

Date

14-Sep-20

Analyst

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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 | Chemical | Jul-20

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PACRA Maintains Entity Ratings of Tufail Chemical Industries Limited

Rating Type	Entity	
	Current (14-Sep-20)	Previous (24-Sep-19)
Action	Maintain	Initial
Long Term	A-	A-
Short Term	A2	A2
Outlook	Stable	Stable
Rating Watch	-	-

The ratings demonstrate 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 the textile industry) and offers tolling services. Historically, dumping by various international players has squeezed the margins of the Industry. The 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 product range. The Company intends to introduce new surfactant variants through additional capacity. The Project will be funded through a mix of internal cash generation and borrowings. This, alongside an 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 a 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 the acquisition of loans for expansion but expected to remain manageable. The assigned ratings drive comfort from demonstrated sponsor support and commitment. Strengthening of governance framework is considered positive.

COVID-19 has impacted the industries all over the world but the Chemical industry sustained really well due to the chemical products being used in this pandemic period. Additionally, growing demand for consumer health products (soaps, etc.) amidst COVID- 19 outbreak has benefited the Company as general hygiene and cleanliness becomes paramount, resulting in increased demand for chemical-based products.

The ratings are dependent on the Company's ability to sustain its position, margins, profitability, and optimal capacity utilization along with prudent management of the working capital cycle. Going forward, the 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 are 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 the dominance of the Tufail Family. Mr. Zubair Tufail is the Chairman of the board and he is also the CEO of the Company. Including Chairman, four members are executive directors, and the remaining two members are spouses of directors. Mr. Zubair Tufail holds a graduate degree and carries with him five decades of experience in the 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.