

Press Release

JCR-VIS Maintains Entity Ratings of Sitara Chemical Industries Limited

Karachi, November 14, 2017: JCR-VIS Credit Rating Company Limited (JCR-VIS) has maintained the entity ratings of Sitara Chemical Industries Limited (SCIL) at 'A+/A-1' (Single A Plus/A-One). Outlook on the assigned ratings has been revised from 'Stable' to 'Positive'. The previous rating action was announced on June 07, 2016.

The rating assigned to SCIL take into account its leading capacity position in the price competitive chlor-alkali sector. The sector dynamics continue to be volatile with excess capacity being available in a stable demand environment. With existing and planned capacities being made energy efficient, the competitiveness in the chlor-alkali market would increase. The ratings also take into account the enhanced efficiency emanating from rationalized energy cost leading to better margins and sustained core profitability. Despite higher debt levels, overall financial risk profile of the institution remains intact reflected by strong internal cash generating capacity enabling timely servicing of its debt obligations.

Net sales of the company slightly increased during FY17. Increase in gross margin is attributable to cost savings from the induction of coal fired power plant. Chemical division continues to be the major contributor in the revenue; caustic soda remains the prominent product representing more than three fourth of total revenue. While profit before tax increased marginally, SCIL recorded tax credit which resulted in higher profit after tax.

The company maintains sizeable investments in property. While efforts have been made to liquidate some portion of these investments, the contractual receipts due under the sale agreement have been delayed. In line with higher profitability, Funds from Operations (FFO) improved while debt servicing coverage, though declined, remained comfortable. With strong internal capital generation, leverage indicators improved. Gearing is expected to improve further with no major borrowings plans and sizeable long term borrowings repayments scheduled, going forward.

For further information on this rating announcement, please contact the undersigned (Ext: 201) at 92-21-35311861 or fax at 92-42-35311872.

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Applicable Rating Criteria: Industrial Corporates (May 2016)
<http://jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf>