



The Pakistan Credit Rating Agency Limited

Rating Report

Reliance Petrochem Industries (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Mar-2019	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect adequate business profile of Reliance Petrochem (Pvt.) Limited. The Company is engaged in manufacturing and sale of different varieties of Polypropylene Bags and White-Oils. Recent increase in demand of consumer goods, urbanization and cost effectiveness has boded well with the industry. The industry is considered volatile when it comes to the procurement of raw materials (polymers and base-oils), as they are directly linked with the international prices of crude oil. Thus, the Company's top-line and margins have depicted fluctuations over the recent years. However, Reliance Petrochem is focused on increasing the productivity and efficiency of its operations. The business is expected to grow further as the Company is in the phase of signing high-valued and long-term trading contracts with the foreign traders. Financial profile of the Company is adequate. Coverages have improved recently on the back of better cashflows. Meanwhile, induction of new directors with diversified professional experience is likely to improve the quality of the Board.

The ratings are dependent on sustaining sales revenue and margins, while managing financial risk at low level. Governance framework also needs improvement as it is dominated by the Sponsoring family. At the same time, prudent management of inventories is considered important. Significant decline in margins or profitability impacting cashflows and coverages will have negative impact on ratings.

Disclosure

Name of Rated Entity	Reliance Petrochem Industries (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-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	Muhammad Hassan muhammad.hassan@pacra.com +92-42-35869504

Profile

Legal Structure Reliance Petrochem Industries (Reliance Petrochem) was incorporated in 2013 as a private limited company under the repealed Companies Ordinance 1984.

Background The Sponsoring family is involved in trading business even before the partition of India and Pakistan. Trading businesses of petrochemicals was started by Mr. Jai Kumar son of Mr. Bool Chand in 1994. As the business grew, sponsors also got involved in the manufacturing of polypropylene bags.

Operations Reliance Petrochem is engaged in the manufacturing of polypropylene products. The Company has 48 looms through which different types and sizes of plastic bags are produced. The bags are sold to export oriented companies for packaging of wheat, rice, cement and tea. Reliance Petrochem is also involved in the manufacturing of white oils for which base oils (Group I, Group II and Group III) are imported and then mixed with other chemicals. White-oils are sold to the Companies who manufacture cosmetics, food preservatives, pharmaceutical products, laxatives, ointments, car lubricants and textile.

Ownership

Ownership Structure At end June-18, majority of the ownership stake (85%) lies with Mr. Jawahar Lal who is the CEO of the Company. Whereas, the rest of 15% ownership is held by Mr. Anil Parkash who is the Director of Reliance Petrochem.

Stability Although there is no formal succession plan, the business roles are equally divided among the three brothers. Formation of a group holding company or documented succession plan would do well for the stability of the Company.

Business Acumen Business acumen of the sponsors is considered strong, as they are involved in the trading business since long. All the three sponsors have more than two decades of working experience and are associated with the Company since its inception. Mr. Jai Kumar is the elder brother who holds the authority of taking the strategic decisions. His ability to take strong strategic decisions, flexibility and to seize opportunities on the right time has kept the entity on the right track.

Financial Strength On group level, total turnover stands at ~PKR 15bln with assets of PKR ~6bln. Other companies that fall under the group are Star Corporation, Reliance Importer and Exporter, Karachi Corporation and Blue Moon Industries (PVT.) Limited. These companies also belong to the same family and are involved in manufacturing and trading of different products like tea, milk, oils, lubricants and bitumen.

Governance

Board Structure The board of Reliance Petrochem comprises three brothers. Mr. Jawahar Lal is the CEO and heads the board as Chairman. Mr. Anil Parkash (Director) and Mr. Jai Kumar (Managing Director) are the other two board members.

Members' Profile Mr. Jawahar Lal (CEO) has overall working experience of ~20 years and is associated with Reliance Petrochem's board since its inception. Mr. Jai Kumar is a law graduate and carries an overall work experience of ~26 years. He is also associated with the board for last six years. Mr. Anil Parkash has strong work experience like other board members and is associated with the board since the start.

Board Effectiveness The effectiveness of the board is being compromised due to relatively small size of the board and domination of sponsoring family. Secondly, board meetings are done on "as and when needed" basis. There is no set pattern or record of minutes of meetings held or agenda based meetings.

Financial Transparency Mushtaq & Co. are the external auditors of the company. The auditor is QCR rated and listed in Category "B" of the State Bank's panel of auditors. They have expressed an unqualified opinion on the financial statements of the company for the year ended June 30th, 2018.

Management

Organizational Structure The structure is divided into various departments reporting to the Directors, Mr. Jawahar Lal, Mr. Anil Parkash and Mr. Jai Kumar. Departmentalization is based on head of each department (Trade, Factory, Oil Division, Legal and Compliance and Finance) reporting directly to the Board of Directors.

Management Team The Company's CEO – Mr. Jawahar Lal – has overall 20 years of experience in the chemical sector. He is actively involved in day-to-day decision making. The management constitutes educated individuals. Mr. Waseem Raja – CFO – is a qualified Chartered Accountant. Similarly other top-management personnel hold MBA degrees.

Effectiveness There are no formal management committees. All the Department Heads report to the CEO daily to discuss day-to-day developments and issues. The Company maintains adequate IT infrastructure and related controls. Department-wise performance sheets are also compiled on a daily basis.

MIS Reliance Petrochem uses oracle based ERP system by the name of Efro Tech. Regular reporting of sales figures, raw materials positions, payables & receivables and income statement on monthly basis is shared with the top management and Board of Directors.

Control Environment Reliance Petrochem maintains an effective control environment with defined policies and procedures. The Company's internal audit function performs regular reviews on the financial, operational and compliance controls and reports directly to the Directors.

Business Risk

Industry Dynamics The plastic and packaging industry in Pakistan is growing with a fast pace. The rapid urbanization, lifestyle, increase in consumer goods, cost effectiveness and cost of production are all the factors that have brought development in these sectors. The industry is thriving at an average annual growth rate of 15% with a total estimated production capacity of 624,000 MT/annum. Its contribution to the GDP is almost 1.7%. The increased demand for car lubricants, cosmetics, textile and pharmaceutical products in the international and local market have positively affected the petrochemicals industry of Pakistan. On the other hand, trade sanctions on Iran has disabled it to produce certain types of chemicals, which has resulted as an opportunity for Pakistani traders. Geographic position of Pakistan has also given an edge to the traders as they incur lesser shipment cost as compared to India and other neighboring countries, when it comes to trade with Iran and Afghanistan.

Relative Position Relative position of this Company – Reliance Petrochem – is considered strong as there are only two companies in Pakistan who are manufacturing Jumbo FIBC (Flexible Industrial Bulk Containers). These bags can carry loads of 500 KGs up to 2500 KGS. The Company stays up to date with the new technology related to polypropylene products and white-oils.

Revenues In FY18, sales revenue of the Company clocked in at PKR ~3bln (FY17: PKR 4.8bln). The sales decreased by ~36%, as the Company had more than usual orders in FY17. Sales revenue for 1HFY19 stands at PKR 1,985mln. Overall the sales trend of the Company has remained volatile, as the Company's business is directly linked with the crude-oil market.

Margins In FY18 the gross margin of the Company improved to ~10% (FY17: 3.2%), operating margins increased to 7.5% (FY17: 1.6%) as the share of White-Oils in the total revenue increased to 47% (FY17: 22%). Despite 76% increase in finance cost the net profit margins increased to ~4% (FY17: 0.5%). As a result net income of the Company clocked in at PKR 120mln (FY17: 22mln). In 1HFY19 the margins of the Company further improved. The gross margins increased to ~12% (FY18: 10%). Consequently, net income in 1HFY19 was recorded at ~80mln.

Sustainability Reliance Petrochem is focused to increase the productivity and efficiency of its operations. The business is expected to grow further as the Company is in the phase of signing high-valued and long-term contracts with the foreign traders.

