RATING REPORT

ICI Pakistan Limited (ICI)

REPORT DATE:
April 09, 2021

RATING ANALYST:

Asfia Aziz
asfia.aziz@vis.com.pk

Rating Category	Latest Rating	
	Long-term	**Short-term**
Entity	AA	A-1+
Rating Outlook	Stable	
Rating Date	*April 09, 2021*	
Rating Action	*Initial*	

COMPANY INFORMATION	
Incorporated in 1952	**External auditors:** EY Ford Rhodes Chartered Accountants
Public Limited Company	**Chairman:** Mr. Muhammad Sohail Tabba
Key Shareholders (with stake 5% or more):	**CEO:** Mr. Asif Jooma
Lucky Cement Limited- 55% *Yunus Textile Mills Limited- 11.95%* *Lucky Textile Mills Limited- 6.23%* *Gadoon Textile Mills Limited-7.21%*	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria ***(April 2019)*** https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

ICI Pakistan Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

ICI Pakistan Limited (ICI) was incorporated in 1952 as a public limited company. ICI is listed on Pakistan Stock Exchange Limited, with the head office situated in Karachi, and regional offices located in Lahore, Islamabad, Sheikhupura, Khewra, Hattar, Faisalabad, Sahiwal, Multan, Kasur, Peshawar, Sukkur and Hyderabad. The product portfolio comprises Soda Ash, Polyester Staple Fibre (PSF), General and Specialty Chemicals, Pharmaceuticals & Nutraceuticals, Animal Health products and Agricultural products. It provides an array of drugs in the area of cardiology, oncology, probiotics and others. The company also commercializes field crop seeds and vegetable seeds. It also manufactures infant and growing up formula. The company has production facilities located in Karachi, Lahore, Khewra (Jhelum), Sheikhupura, Kasur and Hattar.

Strong and diversified sponsor group is a key rating driver

ICI Pakistan Limited (ICI) is a part of the Yunus Brother Group (YBG) which is a leading conglomerate with strong financial profile and diverse presence across multiple sectors including power generation, building materials, real estate, textile, chemicals, pharmaceuticals, food and automotive sectors. The group has an annual turnover of nearly Rs. 221.9b and an asset base of Rs. 319.2b at end-2019. Since their acquisition of ICI in 2012, sponsors have continued to invest in the expansion of the businesses, demonstrating their long term commitment to the company. Ratings assigned to ICI draw support from strong financial profile and diversified presence of sponsor.

While all business segments remain exposed to changes in the macro environment, ratings derive comfort from the diversity across industries and customers supported by historical track record of sustained profitability.

The diverse product portfolio of ICI Pakistan Limited includes Soda Ash, Polyester Staple Fibre (PSF), Pharmaceuticals, Nutraceuticals, Animal Health products, General and Specialty Chemicals and Agricultural products (including chemicals, field crop seeds, vegetable seeds and more). In the infant growing up formula category, the Company has a majority stake in NutriCo Morinaga (Private) Limited, which locally manufactures, markets and distributes selected Morinaga products in Pakistan. ICI Pakistan Limited has 40% stake in NutriCo Pakistan (Private) Limited. Business risk profile dynamics of each segment are discussed separately below:

1. **Soda Ash**

Soda Ash, also known as sodium bicarbonate is an alkali chemical refined from mineral trona or naturally occurring sodium carbonate bearing brines. It has varied uses as a builder or filler in manufacturing of soaps, detergents, and other cleaning solutions, as well as used in the glass industry to bring down the melting temperature of silica sand (the main raw material of glass). Soda ash is also used in the paper industry for the preparation of the sodium sulphite buffer liquid used in the pulp manufacturing process. It is also applied in the water treatment segment, by adjusting the pH of water when it is acidic. The segment contributed 28% (FY20: 29%) to the topline of the company but generated 46% (FY20: 64%) of EBIT contribution during 1HFY21. At end-Dec'20, ICI had an installed capacity of 425,000 MT of soda ash. There are three SKUs / product types of Soda Ash which are industrial grade i.e. Light Ash and Dense Ash whereas the third one is Refined sodium bicarbonate. RSM is also known as baking soda which is utilized in bakery, poultry and personal care sectors. ICI holds dominant market share of around 65-70% in the soda ash market in Pakistan followed by Olympia Chemicals holding around 20-25% of the market with the remaining demand catered by imports. The company also exports surplus products to international markets such as Sri Lanka, UAE, Saudi Arabia, Qatar, Bangladesh, Tanzania and Afghanistan. Exports contributed around 4% of the soda ash sales revenue during FY20.

