



1st Quarterly Report September 30, 2014



ITTEHAD CHEMICALS LIMITED



# **ITTEHAD CHEMICALS LIMITED**

CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE 1<sup>ST</sup> QUARTER ENDED SEPTEMBER 30, 2014  
(UN-AUDITED)

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## Corporate Information

<b>Board of Directors</b>	Mr. Muhammad Siddique Khatri Mr. Abdul Sattar Khatri Mr. Abdul Ghafoor Khatri Ms. Farhana Abdul Sattar Khatri Mr. Waqas Siddiq Khatri Mr. Ahmed Mustafa Mr. Pervaiz Ahmad Khan	Chairman Director/CEO Director Director Director Director Director	Non-Executive Director Executive Director Non-Executive Director Non-Executive Director Executive Director Non-Executive Director Independent Director
<b>Audit Committee</b>	Mr. Ahmed Mustafa Mr. Abdul Ghafoor Khatri Mr. Pervaiz Ahmad Khan	Chairman Member Member	
<b>HR &amp; Remuneration Committee</b>	Mr. Abdul Ghafoor Khatri Mr. Ahmed Mustafa Mr. Waqas Siddiq Khatri	Chairman Member Member	
<b>Chief Financial Officer</b>	Mr. Javed Iqbal		
<b>Company Secretary</b>	Mr. Abdul Mansoor Khan		
<b>Registered Office / Head Office</b>	39-Empress Road, P.O. Box 1414, Lahore-54000 Tel: 042 - 36306586 - 88, Fax: 042 - 36365697 Website: www.ittehadchemicals.com, E-mail: info@ittehadchemicals.com		
<b>Plant</b>	G.T. Road, Kala Shah Kaku, District Sheikhpura Ph: 042 - 37950222 25, Fax: 042 - 37950206		
<b>Shares Registrar</b>	M/s. Corplink (Pvt.) Limited Corporate and Financial Consultants Wings Arcade, 1-K Commercial, Model Town, Lahore Ph: 042 - 35839182, Fax: 042 -35869037		
<b>Bankers</b>	Askari Bank Limited Allied Bank Limited Al-Baraka Bank (Pakistan) Limited Burj Bank Limited Dubai Islamic Bank Faysal Bank Limited Habib Metro Bank Limited KASB Bank Limited MCB Bank Limited National Bank of Pakistan NIB Bank Limited Pak Libya Holding Co. (Pvt.) Limited Pakistan Kuwait Investment Co. (Pvt.) Limited Pak Brunei Investment Co. (Pvt.) Limited Standard Chartered Bank (Pakistan) Limited The Bank of Punjab United Bank Limited		
<b>Auditors</b>	M/s. BDO Ebrahim & Co., Chartered Accountants 2 <sup>nd</sup> Floor, Block- C, Lakson Square Building No.1 Sarwar Shaheed Road, Karachi Ph: 021 - 35683189, 35683498, Fax: 021 - 35684239		
<b>Legal Advisors</b>	Cornelius, Lane & Mufti Advocates & Solicitors Nawa-e-Waqt House 4 - Shahrah - e - Fatima Jinnah Lahore - 54000		



## DIRECTORS' REPORT

The Directors of your Company take pleasure in presenting the un-audited condensed interim financial statements of the Company for the first quarter ended September 30, 2014.

The Company maintained a healthy trend of sales and posted net sales revenue of Rupees 961 Million (2013: Rupees 876 Million) for the period under review. The cost of sales stood at Rupees 804 Million (2013: Rupees 668 Million) giving gross profit of Rupees 158 Million (2013: Rupees 208 Million). The continuously increasing utility rates, stiff market competition, escalating inflation and increase in Gas Infrastructure Development Cess (GIDC) from 1st July 2014 has eroded the profit margin. Thus the bottom line showed a net profit of Rupees 15 million (2013: profit Rupees 56 Million) which yielded earnings per share of Rupees 0.29 (2013: Rupees 1.12 per share; restated due to issuance of Bonus shares).

Despite all the challenges in the economic environment, we are doing our level best to mitigate the adverse effects by keeping our focus on viable alternate energy sources, reducing our operational cost, introducing more value added products, exploring new markets and modernizing our existing plant in order to improve our solvency, liquidity and profitability.

During the ongoing financial year, the Company will accomplish its various ventures. The Company's power efficient Caustic Soda IEM plant is likely to come into production by the mid of current Financial Year. The letter of credit (L/C) has been established for conversion of the generators from 60 Hz to 50 Hz. The Management is also constantly reviewing and exploring various other avenues and opportunities, both within and outside the Company to achieve its objectives.

