The Pakistan Credit Rating Agency Limited

Rating Report

Tariq Glass Industries Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Dec-2023	A+	A1	Stable	Maintain	-
23-Dec-2022	A+	A1	Stable	Maintain	-
24-Dec-2021	A+	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Tariq Glass Industries Limited's (the “Company” or “TGL”) ratings reflect a well-reputed oligopolistic business profile and strong presence in the glass industry. TGL has built a formidable foothold in the glass industry, being a premier manufacturer of tableware, float glass, container ware, and opal glass in the country. TGL’s facilities are capable of manufacturing clear, colored, tinted, reflective, and sandblasted float glass through an online CVD coating mechanism, and mirrors through the latest spectrum technology. The company intends to sustain growth by broadening its export base and investing in the induction of state-of-the-art manufacturing technology to achieve cost efficiency and meet global quality standards. In float glass, the competition is a duopoly and as per TGL’s management, they claim to have ~50% market share under the brand name of “Tariq Float Glass” which has now been rebranded as "ToyoNasic Float Glass". The Pakistan glass industry is directly linked with economic activity in the construction sector. During recent years, an economic slowdown, hyperinflation, and reduced purchasing power of consumers have hindered the demand for construction materials including glass. In tableware and opal glass TGL has a legacy of over 4 decades and owns famous brands like Toyo Nasic, Omroc, Nova, Rockware, Gemware and Spinrex. The tableware market is emerging more competitive however, the Company has maintained an impressive market share of ~70% by providing value-added products, tailored to the requirements of household and commercial sectors. In container-ware, TGL supplies to the beverage industry along with other industrial consumers. The key pillars of business strategy include (a) quality and reliability of products and (b) economies of scale. During FY23, the company’s topline has shown a slight dip mainly owing to a decline in sales volumes attributable to reduced demand in the market and low capacity utilization of ~50% owing to the closure of one plant each of float glass and tableware on account of repair and maintenance. However, the process has been completed and the plant is ready to commence production now. TGL’s profitability margins have also diluted owing to increased energy costs and elevated interest rates. Recently, TGL has entered into a JV (a green field and export-oriented project) with ICI Pakistan to explore the global export market of glass and link their future revenue streams in USD. Going forward, the company’s revenue stream will benefit from the diversification resulting from the acquisition of a ~42% stake in Balochistan Glass Ltd through a recent share purchase agreement, which will pave the way in strengthening the container-ware segment by addition of pharmaceutical bottles/containers in the product portfolio. TGL is taking cognizance of the corporate governance structure with independent oversight and formulated board committees. The Company is led by an experienced management team and the operations of the Company benefit from a sound system of internal controls implemented across the organization. The financial profile is demonstrated by healthy coverages, an adequate working capital cycle and comfortable cashflows. The capital structure is moderately leveraged mainly comprising long-term borrowings on concessionary rates (LTFF) to support capacity expansion and BMR.

The ratings are dependent on sustainable profits and market share while retaining sufficient cash flows and coverages. However, adherence to maintaining its debt metrics at an adequate level is a prerequisite.

Disclosure

Name of Rated Entity	Tariq Glass Industries Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Glass(Dec-22)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@pacra.com | +92-42-35869504

Profile

Legal Structure Tariq Glass Industries Limited (hereinafter referred to as ‘‘the Company’’ or ‘‘TGL’’) is a public listed company incorporated under the Companies Act 1913 (now “Companies Act, 2017”)

Background M/s Nasir Sadiq Corporation (Pakistan) Limited was incorporated in 1978 as a private limited company and went public in 1980 however listed on the exchange in 1984. The company changed its name to Tariq Glass Industries Limited in 1996. With an operating history of over four decades, the company is among the top players in the glassware industry in Pakistan.

Operations The Company is engaged in the manufacturing and sale of tableware, float glass, container-ware, and opal glass with an accumulated glass pulled production capacity of 242,163 MTons per annum as of June 23 (375,229 MTA, FY22). The production capacity declined on account of the closure of two plants during FY23 for maintenance. TGL’s production facilities are comprised of the largest state-of-the-art manufacturing facilities in Pakistan which are located at 33KM Lahore Sheikhupura Road, Sheikhupura, Punjab.

Ownership

Ownership Structure Mr. Omer Baig is the sponsor director of the Company who beneficially owns ~40.3% shareholding. He owns ~28.5% of shares directly in his name while ~11.8% of shares are held through two associates M/s Omer Glass Industries Limited & M/s M&M Glass (Private) Limited. while his two sons Mr. Muhammad Baig and Mr. Mustafa Baig own 10% each.

Stability Over the years, there has been no major change in the shareholding structure of the company. Shareholding is expected to remain with the sponsoring family.

Business Acumen Since the inception of TGL, Mr. Omer Baig, current MD/CEO and son of the Late Mr. Tariq Baig (the Founder), has been involved in the operations of the company and has a strong profile relating to the glass industry. He is a seasoned professional with over three decades of professional experience. Under his leadership, the Company achieved many milestones and became one of the top players in the industry.

Financial Strength As mentioned earlier, Mr. Omer Baig is the man at the last mile and maintains a dominant position in the industry. Tariq Glass Industries Limited is the main business of the family. However, they don’t have any strategic stake in other companies.

Governance

Board Structure The overall control of the Company vests with seven members of the board of directors. Two are executive directors, including the Managing Director/CEO, while three are non-executive directors and the remaining two are independent directors.

Members’ Profile Four of the board members carry extensive experience in the Glass industry, while Mr. Mansoor Irfani is the chairman of the board. Other board members are also thorough professionals and carry rich experiences in managing business affairs in different sectors. Tariq Glass frequently arranges different training courses for its executive directors.

Board Effectiveness The board has made two committees namely (i) Audit and (ii) HR Committee, which are chaired by independent directors. During the year, various board meetings were held. Attendance of board members in these meetings remained strong and the meeting minutes were documented adequately.

Financial Transparency The Company has its own internal audit function which reports directly to Audit Committee. Internal audit reports are frequently generated. The external auditors of the company are M/s Crowe Hussain Chaudhry & Co. Chartered Accountants, and they have issued an unqualified audit opinion on annual financial statements for FY23

Management

Organizational Structure TGL has a lean organizational structure with an experienced management team; and a balanced mix of professionals from the FMCG industry. The majority of the senior management is associated with the company for a long time. The organizational structure of the Company is divided into six functional departments, namely: (i) Internal Audit, (ii) Human Resources/ Administration, (iii) Sales, (iv) Operations, (v) Finance & Accounts, and (vi) Information Technology.

Management Team The roles of Chairman and Managing Director/CEO have been segregated. Mr. Omer Baig, son of the founder Mr. Tariq Baig (Late) has taken up as Managing Director/CEO. He is assisted by a team of professionals. Mr. Waqar Ullah the CFO of the company is a qualified Chartered Accountant.

Effectiveness Currently, the Company has formal board-level committees and management committees that provide direction and implementation guidelines to achieve the strategic organizational goals.

MIS TGL is currently equipped with the latest SAP solution package i.e. SAP S/4 HANA in order to fulfill its IT requirements. The software is completely integrated and provides real-time data as per the requirements of the management further strengthening effective decision making.

Control Environment The corporate structure of the Company is diverged into various departments each having an effective Internal Control System to ensure achievement of overall strategic goals and reliable reporting. The departments are layered into various cadres of management to define clear lines of responsibilities and authorization, accompanied by a robust technological infrastructure for all its manufacturing and support functions. Different portals are being established to be used for customized management needs.

Business Risk

Industry Dynamics The Pakistan glass industry is directly linked with economic activity in the construction sector. The glass sector is mainly dominated by float glass followed by tableware & containers. Revival of the construction industry is critical for the future growth of the industry. Glass manufacturing is an energy-intensive process, thus the sector was affected by the massive hike in energy rates during the year. Profits of the sector were further suppressed by the elevated interest rates.

Relative Position TGL has evolved to become one of the largest and leading suppliers and manufacturers of tableware, float glass, containerware, and opal glass in Pakistan. In the tableware category, management asserts to have 70% of the local market share.

Revenues TGL derives its revenues predominantly from local sales (~92%) and ~ 8% from exports. During FY23, the company's top line has shown a decline of -3.4% YoY. The minute decline in topline is mainly on the back of economic recession at the national and global level, which is also evident by the Company's decline in exports. The dip in the overall purchasing power of the Country & political instability culminated in a slowdown in construction activity. Further, two plants of the company remained closed on account of maintenance which reduced the production during FY23.

Margins The margins of the Company have shown a dip from the last corresponding period mainly on the back of a massive hike in energy cost, PKR devaluation and a surge in interest burden. The Company has G.P margin of 20.2% as of FY23(FY22: 26.3%). The net margin of the Company as of FY23 is 8.9% (FY22: 14.1%).

Sustainability TGL entered into J.V (a green field project) with ICI Pakistan and incorporated a new entity Lucky TG (Pvt) Ltd to produce 1,000 TPD of float glass. This will further diversify their revenue streams and supplement the exploration of the untapped export markets. The project will be completed in two phases of 500TPD each. The timeline for completion of the project is ~ 2 years. The management is vigilant and actively evaluates the future earnings prospects based on budgets and financial projections.

Financial Risk

Working Capital The decline in demand due to the economic slowdown resulted in a pile-up of inventory which resulted in the increase in the company's gross working capital days to 80 days in FY23 (FY22 59 days). Net working capital days also increased to 64 days in FY23 (FY22: 43 days) translating into a slightly stretched cash cycle. This is a mid-term impact and is expected to be nullified soon.

