

Date

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Applicable Criteria

- Methodology | Corporate Ratings | Jun-19
- Methodology | Correlation Between Long-Term And Short-Term Rating Scale | Jun-19
- Criteria | Rating Modifier | Jun-19

Related Research

- Sector Study | Chemical | Jun-19

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PACRA Assigns Initial Entity Ratings to Tufail Chemical Industries Limited.

Rating Type	Entity
	Current (24-Sep-19)
Action	Initial
Long Term	A-
Short Term	A2
Outlook	Stable
Rating Watch	-

The ratings demonstrates Tufail Chemical Industries Limited's (the Company) leading position in domestic manufacturing of surfactants (key raw material for detergent and shampoo industry), strong customer base - mainly MNC's - stable margins and generation of persistent profitability. The Company also produces Formic acid (for textile industry) and offer tolling services. Historically, dumping by various international players has squeezed the margins of the Industry. Imposition of anti-dumping for five years on sulphonic acid imports from various countries, since May-17, has helped the Company in sustaining its market share and profitability. Cognizant of growing demand, the Company has continuously invested in R&D and BMR, which has enhanced automation and yielded specialized products range. The Company intends to introduce new surfactants variants through additional capacity. The Project will be funded through a mix of internal cash generation and borrowings. This, alongside experienced management team, transpires into operational efficiencies and stable margins despite challenging environment. The Company has managed to pass on the increase in raw material costs effectively. Meanwhile, the Company has modest financial risk profile, characterized by intermediate leveraging, good coverages and relatively stretched working capital cycle due to extended credit periods to customers. The leveraging is expected to increase with acquisition of loan for expansion but expected to remain manageable. The assigned ratings drives comfort from demonstrated sponsor support and commitment. Strengthening of governance framework is considered positive.

The ratings are dependent on the Company's ability to sustain its position, margins, profitability and optimal capacity utilization along with prudent management of working capital cycle. Going forward, continuation of anti-dumping duty will remain critical. Any significant deterioration in margins and/or financial profile will impact the ratings.

About the Entity

Tufail Chemical industries Limited (Tufail Chemical) was incorporated in 1993 and commenced operations in 1995 as a public unlisted company. Tufail Chemical is a family owned and family managed business. Out of total shareholding Mr. Zubair Tufail owns 34% stakes, Mr. Pervez Tufail holds 31% and the remaining stakes is distributed among the family members of both brothers. The Company's current capacity stands at 150,000 tones with power requirements of 1.9MW.

Tufail Chemical's board comprises six-members with dominance of Tufail Family. Mr. Zubair Tufail is the Chairman of board and he is also the CEO of the Company. Including Chairman, four members are executive directors and remaining two members are spouses of directors. Mr. Zubair Tufail holds a graduate degree and carries with him five decades of experience in chemical industry. Apart from Tufail Chemical Industries, he is the Chairman of Tufail Group of Companies.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.