Competitive advantage of the company in this business segment stems from proximity of the manufacturing unit to major raw materials and customers along with self-sufficiency in energy requirements. Major raw materials for soda ash include limestone, salt, coal and coke. Being located in Khewra, the company benefits from being close to sourcing hub for limestone and salt while coke and coal are imported. Customer base of the soda ash segment is diversified with the major buyers situated in Punjab who contribute around 70% of the total domestic consumption of soda ash.

Profile of Chairman
Mr. Muhammad Sohail Tabba – Pakistan's business mogul and philanthropist, owes his prosperity to a conglomerate of businesses and export houses bearing the YBG brand name. His proficient leadership in diverse sectors – manufacturing, cement, energy, entertainment, real estate and philanthropy – spanning over almost three decades – has earned laurels and accolades for his group and country.

He is CEO of Gadoon Textile Mills Limited, Lucky Knits Private Limited and Director of Yunus Textile Mills Limited, Lucky Textile Mills Limited – is spearheading Pakistan 's leading company, YBG, in the arenas of textiles globally. Gadoon Textile Mills Limited, Lucky Knits Private Limited, Yunus Textile Mills Limited and Lucky Textile Mills Limited are Pakistan's leading vertically integrated manufacturing houses providing employment

MT	FY17	FY18	FY19	FY20
Soda Ash				
Capacity	350,000	425,000	425,000	425,000
Production	342,416	378,248	422,168	372,518
Utilization	98%	89%	99%	88%
Sodium Bicarbonate				
Capacity	40,000	40,000	40,000	40,000
Production	31,660	38,000	40,353	38,122
Utilization	79%	95%	101%	95%

Capacity utilization of the plant has remained on the higher side consistently on a timeline basis. The soda ash market witnessed a contraction during FY20 as evident from declining utilization levels due to COVID-19 induced slowdown in market activity. Demand from glass manufacturers declined due to subdued construction activities. Paper and silicate segment were negatively affected on account of closure of schools and low demand from the textile industry, respectively. However, the detergent sub-segment witnessed growth amidst COVID-19 due to increased focus towards hygiene. During 1HFY21, soda ash market started to gain momentum however remained subdued barring the detergent sub-segment. Given float glass belonging to the last stage of the construction cycle, soda ash demand from the glass manufacturers is expected to increase in the latter half of the ongoing year. Moreover, in view of Naya Pakistan Housing Scheme along with CPEC projects, increased construction activity going forward and continued consumer focus on hygiene bodes well for soda ash demand.

In view of increasing demand, the company plans to expand soda ash capacity to 560,000 MT which will be completed in two phases. Phase I and II encompasses installation of 75,000 MT and 60,000 MT of soda ash, respectively and is expected to commence operations by June'2022 and Dec'2022, respectively. Furthermore, post completion of the aforementioned expansion, the management also has an expansion plan of additional 200,000 MT capacity in pipeline.

2. Polyester

This segment is the biggest contributor of around 37% (FY19: 41%) to the company revenues during FY20. ICI deals in manufacturing of polyester staple fibre (PSF) which is a synthetic fibre utilized to manufacture yarn in the textile sector. Over a period of four decades, the company has introduced various specialty products based on health and hygiene, sustainability, versatility, and traceability. At end-Dec'20, the company had an installed capacity of 122,250 MT of PSF. ICI holds second highest market share of around 24% in the industry with the dominant share held by Ibrahim Fibres (annual capacity of 390,600 MT) of around 50-60%. There are total three domestic producers of PSF. In order to protect the local manufacturers, anti-dumping duty has been imposed on PSF imports from China. The company exports surplus production to USA, Turkey and Bahrain. Exports comprise a meager 2% of the polyester sales revenue with the primary focus towards meeting local demand.

