The Pakistan Credit Rating Agency Limited

Rating Report

Siddiqsons Tinplate Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Dec-2022	A-	A2	Stable	Maintain	-
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 decreased by ~ 19% during FY22 and clocked in at PKR ~4.7bln (FY21: PKR ~5.8bln). The decrease in the top line is mainly attributable to a decrease in the sales volumes due to the demand factors, which remained volatile due to abnormally high prices which forced end consumers to opt for alternative modes of packaging. Resultantly, the net margin of the Company decreased to ~4.3% during FY22 (FY21: 5.5%). During FY22 the capacity utilization of the Company stood at ~13% decreasing from ~25% during FY21. Net working capital days also have shown an increasing trend due to weak working capital management but the raw material inventory maintained by the Company shielded the Company from the effect of rising steel prices. The Company was involved in arbitration in Singapore, with Plant and Machinery (P&M) supplier for the CRC project, the award whereof has been released in favor of the P&M supplier. Since STPL was a respondent under the matter and has not been afforded relief, it has been decided by the Company that the arbitral award be challenged in the High Court of Singapore for which the Company is of the view that there is a high likelihood that the arbitral award shall be set-aside in its entirety.
The Company has finalized the alternate supplier and the project is expected to complete in 24 months from the date of commencement. This backward integration is expected to streamline the raw materials challenges. 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 ~8.4bln debt for the development of the CRC complex.

The ratings are dependent upon the company’s ability to sustain its healthy business profile amidst strong competition, herein, effective and prudent management of financial risk indicators remain important. Moreover, upholding of governance framework is vital.

Disclosure

Name of Rated Entity	Siddiqsons Tinplate Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Paper and Packaging(Nov-22)
Rating Analysts	Muhammad Atif Chaudhry | Atif.Chaudhry@pacra.com | +92-42-35869504

Profile

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

Background 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 B2B business model. The Installed capacity of tin plate plant is 120,000 MT per annum, while that of canning facility is 4,015,000 cans per annum.

Ownership

Ownership Structure The controlling stake in the Company is held by Rafi Family. The Family holds ~55% 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 working 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 right issue to fund Capex and recently for expansion project. It is expected that the sponsors will support the Company, if needed .

Governance

Board Structure The Company has a seven members board comprising two independent directors, three non-executive directors and two executive directors (including the CEO). The board is chaired by Mr. Tariq Rafi. All directors, except independent directors, represent Rafi Family.

Members' Profile Mr. Rafi is a seasoned business professional and carries a track record of successful business ventures with him. All other members are professionally qualified with extensive experience and diversified skill mix.

Board Effectiveness The board met five times during FY22 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 Yousuf 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, 2022. 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. Naeem ul Hasnain Mirza. Mr. Naeem is an Electrical Engineer. He has been working with the Company for 23 years. He has been appointed as the CEO of Siddiqsons Tin Plate in 2022.

Effectiveness The Company has established two management committees to coordinate its operations, namely, i) Technical Committee, and ii) Procurement Committee. Technical committee is the apex management committee. The committees meet on requirement basis.

MIS The Company has implemented Sidat Hyder Financials suit to manage the financial information needs of management. Further, the Company has implemented in house developed softwares 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 which 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 Tin Plate is the only tin plate manufacturer in Pakistan, while there are several commercial importers of ETP. The increased awareness of sustainability and growth in food industry are major demand drivers. Majority of the raw material is imported therefore exchange rate impacts the cost of COGS significantly.

Relative Position The Company 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 decline of ~19% during FY22 and clocked in at ~PKR 4,723mln in FY22 (FY21: 5,848mln). The decrease in the top line is mainly attributable to a decrease in the sales volumes due to the demand factors, which remained volatile due to abnormally high prices which forced end consumers to opt for alternative modes of packaging. The price volatility in international prices of Palm Oil was another major factor that slowed down the production activity of Vegetable Oil & Ghee Mills, and as this is the primary driver for the demand for ETP, the same has also decreased. Export sales significantly dropped by 82% and clock in at PKR ~250mln (FY20: PKR ~1,409mln).

Margins In FY22, the gross margin and operating profit margin both decreased as compared to FY21. The GP margin decreased from ~13.7% in FY21 to ~13.1% in FY22 while the OP margin decreased from ~9.6% to ~9.1% during the same period. The main reason for the decreasing profitability ratios is attributable to decreased sales volume due to the demand factors, which remained volatile due to abnormally high prices which forced end consumers to opt for alternative modes of packaging. Consequently, the net profit margin also decreased from ~5.5% to ~4.3% during the same period. The Company posted a net profit of ~PKR 201mln in FY22(FY21: ~PKR 322mln).

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 CNY~54mln. On the other side, Siddiqsons Tin plate also counterclaimed USD~12mln against failure to deliver the consignment. The Company has already invested PKR~2,500mln on the infrastructure and design of the CRC unit. The Company in the meanwhile has finalized the alternate supplier. The Company has already completed some work on civil construction.

Financial Risk

Working Capital In FY22, the Company's inventory days increased to ~84 days from ~67 days in FY21. The increase in inventory days is due to maintaining a huge inventory because of delayed shipments and the non-availability of raw materials. Meanwhile, trade receivable days also increased to ~33 days from ~31 days, but trade payable days decreased to ~8 days from ~9 days during the same periods. Consequently, the Company's net working capital days stood at 109 days at end of FY22, significantly increasing from ~89 days at end-FY21. The increase in net working capital days shows weak working capital management.

