~15% shares are held indirectly through Siddiqsons Limited, which is 100% owned by Rafi Family. 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 business knowledge as they are operating in the industry since 1996 and are the first and only manufacturer of tin plate in Pakistan.

Financial Strength The Rafi family has strong financial strength as reflected by a diverse portfolio of businesses. The sponsors have supported the Company in the past through the right issue to fund Capex and recently for the 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 five times during FY21 with most of the directors attending four 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 the members.

Financial Transparency 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 Jun 30, 2021. 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 Tinplate in May 2018 and previously served in the government for ~35 years at a senior level.

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 a requirement basis.

MIS The Company has implemented Sidat Hyder Financials suite to manage the financial information needs of management. Further, the Company has implemented in-house developed software to manage stock and stores. The management is also running a separate payroll software to process payroll data.

Control Environment The management has a strong control environment. There exists an established internal audit function that includes three members comprising the Head of Internal Audit. The head of Internal audit reports directly to the audit committee.

Business Risk

Industry Dynamics The industry can be divided into two segments, namely, i) Local manufacturers, and ii) Commercial Importers of ETP. Siddiqsons Tinplate is the only tin plate manufacturer in Pakistan, while there are several commercial importers of ETP. The increased awareness of sustainability and growth in the food industry are major demand drivers. The majority of the raw material is imported therefore exchange rate significantly impacts the cost of COGS.

Relative Position Siddiqsons Tinplate is the only tin plate manufacturer in Pakistan and holds ~40% share of the total market. The other competitors are various small commercial importers of tin plate.

Revenues The Company's top line has shown a considerable growth of ~64% during FY21 and clocked in at ~PKR 5,848mln in FY21 (FY20: 3,556mln). The increase in the top line is mainly attributable to an increase in the volumes of finished goods sold due to the improved competitive position of the Company. The sale volume of tin plates increased to 29,737MT during FY21 (FY19: 24,061MT), showing a ~44% increase in volume with capacity utilization standing at 25%. Tinplate contributes 95% of the total revenue. Export sales grew by an impressive 162% to clock in at PKR ~1,408mln (FY20: PKR ~651mln). The export sales are majorly concentrated in the Middle East region.

Margins The gross margins of the company have improved significantly to 13.7% during FY21 (FY20: 5.1%). The main reason for the increase is the improved competitive position of the Company. The Company had maintained an inventory of raw material and it was shielded from the impact of rising international steel prices. The Company managed to increase both volume and prices while the COGS was low due to the inventory maintained. Thus, these factors resulted in impressive growth in gross margin. The net margin clocked in at ~ 5.5% in FY21 (FY20: ~-0.7%). The net profit margin recovered due to improved gross margin and control over expenses. The net profit stood at PKR ~322mln in FY21 (FY20: Net loss ~PKR 23mln).

Sustainability Siddiqsons Tinplate is pursuing backward integration by setting up a Cold Rolled Coil (CRC) steel complex with a capacity of ~200,000MT. The plant was expected to start operations in Dec'20. But the supplier failed to fulfill the commitment within the stipulated timeline. Consequently, the Company had to call for the encashment of bank guarantees. Subsequently, the supplier filed a case for the damages and loss amounting to PKR~1,008mln. On the other side, Siddiqsons Tin plate also counterclaimed PKR~2,117mln against failure to deliver the consignment. The Company has already invested PKR~2,000mln on infrastructure and design of the CRC unit. The Company is currently finalizing the alternate supplier. The contract will be awarded within 1QCY22. The Company has already completed some work on civil construction. The project is expected to restart in Jan'22 and it is expected to be completed in om 18-20 months.

Financial Risk

Working Capital The cash cycle has improved in FY21 and stood at 89 days compared to 188 days in FY20. The improvement came on due to the change in the credit policy of the Company. The Company was able to convert ~70% of its sales from the credit basis to cash basis during the period under review. However, Company may need to extend the credit period in the future to maintain the market share.

Coverages During FY21, the company's Free Cash Flows from Operations (FCFO) reached ~PKR 426mln (FY20: ~PKR 133mln). This increase is mainly due to the significant increase in net profit during the period. The interest coverage ratio stood at 3.9x during FY21 (FY20: 1.9x). The increase in interest coverage ratio is caused by the increase in FCFO.

Capitalization The capital structure of the company is moderately leveraged. However, the leveraging of the Company will increase significantly as the Company plans to finance the expansion with 60% debt, which will increase the borrowings of the Company by ~PKR 6.9bln.

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Financial Summary

PKR mln

Siddiqsons Tin Plate Limited Paper & Packaging	Sep-21 3M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	2,996	2,898	2,432	1,747
2 Investments	169	169	166	621
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,898	2,048	2,635	2,190
a Inventories	*594*	*610*	*1,535*	*1,223*
b Trade Receivables	*412*	*522*	*472*	*614*
5 Total Assets	5,064	5,115	5,232	4,557
6 Current Liabilities	384	406	442	256
a Trade Payables	*334*	*155*	*118*	*61*
7 Borrowings	1,509	1,609	1,735	1,384
8 Related Party Exposure	-	82	360	200
9 Non-Current Liabilities	0	1	1	-
10 Net Assets	3,171	3,017	2,695	2,717
11 Shareholders' Equity	3,171	3,017	2,695	2,718
B INCOME STATEMENT				
1 Sales	1,225	5,848	3,556	3,409
a Cost of Good Sold	*(985)*	*(5,044)*	*(3,375)*	*(3,074)*
2 Gross Profit	240	803	181	335
a Operating Expenses	(27)	(240)	(123)	(94)
3 Operating Profit	213	564	58	241
a Non Operating Income or (Expense)	*(6)*	*(37)*	*59*	*65*
4 Profit or (Loss) before Interest and Tax	208	527	116	306
a Total Finance Cost	*(26)*	*(125)*	*(89)*	*(177)*
b Taxation	*(28)*	*(80)*	*(50)*	*(42)*
6 Net Income Or (Loss)	154	322	(23)	87
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*186*	*426*	*133*	*338*
b Net Cash from Operating Activities before Working Capital Changes	*157*	*305*	*30*	*169*
c Changes in Working Capital	*86*	*500*	*11*	*(221)*
1 Net Cash provided by Operating Activities	243	804	41	(52)
2 Net Cash (Used in) or Available From Investing Activities	(105)	(497)	(261)	(1,781)
3 Net Cash (Used in) or Available From Financing Activities	73	(861)	670	1,837
4 Net Cash generated or (Used) during the period	211	(553)	450	5
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-16.2%	64.4%	4.3%	28.8%
b Gross Profit Margin	19.6%	13.7%	5.1%	9.8%
c Net Profit Margin	12.6%	5.5%	-0.7%	2.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	22.3%	15.8%	4.0%	3.4%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)*	19.3%	10.6%	-0.9%	4.2%
2 Working Capital Management				
a Gross Working Capital (Average Days)	80	98	197	171
b Net Working Capital (Average Days)	61	89	188	166
c Current Ratio (Current Assets / Current Liabilities)	4.9	5.0	6.0	8.6
3 Coverages				
a EBITDA / Finance Cost	8.6	5.2	2.2	2.1
b FCFO / Finance Cost+CMLTB+Excess STB	4.5	2.5	1.6	2.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.4	0.9	6.3	1.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	32.2%	35.9%	43.7%	36.8%
b Interest or Markup Payable (Days)	84.3	91.4	104.1	71.7
c Entity Average Borrowing Rate	5.4%	5.3%	3.7%	11.1%

Credit Rating

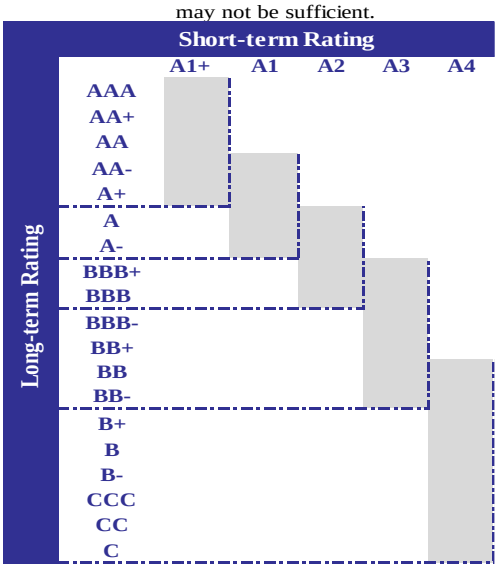
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA 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 Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
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 surveill the opinion due to lack of requisite information.

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

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

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

Entities

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

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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(Credit Rating Companies Regulations,2016)

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2) **Conflict of Interest**
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ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
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(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)

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(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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(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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