The Pakistan Credit Rating Agency Limited

Rating Report

Reliance Petrochem Industries (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-Mar-2022	BBB+	A2	Stable	Maintain	-
16-Mar-2021	BBB+	A2	Stable	Upgrade	-
28-Aug-2020	BBB	A2	Stable	Maintain	-
30-Aug-2019	BBB	A2	Stable	Maintain	-
01-Mar-2019	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Reliance Petrochem Industries (Pvt.) Limited (hereafter referred to as 'the Company' or RPI) is a leading manufacturer & trading corporation principally involved in the business of petrochemicals, polymers and chemicals/solvents. The ratings incorporate adequate profile of Reliance Group and its long-term association with international and national clientele. Reliance is the only white oil producer in Pakistan having wide range of applications in lubrication, textile, cosmetic, perfume, plastic, paper, shoe polish, and paint industries. During FY2021, export revenues of RPI significantly dropped owing to structural reforms in Afghanistan. As a part of strategic business plan, RPI is now expanding its customer range by opening new international offices to channel smooth supply in different abroad countries. Risk profile of the sector is underpinned by possible changes in the economy. An increase in demand of consumer goods, urbanization and cost effectiveness bodes well for the industry. Further, the industry is considered volatile when it comes to the procurement of raw materials (polymers, base-oils and white spirit), as they are directly linked with the international prices of crude oil. Thus, the Company's top-line and margins have depicted fluctuations over recent years. As at end Dec-21, export sales of RPI from polymers and petrochemicals declined however the same was offset through local sales of chemicals/solvents. Resultantly, overall margins of the Company dropped as export sales had to offer better margins. In present times, RPI is focusing on increasing the productivity and efficiency of its operations as the Company signed high-valued long-term contracts with the renowned foreign oil trading companies. Going forward, the Company intends to regain its exports sales which will enhance margins and profitability in future. Financial risk profile of the Company is considered adequate with moderately leveraged capital structure. Free cash flow from operations were reduced, however coverages slightly improved on the back of diminished interest cost. An independent insight on the corporate governance can bring new balance which will improve the Company's operations, financial performance and overall business health.

The ratings are dependent on RPI's sustainable growth in top-line and bottom-line with upheld margins while retaining sufficient cash flows. Improvement in margins, coverages and upright working capital management are imperative. Governance framework needs improvement as the Board is dominated by Sponsoring family. Any significant decline in profitability; impacting cash flows and coverages, will have negative impact on the 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 Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Chemical(Jul-21)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@pacra.com | +92-42-35869504

Profile

Legal Structure Reliance Petrochem Industries (Pvt.) Limited (hereafter referred as 'the Company') was incorporated as a private limited company in 2013.

Background The sponsoring family has been involved in the trading business for several decades. The petrochemicals business was started by Mr. Jai Kumar. Later, the sponsors also became involved in the manufacturing of polypropylene bags.

Operations The Company operates mainly within three segments, petrochemicals, chemicals/solvents and polymers. Within the petrochemical segment, the Company produces white oils which are sold to clients in the cosmetics, food preservatives, lubricants, pharmaceutical and textile sectors. A segment of solvents was added to the company operations which mostly serve the paint industry. In polymers segment, Company produces plastic bags of different types and sizes to meet the demand of export oriented companies for the packaging of wheat, rice, cement etc. During rise of coronavirus disease, the Company introduced a new product line with the name of Reliance Handtizer.

Ownership

Ownership Structure The major stake of ownership rests with Mr. Anil Perkash, director of the Company, who holds ~52% of shares. Meanwhile, remaining shares (~48%) are held by Mr. Jawahar Lal (CEO).

Stability Even though ownership of Reliance Petrochem rests with only two brothers, the ownership of the group companies is well distributed between the sponsoring family.

Business Acumen The sponsoring family has been involved in the business since inception and have extensive experience of the relevant industries. They also successfully manage various group companies operating in diversified business segments.

Financial Strength Various companies that are owned by the sponsoring family include Star Corporation, Reliance Importer and Exporter, Karachi Corporation, Blue Moon Industries (Pvt.) Limited and Latea Pak Private Limited. These companies 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 has overall working experience of ~25 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 ~29 years. He is also associated with the board for last nine years. Mr. Anil Parkash has strong work experience of ~27 years like other board members and is associated with the board since inception.