Coverages The Company generated FCFO of PKR 4,022mln during FY23 (FY22: PKR 6,499mln) that declined mainly on the back of lower profitability due to increased costs which also caused a considerable dip in FCFO/Finance cost ratio to 8.5x (FY22: 22.4x). Going forward, sustenance of cash flows from operations is necessary to keep the coverages intact.

Capitalization The Company has a low leveraged capital structure as of FY23 as indicated by the debt to the capital ratio of 19.6% (FY-22: 29.8%). The TGL's short-term borrowings stood at PKR 922mln during FY23 (FY22: PKR1,918mln) while the long-term borrowings stood at PKR 1,907mln as of June 23.

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Financial Summary
PKR mln

Tariq Glass Industries Limited Glass	Sep-23 3M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	14,292	13,910	14,203	12,999
2 Investments	-	-	100	-
3 Related Party Exposure	270	270	-	-
4 Current Assets	9,049	8,620	8,697	5,778
a Inventories	*5,078*	*4,608*	*4,221*	*2,473*
b Trade Receivables	*1,816*	*1,958*	*1,722*	*1,158*
5 Total Assets	23,610	22,800	23,000	18,777
6 Current Liabilities	3,031	2,794	3,477	2,517
a Trade Payables	*1,642*	*1,138*	*1,437*	*1,127*
7 Borrowings	3,729	3,743	5,568	4,926
8 Related Party Exposure	-	-	-	11
9 Non-Current Liabilities	895	931	866	723
10 Net Assets	15,956	15,332	13,088	10,600
11 Shareholders' Equity	15,956	15,332	13,088	10,600
B INCOME STATEMENT				
1 Sales	6,919	28,427	29,416	19,103
a Cost of Good Sold	*(5,386)*	*(22,693)*	*(21,667)*	*(14,988)*
2 Gross Profit	1,533	5,734	7,749	4,115
a Operating Expenses	(257)	(901)	(773)	(615)
3 Operating Profit	1,276	4,833	6,975	3,500
a Non Operating Income or (Expense)	*(77)*	*(206)*	*(361)*	*(228)*
4 Profit or (Loss) before Interest and Tax	1,199	4,626	6,614	3,272
a Total Finance Cost	*(89)*	*(508)*	*(346)*	*(313)*
b Taxation	*(351)*	*(1,599)*	*(2,127)*	*(849)*
6 Net Income Or (Loss)	759	2,519	4,141	2,109
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*789*	*4,022*	*6,499*	*3,536*
b Net Cash from Operating Activities before Working Capital Changes	*673*	*3,524*	*6,212*	*3,105*
c Changes in Working Capital	*176*	*(701)*	*(2,653)*	*1,273*
1 Net Cash provided by Operating Activities	850	2,824	3,559	4,378
2 Net Cash (Used in) or Available From Investing Activities	(670)	(1,086)	(2,515)	(889)
3 Net Cash (Used in) or Available From Financing Activities	(149)	(2,100)	(1,049)	(2,902)
4 Net Cash generated or (Used) during the period	31	(363)	(5)	587
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-2.6%	-3.4%	54.0%	0.0%
b Gross Profit Margin	22.2%	20.2%	26.3%	21.5%
c Net Profit Margin	11.0%	8.9%	14.1%	11.0%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	13.9%	11.7%	13.1%	25.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	19.4%	17.7%	35.0%	19.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	89	80	59	69
b Net Working Capital (Average Days)	70	64	43	48
c Current Ratio (Current Assets / Current Liabilities)	3.0	3.1	2.5	2.3
3 Coverages				
a EBITDA / Finance Cost	19.0	13.0	28.6	14.0
b FCFO / Finance Cost+CMLTB+Excess STB	2.5	2.9	5.8	5.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.9	0.8	0.6	1.3
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	18.9%	19.6%	29.8%	31.8%
b Interest or Markup Payable (Days)	63.8	64.9	105.3	73.0
c Entity Average Borrowing Rate	6.7%	8.9%	5.2%	4.9%

Credit Rating

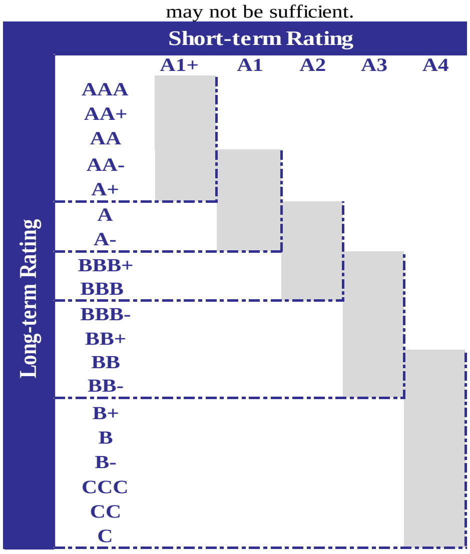
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

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 | Clause 11-(A)(p).
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
Proprietary Information