Financial Risk

Working Capital Net cash cycle increased (FY18: 230 days, FY17: 92 days) on the back of higher average finished goods held days, as they increased to 121 days (FY17: 56 days). Higher inventory levels are kept to fulfill the trade contracts but also expose the Company to price risk. In 1HFY19 net working capital days of Reliance Petrochem decreased to 181 days as the average finished goods held days reduced to 94.

Coverages Reliance Petrochem's FCFO increased by ~75% on the back of better margins and increased profits. Whereas, the finance cost in FY18 increased to PKR 104mln (FY17: PKR 59mln). As a result the interest and debt coverages of the Company remained under pressure and stood at 1x. In 1HFY19 coverages improved to 3.4x on the back of increased free cash flows (FCFO). FCFO of the Company in 1HFY19 clocked in at PKR 217mln.

Capitalization Leveraging of the Company in FY18 stands at ~64% (FY17: 67%), with majority portion comprising STBs (99%). The Company currently has no plans to add more debt on its profile. Leveraging of the Company was reduced to 59% in 1HFY19 as the Company was able to retire some portion of its short-term borrowings.



Reliance Petrochem Industries (PVT.) Ltd

Private Limited

BALANCE SHEET

	Dec-18	Jun-18	Jun-17	Jun-16
	6M	12M	12M	12M
a Non-Current Assets	240	249	269	189
b Investments (Incl. Associates)	-	-	-	-
Equity Instruments	-	-	-	-
Debt Instruments	-	-	-	-
c Current Assets	2,297	2,465	2,068	882
Inventory	1,806	1,950	1,743	625
Trade Receivables	101	94	67	34
Others	389	422	258	223
d Total Assets	2,537	2,714	2,337	1,072
e Debt/Borrowings	992	1,076	1,006	305
Short-Term	992	1,074	1,001	305
Long-Term (Incl. Current Maturity of Long-Term Debt)	-	2	5	-
Other Short-Term Liabilities	854	1,027	839	297
Other Long-Term Liabilities	-	-	-	-
f Shareholder's Equity	691	612	492	470
g Total Liabilities & Equity	2,537	2,714	2,337	1,072

INCOME STATEMENT

a Turnover	1,985	3,052	4,791	1,723
b Gross Profit	234	315	152	65
c Net Other Income	(3)	(1)	2	2
d Financial Charges	(65)	(104)	(59)	(13)
e Net Income	79	120	22	18

CASH FLOW STATEMENT

a Free Cash Flow from Operations (FCFO)	217	100	57	(9)
b Total Cashflows (TCF)	217	100	57	(9)
c Net Cash changes in Working Capital	(60)	(54)	(639)	157
d Net Cash from Operating Activities	92	(57)	(641)	135
e Net Cash from Investing Activities	(4)	(9)	(111)	(31)
f Net Cash from Financing Activities	(84)	70	701	(53)
g Net Cash generated during the period	4	4	(51)	51

RATIO ANALYSIS

a Performance				
Turnover Growth	30%	-36%	178%	#DIV/0!
Gross Margin	12%	10%	3%	4%
Net Margin	4%	4%	0%	1%
ROE	24%	22%	5%	4%
b Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+U:	3.4	1.0	1.0	-0.8
Interest Coverage (X) (FCFO/Gross Interest)	3.4	1.0	1.0	-0.8
Debt Payback (Years) (Total Debt (excluding Covered Short T	0.0	-1.2	623.0	0.0
c Capital Structure (Total Debt/Total Debt+Equity)				
Net Cash Cycle (Inventory Days + Receivable Days - Payable D	181	230	92	25
d Capital Structure (Total Debt/Total Debt+Equity)	59%	64%	67%	39%

Reliance Petrochem Industries (PVT.) Ltd

Mar-19

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		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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 surveil the opinion due to lack of requisite information.

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

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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

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Conduct of Business

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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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- (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)
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- (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)
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- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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