The Board is thankful to the valuable Members, Customers, Banks and Government departments for their trust, confidence, persistent support and patronage and would like to place on record its gratitude to all the Employees of the Company for their contribution, dedication and hard work.

On behalf of the Board

Muhammad Siddique Khatri  
Chairman

October 27, 2014  
Lahore

## Condensed Interim Balance Sheet as at September 30, 2014

		(Un-audited) September 30, 2014	(Audited) June 30, 2014
	Note	(Rupees in thousand)	
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment	6	2,449,843	2,484,852
Operating fixed assets	7	552,001	371,876
Capital work in progress		<u>3,001,844</u>	<u>2,856,728</u>
Intangible assets		15,875	16,904
Investment properties		82,800	82,800
Long term deposits		41,488	40,558
		<u>3,142,007</u>	<u>2,996,990</u>
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools		516,784	527,608
Stock in trade		250,930	283,871
Trade debts		492,140	609,505
Loans and advances		79,559	73,751
Trade deposits and short term prepayments		9,562	7,219
Tax refunds due from Government		23,569	31,145
Taxation - net		37,939	26,211
Cash and bank balances		174,360	145,024
		<u>1,584,843</u>	<u>1,704,334</u>
		<u>4,726,850</u>	<u>4,701,324</u>
<b>TOTAL ASSETS</b>			
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorized share capital	8.1	1,000,000	1,000,000
Issued, subscribed and paid up capital	8.2	500,000	500,000
Unappropriated profit		1,055,316	1,040,602
		<u>1,555,316</u>	<u>1,540,602</u>
<b>SURPLUS ON REVALUATION OF FIXED ASSETS</b>			
		760,819	760,819
<b>NON CURRENT LIABILITIES</b>			
Long term financing	9	178,250	208,361
Long term diminishing musharaka	10	452,856	365,586
Deferred liabilities		330,308	335,306
		<u>961,414</u>	<u>909,253</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		507,261	436,909
Mark-up accrued		39,204	33,281
Short term borrowings		812,998	930,622
Current portion of long term liabilities		89,838	89,838
		<u>1,449,301</u>	<u>1,490,650</u>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	11	-	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>4,726,850</u>	<u>4,701,324</u>

The annexed notes from 1 to 16 form an integral part of these financial statements.

  
CHIEF EXECUTIVE

  
DIRECTOR



## Condensed Interim Profit And Loss Account (Un-audited) for the quarter ended September 30, 2014

	Note	Quarter ended September 30,	
		2014	2013
		— (Rupees in thousand) —	
Sales - net		961,455	875,537
Cost of sales	12	(803,556)	(667,607)
Gross profit		157,899	207,930
Selling and distribution expenses		(68,427)	(47,449)
General and administrative expenses		(38,025)	(40,971)
Other operating expenses		(2,184)	(7,347)
Other operating income		5,336	5,790
		(103,300)	(89,977)
Operating profit		54,599	117,953
Financial charges		(34,405)	(27,989)
Profit before taxation		20,194	89,964
Taxation		(5,480)	(34,193)
Profit after taxation		14,714	55,771
			Restated
Earnings per share - basic and diluted (Rupee)	13	0.29	1.12

The annexed notes from 1 to 16 form an integral part of these financial statements.

  
CHIEF EXECUTIVE

  
DIRECTOR



## Condensed Interim Statement of Comprehensive Income (Un-audited) for the quarter ended September 30, 2014

	Quarter ended September 30, 2014	2013
	— (Rupees in thousand) —	
Profit for the period	14,714	55,771
Other comprehensive income	-	-
Total comprehensive income for the period	<u>14,714</u>	<u>55,771</u>

The annexed notes from 1 to 16 form an integral part of these financial statements.