PSF is manufactured from derivatives of crude oil- Pure Terephtalic Acid (PTA) and Mono-Ethylene Glycol (MEG). PTA is procured both locally (Lotte Pakistan) and through imports whereas MEG is imported. Given dependence on imported raw material, risk of volatility in exchange rates remain; however the same is mitigated by maintaining minimum levels of raw material inventory. PSF prices are a determinant of international petrochemical prices; concurrently, risk of volatility in international oil prices remain. Customer base of the polyester segment includes major textile mills of Pakistan.

MT	FY17	FY18	FY19	FY20
Polyester				
Capacity	122,250	122,250	122,250	122,250
Production	121,929	126,853	121,585	108,339
Utilization	100%	104%	99%	89%

Capacity utilization of the polyester segment albeit remaining on the higher side declined during FY20 on account of COVID led slowdown along with change in international demand supply dynamics. During FY20 and the ongoing year, crude oil prices declined consequently weakening domestic PSF prices. Due opportunities to over 15,000 people.

He was appointed as a Non-Executive Director on the Board of ICI Pakistan Limited in 2012 and since 2014, with his laudable leadership, he acquired the position of Chairperson at ICI Pakistan Limited and became the Chairperson of NutriCo Morinaga (Private) Limited, a state-of-the-art Morinaga manufacturing facility which was established in Pakistan in 2016 as a joint venture to produce infant formula.

His vision enabled the manifestation of Lucky One Mall, which is the largest mall in South Asia.

Besides being the CEO of Lucky Energy (Pvt.) Ltd, Yunus Energy Limited, Lucky One Private Limited; he is the Director of Lucky Cement Limited, Kia Lucky Motors, and several other companies. His social engagements include being the founding member of the Italian Development

to trade war between China and USA, there were surplus exportable PSF capacities in Asia. In line with declining petrochemical prices, regional PSF prices fell by a greater percentage than domestic prices leading to a significant surge in PSF imports in Pakistan during FY20 and 1HFY21. Moreover, lockdowns and order cancellations faced by Pakistan's textile sector amidst COVID-19 further dampened polyester sales during FY20 and 1HFY21.

Going forward, demand for PSF is expected to rebound to historical levels by FY22 as the global markets gradually improve. Furthermore, projected expansions in domestic textile sector towards higher value-addition bode well for the polyester business segment in the future.

In view of increasing demand of environment friendly products, ICI plans to expand in the R-PET segment with an annual capacity of 16,000 MT (Fibre made from 100% recycled PET chips which are procured locally). Expected COD of the project is by FY23.

3. Pharmaceuticals

Pharmaceutical business segment of the company has evolved over years from trading and toll manufactured model to acquisition of leading brands and manufacturing facilities. ICI markets and distributes pharmaceutical products of leading brands in the world such as AstraZeneca and Ferrer. Along with marketing of various products, the company also manufactures its own high quality pharmaceuticals and nutraceuticals products. The company diversified its product portfolio through acquiring leading brands and assets of Wyeth Pakistan Limited (Wyeth) and Pfizer Pakistan Limited along with acquisition and subsequent amalgamation of Cirin Pharmaceuticals (Private) Limited (CPL) in the company. The company has three fully equipped manufacturing facilities at Hattar, KPK, West Wharf, Karachi and Hawke's Bay Road, Karachi. CPL reported annual turnover of around Rs. 1b at the time of merger. During FY20, the pharmaceutical industry reported sales revenue of Rs. 441b with a slowdown noticed in comparison to preceding year on account of trade ban on imports from India, COVID-19 pandemic, and the documentation drive by the tax authorities. ICI imports raw materials majorly from China, India and Europe. Pharmaceutical industry of Pakistan comprises 617 companies with ICI's market share of 1.56% (FY19: 1.38%) during FY20.

