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
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 ratings reflect Siddiqsons Tin Plate Limited's ("Siddiqsons Tinplate" or the "Company") established foothold in the tin plate industry as the first and sole local manufacturer of tin plate in Pakistan with a market share of ~30% in the local market. The demand for the Company's products has shown growth in the recent past due to increased hygiene consciousness of the public at large and higher use of processed food. The major contribution for the increased sales as compared to Jun'19, is the exponential growth in export sales. On the other hand, local sales are down by 22% due to economic slow down, tax related matters and uncertain business conditions induced by lockdown. On the overall basis, the cost of sales increased by 10% but the impact could not pass on and sales revenue recorded an increase of only 4%. Resultantly, the gross margins took a dip at 5.1% during FY20 (FY19: 9.8%). The capacity utilization of tinplate segment remained low at ~20% (FY19: 17%) but lately improved in quarter end on Sep'20 on the back of rising demand. The Company is in process of establishing a Cold Rolled Coil (CRC) steel manufacturing complex to streamline its raw materials supply through backward integration. However, delays in COD are expected,as the supplier didn't provide machinery within the contractual time frame. The Company is in process of negotiating the procurement of CRM plant from other international suppliers and expecting a favorable outcome. The Company's financial risk profile is considered adequate characterized by moderate leveraging, good coverages and improved working capital. The Company has funded expansion with equity so far, without taking any long term debt. The ratings take comfort from the financial strength of the Siddiqsons group and demonstrated support from sponsors. Going forward, the Company is also focusing on its export window.

The ratings are dependent upon translation of capital investments into growing profits, holding sustained operations and improving margins. The maintenance of coverages during expansion phase will be critical. External factors and continuity of anti-dumping duty is considered crucial for the sustainability of the Company.

Disclosure

Name of Rated Entity	Siddiqsons Tinplate Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Paper and Packaging(Nov-20)
Rating Analysts	Shazia Afzal | shazia.afzal@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 total 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 ~46% shares in the Company directly through individuals, whereas ~15% shares are held indirectly through Siddiqsons Limited, which is 100% owned by Rafi Family. Around 9.3% shares are held by Arcelor Packaging International, a subsidiary company of ArcelorMittal S.A. 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. ArcelorMittal is the largest steel producer in the world, having operations in 19 countries across four continents.

Financial Strength The Rafi family has strong financial strength as reflected by a diverse portfolio of businesses. ArcelorMittal S.A, being the world's largest steel producer in the world, has strong financial muscle. 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 four times during FY20 with most of the directors attending three 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 non-executive and independent directors.

Financial Transparency Deloitte Yousaf Adil Chartered Accountants, are the external auditors of the Company. They gave an unqualified opinion on the Company's financial statements for the year ended Jun 30, 2020. The board has also established an internal audit department.

Management

Organizational Structure The Company has established a well-defined management structure divided into functional departments with clear lines of responsibilities.

Management Team The management team is headed by Mr. Munir Qureshi (CEO). Mr. Munir is an Engineer and a graduate in public administration from Harvard University. He has been appointed as the CEO of Siddiqsons Tin Plate in May 2018 and previously served in the government for ~35 years at a senior level. The Company's top management possesses diversified experience and knowledge of the related business.

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 public hygiene consciousness and untapped market relating to packaging of food items are considered as major demand drivers. Almost all raw material is imported therefore exchange rate impacted the cost of raw material significantly. The imposition of anti-dumping duty on import of ETP is expected to have a positive impact for local manufacturers.

Relative Position The Company is the only tin plate manufacturer in Pakistan and holds ~30% share of the total market . The other competitors are various small commercial importers of tin plate. In the recent years, the Company gradually lost its market share due to stiff competition from importers

Revenues During 1QFY21, the Company's top-line grew by ~45% (FY20: ~4.3%) and clocked in at PKR 1,289mln (FY20: PKR 3,556mln). The growth in top-line came from better capacity utilization of the unit as volume shows a 5% growth on Y-O-Y basis. The Company continues to operate at a low capacity utilization of ~20%, produced 24,061MT during FY20 (FY19: 19,478MT). The capacity utilization is expected to increase in future with a better demand prospect.

Margins The gross margins of the company have declined to 8.9% during 1QFY21 vs 1QFY20 9.3% (FY20: 5.1%). The main reasons for decrease in gross margins are, Increased cost of sales, International steel prices volatility & exchange rate volatility. The operating margins also remained under stress and stood at ~5.2% in 1QFY21 vs 5.3% during 1QFY20 (FY20: 1.6%). The net margin clocked in at ~ 2.2% in 1QFY21 vs 1QFY20 ~-2.9% (FY20: ~-0.7%). The net profit margin recovered due to significant decrease in finance cost with low interest rate environment. The net profit stood at PKR~28mln in 1QFY21 vs PKR~-18mln (net loss) during 1QFY20.

Sustainability Siddiqsons Tinplate is pursuing backward integration by setting up a Cold Rolled Coil (CRC) steel complex with a capacity of ~200,000MT. The growth in the Company's revenue is dependent upon the success of CRC complex. The plant was expected to start commercial operation in Dec'20. But the supplier failed to fulfill the commitment within the stipulated timeline i.e. 30th April'20. Consequently, the Company had to call for the encashment of bank guarantees. Subsequently, the supplier filed a case for the damages and loss amounting to PKR~881mln and also forfeited the advance amount ~PKR 479mln. On the other side Siddiqsons Tin plate also appointed arbitrator and a lawyer and counter claimed PKR~2,117mln against failure to deliver the consignment. The Company has also invested more than PKR~1,500mln on infrastructure and design of CRC unit. It is expected that negotiations for procurement of plant and machinery will be finalized soon. Meanwhile the Company is in the process of negotiating the procurement of CRC plant from other international suppliers.