  
CHIEF EXECUTIVE

  
DIRECTOR



## Condensed Interim Cash Flow Statement (Un-audited) for the quarter ended September 30, 2014

	Quarter ended September 30, 2014	2013
	(Rupees in thousand)	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation	20,194	89,964
Adjustments for items not involving movement of funds:		
Depreciation	43,626	43,895
Amortization of intangible assets	1,029	1,307
Provision for gratuity	4,987	2,774
Gain on sale of fixed assets	(317)	-
Gain on foreign exchange	(4,578)	(4,526)
Bad debts written off	469	723
Financial charges	34,405	27,989
Net cash flow before working capital changes	99,815	162,126
Decrease / (increase) in current assets		
Stores, spares and loose tools	10,824	(59,861)
Stock in trade	32,941	13,054
Trade debts	121,474	101,415
Loans and advances	(5,808)	(13,921)
Trade deposits and short term prepayments	(2,343)	(280)
Other receivables	-	(55,000)
Tax refunds due from the Government	7,576	(11,895)
	164,664	(26,488)
Increase / (decrease) in current liabilities		
Trade and other payables	70,353	(148,834)
Cash generated from operations	334,832	(13,196)
Income taxes paid	(26,588)	(17,979)
Gratuity paid	(605)	(1,705)
Financial charges paid	(44,198)	(34,072)
Net cash inflow / (outflow) from operating activities	263,441	(66,952)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Additions to operating fixed assets-net	(2,840)	(1,399)
Additions to capital work in progress	(171,905)	(6,027)
Proceeds from sale of operating fixed assets	2,035	-
Long term deposits	(930)	40
Net cash (outflow) from investing activities	(173,640)	(7,386)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Repayment of long term financing	(30,111)	(26,112)
Proceeds from long term diminishing musharaka	87,270	-
Repayment of long term diminishing musharaka	-	(83,333)
Repayment of long term murabaha	-	(38,889)
Dividend paid	-	(556)
Short term borrowings	(117,624)	220,680
Net cash (outflow) / inflow from financing activities	(60,465)	71,790
Net increase / (decrease) in cash and cash equivalents	29,336	(2,548)
Cash and cash equivalents at the beginning of the period	145,024	180,671
Cash and cash equivalents at the end of the period	174,360	178,123

The annexed notes from 1 to 16 form an integral part of these financial statements.

  
CHIEF EXECUTIVE

  
DIRECTOR



## Condensed Interim Statement of Changes in Equity (Un-audited) for the quarter ended September 30, 2014

	Share Capital	Unappropriated profit (Rupees in thousand)	Total
Balance as at July 01, 2013	360,000	1,016,226	1,376,226
Total Comprehensive income for the period	-	55,771	55,771
Balance as at September 30, 2013	360,000	1,071,997	1,431,997
Final cash dividend 2013: Re. 1 per share	-	(36,000)	(36,000)
Bonus shares	140,000	(140,000)	-
	140,000	(176,000)	(36,000)
Total Comprehensive income for the period	-	144,605	144,605
Balance as at June 30, 2014	500,000	1,040,602	1,540,602
Total Comprehensive income for the period	-	14,714	14,714
Balance as at September 30, 2014	<u>500,000</u>	<u>1,055,316</u>	<u>1,555,316</u>

The annexed notes from 1 to 16 form an integral part of these financial statements.

  
CHIEF EXECUTIVE

  
DIRECTOR



## Notes to the Condensed Interim Accounts (Un-audited) for the quarter ended September 30, 2014

### 1 LEGAL STATUS AND OPERATIONS

Ittehad Chemicals Limited (the Company) was incorporated on September 28, 1991 to takeover the assets of Ittehad Chemicals and Ittehad Pesticides under a Scheme of Arrangement dated June 18, 1992 as a result of which the Company became a wholly owned subsidiary of Federal Chemical and Ceramics Corporation (Private) Limited. The Company was privatized on July 03, 1995 when 90% of the shares were transferred to the buyer.

The Company was listed on Karachi Stock Exchange on April 14, 2003 when sponsors of the Company offered 25% of the issued, subscribed and paid up shares of the Company to the general public.

The registered office of the Company is situated at 39, Empress Road, Lahore. The Company is engaged in business of manufacturing and selling caustic soda and other allied chemicals.

### 2 BASIS OF PREPARATION

#### 2.1 Statement of compliance

These condensed interim financial statements are unaudited and are being submitted to the members as required under Section 245 of the Companies Ordinance, 1984.

These condensed interim financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

The disclosures made in these condensed interim financial statements have, however, been limited in accordance with the requirements of the International Financial Reporting Standards (IFRS) IAS - 34, Interim Financial Reporting. They do not include all the information and disclosures made in the annual published financial statements and should be read in conjunction with the financial statements of the Company for the year ended June 30, 2014.

#### 2.2 Basis of measurement

These condensed interim financial statements have been prepared under the historical cost convention, except for the recognition of certain staff retirement benefits at present value.

These condensed interim financial statements have been prepared following accrual basis of accounting except for cash flow information.

### 2.3 Functional and presentation currency

These condensed interim financial statements have been presented in Pak Rupees, which is the functional and presentation currency of the Company.

### 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted and methods of computation followed in the preparation of these condensed interim financial statements are the same as those of the preceding published annual financial statements for the year ended June 30, 2014.