Coverages In FY22, the Company's EBITDA stood at ~PKR 499mln decreasing from ~PKR 563mln in FY21 due to a huge decline in PBT. The EBITDA/Finance cost showed a decrease from ~ 5.19x of coverage at end of FY21 to ~ 3.55x at end of FY22. But in FY22, the Company's FCFOs stood at ~PKR 439mln increasing from ~PKR 426mln in FY21 due to fewer taxes paid in the current year. On the other hand, the FCFO/Finance cost showed a decrease from ~ 3.92x of coverage at end of FY21 to ~ 3.12x at end of FY22 due to high finance cost; however, this is still a good coverage level for the Company.

Capitalization Siddiqsons Tinplate Limited has a moderate-leveraged structure, with long-term liabilities being ~14% of equity at end of FY22 and ~5% of equity at end of FY21. Its gearing ratio has increased from ~36% at the end of FY21 to ~48% at the end of FY22, due to total borrowing of the company increased significantly from ~PKR1,606mln in FY21 to ~PKR 2,918mln in FY22. The short-term borrowings of the company increased significantly from ~PKR 1,394mln in FY21 to ~PKR 2,408mln in FY22. The Company obtained short-term borrowing for working capital management. Short-term borrowing is ~83% of the total borrowings during FY22.

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Financial Summary
PKR mln

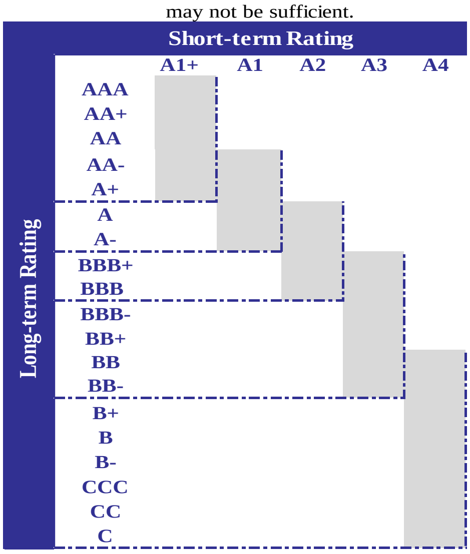
Siddiqsons Tin Plate Limited Paper & Packaging	Jun-22 12M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	3,491	2,898	2,432	1,747
2 Investments	220	169	166	622
3 Related Party Exposure	-	-	-	-
4 Current Assets	2,832	2,048	2,635	2,190
a Inventories	*1,567*	*610*	*1,535*	*1,223*
b Trade Receivables	*324*	*522*	*472*	*614*
5 Total Assets	6,543	5,115	5,232	4,558
6 Current Liabilities	406	409	442	256
a Trade Payables	*59*	*155*	*118*	*61*
7 Borrowings	2,918	1,606	1,735	1,384
8 Related Party Exposure	-	82	360	200
9 Non-Current Liabilities	-	1	1	-
10 Net Assets	3,218	3,017	2,695	2,718
11 Shareholders' Equity	3,218	3,017	2,695	2,718
B INCOME STATEMENT				
1 Sales	4,723	5,848	3,556	3,409
a Cost of Good Sold	*(4,103)*	*(5,044)*	*(3,375)*	*(3,074)*
2 Gross Profit	619	803	181	335
a Operating Expenses	(187)	(240)	(123)	(94)
3 Operating Profit	432	564	58	241
a Non Operating Income or (Expense)	*(6)*	*(37)*	*59*	*65*
4 Profit or (Loss) before Interest and Tax	426	527	116	306
a Total Finance Cost	*(168)*	*(125)*	*(89)*	*(177)*
b Taxation	*(57)*	*(80)*	*(50)*	*(42)*
6 Net Income Or (Loss)	201	322	(23)	87
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*439*	*426*	*133*	*338*
b Net Cash from Operating Activities before Working Capital Changes	*315*	*305*	*30*	*169*
c Changes in Working Capital	*(722)*	*500*	*11*	*(221)*
1 Net Cash provided by Operating Activities	(406)	804	41	(52)
2 Net Cash (Used in) or Available From Investing Activities	(674)	(497)	(261)	(1,781)
3 Net Cash (Used in) or Available From Financing Activities	1,336	(861)	670	1,837
4 Net Cash generated or (Used) during the period	256	(553)	450	5
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-19.2%	64.4%	4.3%	28.8%
b Gross Profit Margin	13.1%	13.7%	5.1%	9.8%
c Net Profit Margin	4.3%	5.5%	-0.7%	2.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-6.0%	15.8%	4.0%	3.4%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	6.5%	11.3%	-0.9%	4.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	117	98	197	171
b Net Working Capital (Average Days)	109	89	188	166
c Current Ratio (Current Assets / Current Liabilities)	7.0	5.0	6.0	8.6
3 Coverages				
a EBITDA / Finance Cost	3.6	5.2	2.2	2.1
b FCFO / Finance Cost+CMLTB+Excess STB	2.4	2.5	1.6	2.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.7	0.9	6.3	1.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	47.6%	35.9%	43.7%	36.8%
b Interest or Markup Payable (Days)	187.9	91.4	104.1	71.7
c Entity Average Borrowing Rate	6.9%	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):

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

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(Credit Rating Companies Regulations,2016)

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2) **Conflict of Interest**
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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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(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).
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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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(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)
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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)
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(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)
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(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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