



3rd Quarterly Report March 31, 2015



ITTEHAD CHEMICALS LIMITED



ITTEHAD CHEMICALS LIMITED

CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2015
(UN-AUDITED)



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Corporate Information

Board of Directors	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
Audit Committee	Mr. Ahmed Mustafa Mr. Abdul Ghafoor Khatri Mr. Pervaiz Ahmad Khan	Chairman Member Member	
HR & Remuneration Committee	Mr. Abdul Ghafoor Khatri Mr. Ahmed Mustafa Mr. Waqas Siddiq Khatri	Chairman Member Member	
Chief Financial Officer	Mr. Javed Iqbal		
Company Secretary	Mr. Abdul Mansoor Khan		
Registered Office / Head Office	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		
Plant	G.T. Road, Kala Shah Kaku, District Sheikhupura Ph: 042 - 37950222-25, Fax: 042 - 37950206		
Shares Registrar	M/s. Corplink (Pvt.) Limited Corporate and Financial Consultants Wings Arcade, 1-K Commercial, Model Town, Lahore Ph: 042 - 35839182, Fax: 042 -35869037		
Bankers	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		
Auditors	M/s. BDO Ebrahim & Co., Chartered Accountants 2 nd Floor, Block- C, Lakson Square Building No.1 Sarwar Shaheed Road, Karachi Ph: 021 - 35683189, 35683498, Fax: 021 - 35684239		
Legal Advisors	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 third quarter and nine months ended March 31, 2015.

During the period under review, the company posted net sales revenue of Rupees 3,089 Million (2014: Rupees 2,997 Million). The cost of sales stood at Rupees 2,802 Million (2014: Rupees 2,399 Million) bringing gross profit to Rupees 288 Million (2014: Rupees 598 Million). Frequent electricity outages and non-availability of gas throughout the winter season adversely effected the production as well as inflated the cost of sales. As a result, gross profit margin squeezed further and declined to 9% from 20% vis-à-vis corresponding period. The bottom line showed a net loss of Rupees 52 Million (2014: profit Rupees 159 Million) which resulted in loss per share of Rupees 1.03 (2014: Earnings per share Rupees 3.18).

As described in earlier reports, the Management of your company is taking all appropriate measures such as Balancing, Modernization and Replacement (BMR) as well as Diversification to cope with the challenges it is foreseeing. Hence, we continue to have a long term optimistic outlook for our business. Future prospects of the industry also depend on the energy policies of the Government which may assist to reduce the impact of higher production cost.

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.

For and on behalf of the Board

Muhammad Siddique Khatri
Chairman

Condensed Interim Balance Sheet as at March 31, 2015

		(Un-audited) March 31, 2015	(Audited) June 30, 2014
	Note	— (Rupees in thousand) —	
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	6	2,416,600	2,484,852
Operating fixed assets	7	1,188,457	371,876
Capital work in progress		3,605,057	2,856,728
Intangible assets		13,817	16,904
Investment property		82,800	82,800
Long term deposits		41,557	40,558
		3,743,231	2,996,990
CURRENT ASSETS			
Stores and spares		498,088	527,608
Stock in trade		155,372	283,871
Trade debts		525,426	609,505
Loans and advances		84,152	73,751
Trade deposits and short term prepayments		9,966	7,219
Tax refunds due from Government		42,712	31,145
Taxation - net		44,111	26,211
Cash and bank balances		153,286	145,024
		1,513,113	1,704,334
TOTAL ASSETS		5,256,344	4,701,324
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
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		939,037	1,040,602
		1,439,037	1,540,602
SURPLUS ON REVALUATION OF FIXED ASSETS		760,819	760,819
NON CURRENT LIABILITIES			
Long term financing	9	489,636	208,361
Long term diminishing musharaka	10	424,000	365,586
Deferred liabilities		301,352	335,306
		1,214,988	909,253
CURRENT LIABILITIES			
Trade and other payables		759,635	436,909
Mark-up accrued		70,512	33,281
Short term borrowings		829,198	930,622
Current portion of long term liabilities		182,155	89,838
		1,841,500	1,490,650
CONTINGENCIES AND COMMITMENTS	11	-	-
TOTAL EQUITY AND LIABILITIES		5,256,344	4,701,324

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 nine months ended March 31, 2015**