Financial Risk

Working Capital The Company's working capital requirements emanate from financing inventory and receivables from customers. The cash cycle improved significantly in 1QFY21 and stood at 138 days vs 276 days during 1QFY20(FY20: 188 days), mainly due to improvement in finished goods inventory days and trade receivable days. The company's net trade assets at end of 1QFY21 amounted to PKR~ 2,144mln (FY20: ~PKR~2,032 mln) and its room to borrow was ~PKR 514mln (FY20: ~PKR 651mln), which shows moderate cushion for further borrowing to finance working capital needs.

Coverages During 1QFY21, Company's free cash flows (FCFO) remained at ~PKR 50mln (FY20: ~PKR 133mln) despite increase in top line during the period by ~PKR 687mln. The interest coverage ratio stood at 3x during 1QFY21 (FY20: 1.9x). The increase in interest coverage ratio is caused by meager increase in FCFO and significant decline in finance cost during the year.

Capitalization The capital structure of the Company is moderately leveraged. However, the leveraging of the Company has shown a decreasing trend. The leveraging stood at 44% during 1QFY21 vs 1QFY20 41%. The increase is mainly triggered by increase in borrowings of the Company~19% since 1QFY20. The long term debt has increased to PKR~41 mln during 1QFY21 vs 1QFY20 .

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Financial Summary
PKR mln

Siddiqsons Tin Plate Limited Paper & Packaging	Sep-20 3M	Jun-20 12M	Jun-19 12M	Jun-18 12M
A BALANCE SHEET				
1 Non-Current Assets	2,492	2,432	1,747	597
2 Investments	166	166	621	21
3 Related Party Exposure	-	-	-	-
4 Current Assets	2,751	2,635	2,190	1,741
a Inventories	*1,654*	*1,535*	*1,223*	*831*
b Trade Receivables	*482*	*472*	*614*	*524*
5 Total Assets	5,409	5,232	4,557	2,359
6 Current Liabilities	544	442	256	182
a Trade Payables	*140*	*118*	*61*	*22*
7 Borrowings	1,928	1,735	1,384	1,325
8 Related Party Exposure	213	360	200	-
9 Non-Current Liabilities	2	1	-	-
10 Net Assets	2,722	2,695	2,718	852
11 Shareholders' Equity	2,722	2,695	2,718	852
B INCOME STATEMENT				
1 Sales	1,289	3,556	3,409	2,646
a Cost of Good Sold	*(1,182)*	*(3,375)*	*(3,074)*	*(2,481)*
2 Gross Profit	107	181	335	166
a Operating Expenses	(40)	(123)	(94)	(87)
3 Operating Profit	67	58	241	79
a Non Operating Income or (Expense)	*(1)*	*59*	*65*	*12*
4 Profit or (Loss) before Interest and Tax	66	116	306	92
a Total Finance Cost	*(21)*	*(89)*	*(177)*	*(133)*
b Taxation	*(17)*	*(50)*	*(42)*	*(27)*
6 Net Income Or (Loss)	28	(23)	87	(68)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*50*	*133*	*338*	*106*
b Net Cash from Operating Activities before Working Capital Changes	*40*	*30*	*169*	*(13)*
c Changes in Working Capital	*(233)*	*11*	*(221)*	*(435)*
1 Net Cash provided by Operating Activities	(194)	41	(52)	(448)
2 Net Cash (Used in) or Available From Investing Activities	(68)	(261)	(1,781)	48
3 Net Cash (Used in) or Available From Financing Activities	76	670	1,837	387
4 Net Cash generated or (Used) during the period	(185)	450	5	(13)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	45.0%	4.3%	28.8%	4.3%
b Gross Profit Margin	8.3%	5.1%	9.8%	6.3%
c Net Profit Margin	2.2%	-0.7%	2.5%	-2.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-14.2%	4.0%	3.4%	-12.4%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	4.2%	-0.9%	4.2%	-8.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	147	197	171	227
b Net Working Capital (Average Days)	138	188	166	223
c Current Ratio (Current Assets / Current Liabilities)	5.1	6.0	8.6	9.6
3 Coverages				
a EBITDA / Finance Cost	4.5	2.2	2.1	1.3
b FCFO / Finance Cost+CMLTB+Excess STB	2.1	1.6	2.0	0.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.1	6.3	1.2	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	44.0%	43.7%	36.8%	60.9%
b Interest or Markup Payable (Days)	182.8	104.1	71.7	71.9
c Entity Average Borrowing Rate	3.3%	3.7%	11.1%	10.9%

Credit Rating

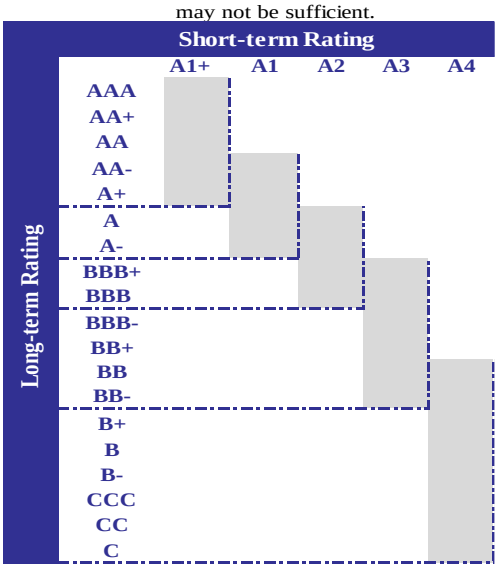
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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

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