### 4 TAXATION

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

### 5 ESTIMATES

The preparation of condensed interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The significant judgments made by management in applying the Company's accounting policies and key sources of estimation of uncertainty are the same as those that were applied to the financial statements for the year ended June 30, 2014.

		<b>(Un-audited) September 30, 2014</b>	<b>(Audited) June 30, 2014</b>
	<b>Note</b>	<b>— (Rupees in thousand) —</b>	
<b>6 OPERATING FIXED ASSETS</b>			
Opening book value (NBV)		2,484,852	2,495,976
Additions (at cost) during the period / year	6.1	10,335	171,336
		<u>2,495,187</u>	<u>2,667,312</u>
Disposals (at NBV) during the period / year	6.2	(1,718)	(652)
Depreciation charged during the period / year		(43,626)	(181,808)
		<u>(45,344)</u>	<u>(182,460)</u>
Closing net book value (NBV)		<u>2,449,843</u>	<u>2,484,852</u>
<b>6.1 Details of additions (at cost) during the Period / year are as follows:</b>			
Land		-	30
Building		-	5,451
Plant and machinery		8,606	150,127
Other equipment		642	4,688
Furniture and fixtures		87	1,207
Office and other equipment		166	2,513
Vehicles		834	7,320
		<u>10,335</u>	<u>171,336</u>



**(Un-audited)**  
**September 30,**  
**2014**  
 — (Rupees in thousand) —

**(Audited)**  
**June 30,**  
**2014**

6.2 Details of disposals (at NBV) during the period / year are as follows:

Vehicles

	1,718	652
	1,718	652

7 CAPITAL WORK IN PROGRESS

Building  
Plant and machinery

	2,727	2,255
	549,274	369,621
	552,001	371,876

7.1 An amount of Rs. 7.495 million (June 30, 2014: Rs. 102.419 million) has been transferred to operating fixed assets during the period.

7.2 Borrowing cost capitalised during the period amounted to Rs. 15.716 million (June 30, 2014: Rs. 6.303 million) at an average rate of 12.68% (June 30, 2014: 12.68%) per annum.

8 SHARE CAPITAL

8.1 Authorized share capital

75,000,000 (June 30, 2014: 75,000,000)  
ordinary shares of Rs. 10/- each  
25,000,000 (June 30, 2014: 25,000,000)  
preference shares of Rs. 10/- each

	750,000	750,000
	250,000	250,000
	1,000,000	1,000,000

8.2 Issued, subscribed and paid up share capital

100,000 (June 30, 2014: 100,000) ordinary shares  
fully paid in cash  
24,900,000 (June 30, 2014: 24,900,000) issued for  
consideration other than cash  
25,000,000 (June 30, 2014: 25,000,000) fully paid  
Bonus shares

	1,000	1,000
	249,000	249,000
	250,000	250,000
	500,000	500,000



(Un-audited)  
September 30,  
2014

(Audited)  
June 30,  
2014

— (Rupees in thousand) —

## 9 LONG TERM FINANCING

From banking companies and financial institutions- secured		
Balance as at July 01	293,389	165,834
Obtained during the period / year	-	217,000
Repayments made during the period / year	(30,111)	(89,445)
	<u>263,278</u>	<u>293,389</u>
From directors and others - unsecured		
Balance as at July 01	4,810	4,810
	<u>268,088</u>	<u>298,199</u>
Current portion shown under current liabilities	(89,838)	(89,838)
	<u>178,250</u>	<u>208,361</u>

## 10 LONG TERM DIMINISHING MUSHARAKA

From banking companies and financial institutions- secured		
Balance as at July 01	365,586	83,333
Obtained during the period / year	87,270	365,586
Repayments made during the period / year	-	(83,333)
	<u>452,856</u>	<u>365,586</u>

## 11 CONTINGENCIES AND COMMITMENTS

### 11.1 Contingent liabilities

- The Company has received an order under section 161/205 of the Income Tax Ordinance, 2001 for tax year 2004 creating demand of Rs. 12.069 million (June 30, 2014: Rs. 12.069 million). The Company challenged it before Commissioner of Inland Revenue (Appeals) Zone-1 who decided the case in favour of the Company. The department had filed an appeal before Appellate Tribunal Inland Revenue. The Hon'ble ATIR (Appellate Tribunal Inland Revenue) remanded the case back to the Commissioner (Appeals) Zone-1 to pass a speaking order. The Company expects a favorable outcome of the proceedings. However, if the case is decided against the Company, it may result in tax payable of Rs. 12.069 million.
- The taxation authorities have amended the deemed assessment for tax year 2006 by passing an order u/s 122(5A) of the Income Tax Ordinance, 2001. The Company challenged the same before Commissioner Inland Revenue (Appeals) who partially set aside and partially decided against the Company. The Company has filed an appeal before Appellate Tribunal Inland Revenue against the said order. The Company expects a favorable outcome of the proceedings. However, if the case is decided against the Company, it may result in tax payable of Rs. 18.737 million.