	Note	Nine months ended March 31,		Quarter ended March 31,	
		2015	2014	2015	2014
—— (Rupees in thousand) ——					
Sales - net		3,089,274	2,997,286	1,048,812	1,002,339
Cost of sales	12	(2,801,566)	(2,398,994)	(1,022,176)	(880,207)
Gross profit		287,708	598,292	26,636	122,132
Selling and distribution expenses		(178,633)	(151,959)	(51,358)	(54,765)
General and administrative expenses		(106,624)	(120,794)	(34,782)	(37,275)
Other operating expenses		(637)	(16,900)	1,291	498
Other operating income		10,832	10,200	3,647	867
		(275,062)	(279,453)	(81,202)	(90,675)
Operating profit / (loss)		12,646	318,839	(54,566)	31,457
Financial charges		(85,491)	(105,611)	(25,368)	(40,581)
(Loss) / profit before taxation		(72,845)	213,228	(79,934)	(9,124)
Taxation		21,280	(54,288)	19,949	10,161
(Loss) / profit after taxation		(51,565)	158,940	(59,985)	1,037
Earnings per share - basic and diluted (Rupees)	13	(1.03)	3.18	(1.20)	0.02

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 nine months ended March 31, 2015**

Note	Nine months ended March 31,		Quarter ended March 31,	
	2015	2014	2015	2014
	— (Rupees in thousand) —			
(Loss) / profit for the period	(51,565)	158,940	(59,985)	1,037
Other comprehensive income for the period	-	-	-	-
Total comprehensive (loss) / income for the period	<u>(51,565)</u>	<u>158,940</u>	<u>(59,985)</u>	<u>1,037</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 nine months ended March 31, 2015

	Nine months ended March 31, 2015 2014 — (Rupees in thousand) —	
CASH FLOW FROM OPERATING ACTIVITIES		
(Loss) / profit before taxation	(72,845)	213,228
Adjustments for items not involving movement of funds:		
Depreciation	133,098	133,707
Amortization of intangible assets	3,087	3,922
Provision for gratuity	14,961	8,323
Gain on sale of fixed assets	(1,486)	(582)
Gain on foreign exchange	(4,370)	(3,233)
Bad debts written off	788	1,180
Financial charges	85,491	105,611
Net cash flow before working capital changes	158,724	462,156
Decrease / (increase) in current assets		
Stores and spares	29,520	(54,024)
Stock in trade	128,499	(157,581)
Trade debts	87,661	47,261
Loans and advances	(10,401)	(745)
Trade deposits and short term prepayments	(2,747)	(510)
Other receivables	-	10,414
Tax refunds due from the Government	(8,818)	(46,677)
	223,714	(201,862)
Increase / (decrease) in current liabilities		
Trade and other payables	322,668	(355,479)
Cash generated / (used in) from operations	705,106	(95,185)
Income taxes paid	(46,745)	(67,176)
Gratuity paid	(1,538)	(3,207)
Financial charges paid	(110,471)	(98,606)
Net cash generated / (used in) from operating activities	546,352	(264,174)
CASH FLOW FROM INVESTING ACTIVITIES		
Additions to operating fixed assets - net	(19,019)	(43,127)
Additions to capital work in progress	(802,904)	(115,523)
Proceeds from sale of operating fixed assets	4,192	810
Long term deposits	(999)	(591)
Net cash used in investing activities	(818,730)	(158,431)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from long term financing	385,992	217,000
Repayment of long term financing	(72,972)	(72,084)
Proceeds from long term diminishing musharaka	118,986	-
Repayment of long term diminishing musharaka	-	(83,333)
Repayment of long term murabaha	-	(38,889)
Dividend paid	(49,942)	(36,602)
Short term borrowings	(101,424)	391,297
Net cash inflow from financing activities	280,640	377,389
Net increase / (decrease) in cash and cash equivalents	8,262	(45,216)
Cash and cash equivalents at the beginning of the period	145,024	180,671
Cash and cash equivalents at the end of the period	153,286	135,455

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 nine months ended March 31, 2015

	Share Capital	Unappropriated profit (Rupees in thousand)	Total
Balance as at July 01, 2013	360,000	1,016,226	1,376,226
Transactions with owners:			
Final cash dividend 2013: Re. 1 per share	-	(36,000)	(36,000)
Bonus shares issued during the period	140,000	(140,000)	-
	140,000	(176,000)	(36,000)
Total Comprehensive income for the period	-	158,940	158,940
Balance as at March 31, 2014	500,000	999,166	1,499,166
Total Comprehensive income for the period	-	41,436	41,436
Balance as at June 30, 2014	500,000	1,040,602	1,540,602
Transactions with owners:			
Final cash dividend 2014: Re. 1 per share	-	(50,000)	(50,000)
Total Comprehensive loss for the period	-	(51,565)	(51,565)
Balance as at March 31, 2015	500,000	939,037	1,439,037

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


CHIEF EXECUTIVE


DIRECTOR



Notes to the Condensed Interim Financial Information (Un-audited) for the nine months ended March 31, 2015

1 LEGAL STATUS AND NATURE OF BUSINESS

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 the 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 of the Company for the nine months period ended March 31, 2015 have been prepared in accordance with the requirements of International Accounting Standard - 34 "Interim Financial Reporting" and provisions of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed.

The disclosures made in these condensed interim financial statements have been limited in accordance with the requirements of International Accounting Standard - 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

3.1 The standards, amendments and interpretations of approved accounting standards that became effective during the period do not have a significant impact on the Company's condensed interim financial information.

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.

		(Un-audited) March 31, 2015	(Audited) June 30, 2014
	Note	— (Rupees in thousand) —	
6 OPERATING FIXED ASSETS			
Opening net book value (NBV)		2,484,852	2,495,976
Additions (at cost) during the period / year	6.1	67,552	171,336
		<u>2,552,404</u>	<u>2,667,312</u>
Disposals (at NBV) during the period / year	6.2	(2,706)	(652)
Depreciation charged during the period / year		(133,098)	(181,808)
		<u>(135,804)</u>	<u>(182,460)</u>
Closing net book value (NBV)		<u>2,416,600</u>	<u>2,484,852</u>
6.1 Details of additions (at cost) during the period / year are as follows:			
Land		-	30
Building		2,691	5,451
Plant and machinery		44,322	150,127
Other equipment		9,315	4,688
Furniture and fixtures		96	1,207
Office and other equipment		544	2,513
Vehicles		10,584	7,320
		<u>67,552</u>	<u>171,336</u>



(Un-audited)
March 31,
2015

(Audited)
June 30,
2014

— (Rupees in thousand) —

6.2	Details of disposals (at NBV) during the period / year are as follows:		
	Vehicles	2,706	652
		<u>2,706</u>	<u>652</u>
7	CAPITAL WORK IN PROGRESS		
	Building	1,570	2,255
	Plant and machinery	1,186,887	369,621
		<u>1,188,457</u>	<u>371,876</u>
7.1	An amount of Rs. 48.533 million (June 30, 2014: Rs. 102.419 million) has been transferred to operating fixed assets during the period.		
8	SHARE CAPITAL		
8.1	Authorized share capital		
	75,000,000 (June 30, 2014: 75,000,000) ordinary shares of Rs. 10/- each	750,000	750,000
	25,000,000 (June 30, 2014: 25,000,000) preference shares of Rs. 10/- each	250,000	250,000
		<u>1,000,000</u>	<u>1,000,000</u>
8.2	Issued, subscribed and paid up share capital		
	100,000 (June 30, 2014: 100,000) ordinary shares of Rs. 10/- each fully paid in cash	1,000	1,000
	24,900,000 (June 30, 2014: 24,900,000) ordinary shares of Rs. 10/- each issued for consideration other than cash	249,000	249,000
	25,000,000 (June 30, 2014: 25,000,000) fully paid bonus shares of Rs. 10/- each	250,000	250,000
		<u>500,000</u>	<u>500,000</u>
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	385,992	217,000
	Repayments made during the period / year	(72,972)	(89,445)
		<u>606,409</u>	<u>293,389</u>
	From directors and others - unsecured		
	Balance as at July 01	4,810	4,810
		<u>611,219</u>	<u>298,199</u>
	Current portion shown under current liabilities	(121,583)	(89,838)
		<u>489,636</u>	<u>208,361</u>



(Un-audited)
March 31,
2015

(Audited)
June 30,
2014

— (Rupees in thousand) —

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	118,986	365,586
Repayments made during the period / year	-	(83,333)
	484,572	365,586
Current portion shown under current liabilities	(60,572)	-
	424,000	365,586

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.
- 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. 2.903 million (June 30, 2014: Rs. 4.219 million) against these claims.
- e) Letters of guarantee outstanding as at December 31, 2014 were Rs. 221.301 million (June 30, 2014: Rs. 213.007 million).

11.2 Commitments

Commitments as on March 31, 2015 were as follows:

- a) Against letters of credit amounting to Rs. 156.534 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).

	(Un-audited) March 31, 2015	(Audited) June 30, 2014
	—— (Rupees in thousand) ——	
c) Ujrah payments under Ijarah financing agreement:		
Not later than one year	19,371	34,901
Later than one year but not later than five years	-	14,528
	19,371	49,429

	Nine months ended March 31,		Quarter ended March 31,	
	2015	2014	2015	2014
	— (Rupees in thousand) —			
12 COST OF SALES				
Raw materials consumed	272,683	264,705	87,445	82,811
Other overheads:				
Stores, spares and consumables	162,471	267,854	47,719	98,129
Packing materials consumed	23,810	26,676	5,744	5,821
Salaries, wages and other benefits	261,339	238,573	88,781	80,391
Fuel and power	1,736,779	1,515,023	667,331	593,324
Repair and maintenance	24,008	26,472	6,270	9,240
Rent, rates and taxes	30,516	34,788	7,215	11,569
Insurance	9,187	8,545	3,060	2,702
Depreciation	128,683	129,095	43,605	43,959
Vehicle running expenses	13,111	15,625	4,110	5,333
Telephone, telex and postage	597	530	189	196
Printing and stationery	100	169	19	72
Other expenses	1,095	1,918	449	398
	2,391,696	2,265,268	874,492	851,134
Opening work in process	29,490	25,250	31,005	22,994
Closing work in process	(30,184)	(25,797)	(30,184)	(25,797)
	(694)	(547)	821	(2,803)
Cost of goods manufactured	2,663,685	2,529,426	962,758	931,142
Cost of stores traded	23,500	31,148	3,305	2,474
Opening stock of finished goods	179,702	156,198	121,434	264,369
Closing stock of finished goods	(65,321)	(317,778)	(65,321)	(317,778)
	114,381	(161,580)	56,113	(53,409)
	2,801,566	2,398,994	1,022,176	880,207
13 EARNINGS PER SHARE - BASIC AND DILUTED				
(Loss) / profit after taxation - (Rs. in thousand)	(51,565)	158,940	(59,985)	1,037
Weighted average number of ordinary shares - (in thousand)	50,000	50,000	50,000	50,000
Earnings per share - basic and diluted - (Rs.)	(1.03)	3.18	(1.20)	0.02

There is no dilutive effect on the basic earnings per share of the Company.



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:

Transaction with:	Relationship with the Company	Nature of transaction	Nine months ended March 31,		Quarter ended March 31,	
			2015	2014	2015	2014
			—— (Rupees in thousand) ——			
Related party	Related party	Marketing services Charges	13,945	22,578	4,933	7,096
Related party	Associated company	Loan received	10,000	-	10,000	-
Retirement benefit Plans	Retirement benefit Plans	Loan received	40,000	50,000	40,000	-
Key management Personnel	Key management Personnel	Contribution to staff retirement benefit Plans	252	221	88	75
		Remuneration and other benefits	61,936	59,284	19,172	18,166
			(Un-audited)		(Audited)	
			March 31, 2015		June 30, 2014	
			—— (Rupees in thousand) ——			
Period / Year end Balances:						
	Relationship with the Company	Nature of outstanding balances				
	Related party	Trade and other payables	11,148		464	
	Related party	Short term borrowings	10,000		-	
	Associated company	Short term borrowings	53,500		23,500	
	Associated company	Long term financing	660		660	
	Other related parties	Long term financing	4,150		4,150	

15 DATE OF AUTHORIZATION FOR ISSUE

These condensed interim financial statements were authorized for issue on April 22, 2015 by the Board of Directors of the Company.

16 GENERAL

Amounts have been rounded off to the nearest rupees in thousand unless otherwise stated.


CHIEF EXECUTIVE


DIRECTOR



ITTEHAD
GROUP

www.ittehadchemicals.com

Registered/Head Office: 39-Empress Road, Lahore-Pakistan. Tel: +92 42 3630 6586-88, Fax: +92 42 3636 5697

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