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 for record of minutes of meetings held or agenda based meetings.

Financial Transparency M/s Mushtaq & Co., Chartered Accountants are the external auditors of the Company. The auditor is QCR rated by ICAP and listed in Category "B" of the SBP's panel of auditors. They have expressed an unqualified opinion on the financial statements for the year ended June 30th, 2021.

Management

Organizational Structure The Company has a lean management structure and is divided into functional departments. Each department is headed by a department head. All department heads report directly to the Board.

Management Team Mr. Jawahar Lal has an overall experience of ~25 years 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 Chartered Accountant. Similarly other top-management personnel hold MBA degrees.

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

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

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

Business Risk

Industry Dynamics Globally, chemical industry is one of the fastest growing sectors. It has significant impact on the growth of numerous sectors in Pakistan considering its linkages with substantial industries of the economy. The rapid urbanization, lifestyle changes, & increase in consumer goods demand for active and intelligent packaging. Petrochemical industry of Pakistan shows upward trajectory owing to more demand for car lubricants, cosmetics, textile & pharmaceutical products (both in national and international markets). Geographic position of Pakistan has also given an edge to the traders as they incur lesser shipment cost as compared to India and other neighbouring countries, when it comes to trade of solvents / chemicals with Iran and Afghanistan.

Relative Position Relative position of this Company 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 from 500 Kg up to 2500 Kg. The Company stays up to date with the new technology related to polypropylene products and white-oils. During Global Pandemic Crises, the Company entered into new segment of solvents and captured significant portion of the market which was previously dominated by commercial importers.

Revenues In 1HFY22 sales revenue of the Company clocked in at PKR ~5,363mln (1HFY21: PKR 5,756mln, FY21: PKR 9,940mln, FY20: PKR 9,535mln). The sales dropped by 6.82% during that period on account of volumetric decline in export sales from polymers and petrochemicals. Further, the top-line was partially offset by the sale of sanitizers in local markets during Covid times.

Margins In 1HFY22, the Company's gross margin declined to 9.2% (1HFY21: ~11.3%). Due to volumetric decrease in export sales in FY21 to PKR 2,184mln as compared to PKR 6,611mln sales in FY20, the Company's margins reduced as exports sales usually offer higher margins than local sales. Owing to lower gross margin, operating margin decreased (1HFY22: 6.5%, 1HFY21: 8.2%). Consequently, the Company's net margin also decreased to 3.9% from ~5.4% during 1HFY21.

Sustainability The Company is focused on increasing the productivity & efficiency of its operations. Business is expected to grow further as the Company has finalized contracts with foreign traders for exports & imports. Recently, Reliance Group has opened its international office branch in UAE to support the operations of group companies.

Financial Risk

Working Capital In 1HFY22, Reliance Petrochem's inventory days increased to ~63 days (1HFY21: 51 days). As a result of high receivables recorded during the period, the Company's trade receivable days increased to ~55 days (1HFY21: 20 days) as payment terms vary on a contract to contract basis for both local and export clients. As a result, gross working capital days clocked in at ~118 days (1HFY21: 71 days). The Company's trade payable days increased to ~07 days from ~02 days while net working capital days clocked in at ~111 days (1HFY21: 69 days). The Company's room to borrow against trade assets increased to PKR 1,628mln as compared to PKR 1,263mln in 1HFY21.

Coverages During 1HFY22, Reliance Petrochem's free cash flows (FCFO) decreased by ~11.14% to ~PKR 303mln (1HFY21: PKR 341mln, FY21: PKR 662mln, FY20: PKR 804mln) owing to reduced amount of EBITDA. On the other hand, the finance cost of the Company increased by 19.14%. As a result, the coverages of the Company deteriorated. Interest coverage was declined to 5.5x (1HFY21: 7.6x, FY21: 6.5x, FY20 5.7x). Whereas, core-debt coverage also decreased to 5.4x (1HFY21: 7.4x).