- c) Additional Commissioner has passed an order u/s 122(5A) of the Income Tax Ordinance, 2001 adding back tax credit u/s 65B of the Income Tax Ordinance, 2001 on Balancing, Modernization, and Replacement and tax credit on donations for tax year 2012. Tax amounting to Rs. 12.570 million has been assessed. The Company has challenged the case before Commissioner Inland Revenue (Appeals) who has decided it against us. The Company has filed appeal before Appellate Tribunal Inland Revenue. The Company expects a favorable outcome of the proceedings. However, if the case is decided against the Company, it may result in tax payable of Rs. 12.570 million.
- d) The Company is facing claims, launched in the labour courts, pertaining to staff retirement benefits. In the event of an adverse decision the Company would be required to pay an amount of Rs. 4.219 million (June 30, 2014: Rs. 4.219 million) against these claims.
- e) Letters of guarantee outstanding as at September 30, 2014 were Rs. 230.428 million (June 30, 2014: Rs. 213.007 million).

#### 11.2 Commitments

Commitments as on September 30, 2014 were as follows:

- a) Against letters of credit amounting to Rs. 402.743 million (June 30, 2014: Rs. 133.680 million).
- b) Against purchase of land amounting to Rs. 1.838 million (June 30, 2014: Rs. 1.838 million).

	<b>(Un-audited) September 30, 2014</b>	<b>(Audited) June 30, 2014</b>
	—— (Rupees in thousand) ——	
c) Ujrah payments under Ijarah:		
Not later than one year	28,251	34,901
Later than one year and not later than five year	9,686	14,528
	<u>37,937</u>	<u>49,429</u>



(Un-audited)  
**Quarter ended September 30,**  
**2014**                      **2013**  
 — (Rupees in thousand) —

12 COST OF SALES

Raw materials consumed	88,557	80,392
Other overheads		
Stores, spares and consumables	60,697	42,763
Packing materials consumed	9,631	7,125
Salaries, wages and other benefits	83,163	79,489
Fuel and power	441,051	351,711
Repair and maintenance	10,978	9,319
Rent, rates and taxes	11,643	11,638
Insurance	3,194	2,802
Depreciation	42,296	42,539
Vehicle running expenses	4,571	4,409
Telephone, telex and postage	209	144
Printing and stationery	34	42
Other expenses	401	276
	<u>667,868</u>	<u>552,257</u>
Opening work in process	29,490	25,250
Closing work in process	(27,920)	(24,576)
	1,570	674
Cost of goods manufactured	<u>757,995</u>	<u>633,323</u>
Cost of stores traded	12,478	27,198
Opening stock of finished goods	179,702	156,198
Closing stock of finished goods	(146,619)	(149,112)
	<u>33,083</u>	<u>7,086</u>
	<u>803,556</u>	<u>667,607</u>

13 EARNINGS PER SHARE - BASIC AND DILUTED

Profit after taxation - (Rupees in thousand)	14,714	55,771
		<b>Restated</b>
Weighted average number of ordinary shares - (In thousand)	50,000	50,000
Earnings per share - basic and diluted - (Rupees)	0.29	1.12





There is no dilutive effect on the basic earnings per share of the Company. Number of shares and earnings per share for corresponding period ended September 30, 2013 have been restated taking the effect of bonus shares at the rate of 38.8888% issued during the previous financial year ended June 30, 2014.

#### 14 TRANSACTIONS WITH RELATED PARTIES

The related parties comprise group companies, other associated companies, staff retirement funds, directors and key management personnel. Transactions with related parties and associated undertakings are given as under:

Relationship with the Company	Nature of transaction	(Un-audited)	
		Quarter ended September 30, 2014	2013
		— (Rupees in thousand) —	
Other related party	Marketing services charges	4,140	8,091
Retirement benefit plans	Contribution to staff retirement benefit plans	77	73
Key management personnel	Remuneration and other benefits	24,788	18,460

#### 15 DATE OF AUTHORIZATION

These financial statements were authorized for issue on October 27, 2014 by the Board of Directors of the Company.

#### 16 GENERAL

- i Figures have been rounded off to the nearest rupees in thousand unless stated otherwise.
- ii Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison, the effect of which is not material.

  
CHIEF EXECUTIVE

  
DIRECTOR



**ITTEHAD**  
GROUP

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