Capitalization Reliance Petrochem's capital structure is moderately leveraged at ~47.2% as at end-Dec21 (1HFY21: 38.4%, FY21: 45.7%, FY20: ~38.3%). Currently, total borrowings of the Company stand at PKR 1,955mln (FY21: PKR 1,670mln, 1HFY21: PKR 1,181mln). The Company's debt comprises only short-term borrowings, utilized to finance the working capital requirements.

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Financial Summary
PKR mln

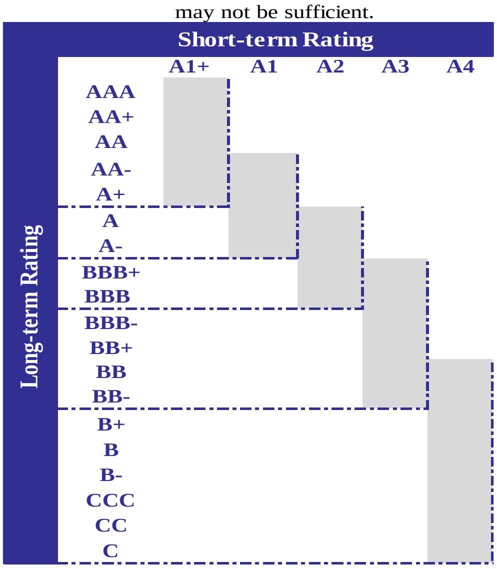
Reliance Petrochem Industries (Pvt.) Limited	Dec-21	Jun-21	Jun-20	Jun-19
Chemicals	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	448	449	478	414
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	4,450	3,637	2,438	2,089
a Inventories	*1,623*	*2,092*	*1,431*	*1,139*
b Trade Receivables	*2,163*	*1,045*	*690*	*668*
5 Total Assets	4,898	4,086	2,916	2,503
6 Current Liabilities	716	396	354	98
a Trade Payables	*332*	*87*	*83*	*44*
7 Borrowings	1,955	1,670	976	1,272
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	39	40	14	40
10 Net Assets	2,188	1,981	1,572	1,093
11 Shareholders' Equity	2,188	1,981	1,572	1,093
B INCOME STATEMENT				
1 Sales	5,363	9,940	9,535	3,832
a Cost of Good Sold	*(4,872)*	*(8,895)*	*(8,193)*	*(3,348)*
2 Gross Profit	491	1,046	1,341	483
a Operating Expenses	(145)	(284)	(564)	(148)
3 Operating Profit	346	761	778	335
a Non Operating Income or (Expense)	*(18)*	*(51)*	*(44)*	*(15)*
4 Profit or (Loss) before Interest and Tax	328	710	734	320
a Total Finance Cost	*(56)*	*(102)*	*(145)*	*(123)*
b Taxation	*(64)*	*(191)*	*(126)*	*(69)*
6 Net Income Or (Loss)	207	417	463	128
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*303*	*662*	*804*	*315*
b Net Cash from Operating Activities before Working Capital Changes	*247*	*559*	*659*	*192*
c Changes in Working Capital	*(282)*	*(1,200)*	*(224)*	*(563)*
1 Net Cash provided by Operating Activities	(35)	(641)	435	(371)
2 Net Cash (Used in) or Available From Investing Activities	(21)	(15)	(112)	(7)
3 Net Cash (Used in) or Available From Financing Activities	285	694	(296)	384
4 Net Cash generated or (Used) during the period	229	38	26	7
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	7.9%	4.3%	148.9%	25.6%
b Gross Profit Margin	9.2%	10.5%	14.1%	12.6%
c Net Profit Margin	3.9%	4.2%	4.9%	3.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	0.4%	-5.4%	6.1%	-6.5%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	19.9%	23.5%	34.7%	15.0%
2 Working Capital Management				
a Gross Working Capital (Average Days)	118	97	75	187
b Net Working Capital (Average Days)	111	93	73	183
c Current Ratio (Current Assets / Current Liabilities)	6.2	9.2	6.9	21.3
3 Coverages				
a EBITDA / Finance Cost	6.6	8.0	5.9	3.2
b FCFO / Finance Cost+CMLTB+Excess STB	5.4	6.4	5.6	2.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	47.2%	45.7%	38.3%	53.8%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	6.9%	8.0%	14.5%	10.5%

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

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