Given the non-cyclical nature of the sector with relatively stable (inelastic) demand, revenues and profitability of pharmaceutical industry are likely to remain unaffected by the economic downturns. Growing population, increase in income levels, high disease incidence coupled with emergence of new diseases and poor hygiene levels continue to support growth in demand for pharmaceutical products in the country. Hence, business risk is considered low in the long term. However, dependence on Drug Regulatory Authority of Pakistan (DRAP) for regulatory approvals pertaining to increase in prices and introduction of new products along with impact of rupee devaluation on margins continue to remain key risk factors. Recent amendments in the Drug Pricing Policy 2018 include introduction of a timeframe of 30 days for DRAP to review the increase in drug prices proposed by the manufacturers and reduction in timeline for decisions on hardship cases from 180 to 120 days.

During FY20, ICI launched eight new products- Xenecor, Viltin, Viltin-Met, Merpen, Dorinem, Avaam, Avaam Plus and Fortexone 2g. Amongst all, Merpen gained a lot of success with single product contributing around Rs. 100m in the total sales revenue of the segment and was declared as the best launch of the year by IQVIA. ICI also produced two new brands during FY20- Alcuflex and Fortexone. Capability of the manufacturing units also witnessed enhancement through installation of CAM-Line and upgradation of Sterile manufacturing. Going forward, management envisages pharmaceutical segment to grow through focus on launching innovative products to meet demands of patients across the country.

4. Animal Health

Animal Health business segment contributes to the development of livestock and poultry sectors. International collaborations with MSD Animal Health, Elanco, Bayer Animal Health,Trouw Nutrition, Lanxess, Mervue Laboratories, Cogent Breeding UK, ST Genetics, Berg + Schmidt, Choong Ang Vaccine Laboratories (CAVAC), Champrix, Vemo 99 Ltd and Norbrook Laboratories provide competitive edge to the company. Along with imported medicines and nutrition, the company has manufacturing capability of its own cattle feed by the name of Vanda and also supplies Silage. ICI also offers locally made high quality generics under the brand name of 'Farmer's Choice'. The business

Council and playing an instrumental role in contributing to the educational landscape of Pakistan by serving on the Board of Governors at Textile Institute of Pakistan. He has also previously served on the board of Hamdard University.

Driven to contribute to the community, Mr. Muhammad Sohail Tabba became the Founding Trustee of Child life Foundation Pakistan in 2012. His magnanimous contribution to the healthcare sector of Sindh is treating almost 2,000,000 patients annually through contemporary children's emergency rooms in seven government hospitals. He is also the Director of Aziz Tabba Foundation that funds Tabba Heart and Kidney Institutes besides several other welfare projects.

Profile of CEO

Asif Jooma started his career in the corporate sector with ICI Pakistan Limited in 1983 and has over 35 years of extensive experience in senior commercial and leadership roles. Following his early years with

segment operates with three manufacturing sites with installed capacity of 68,000 MT of Silage and 1,320,000 bags of Vanda. The company has an extensive wide-spread distribution network categorized by a National Distributor, 380 Vanda and Bovine Genetics Dealers and 396 medicine dealers.

- <u>Livestock segment</u>
  Around three-fourth of the segment's total revenue was contributed by the livestock sector products during FY20. The product categories of this segment encompasses anthelmintic, antibiotics, intra-mammary and intrauterine products, antiprotozoal, bovine genetics, bypass fat, reproductive hormones, nutritional portfolio including restoratives, Silage and Vanda. During FY20, the livestock sector of Pakistan had an estimated growth of 2.58% contributing 60.6% to the overall agriculture sector and 11.7% to the GDP.

- <u>Poultry segment</u>
  Around one-fourth of the segment's total revenue is contributed by the poultry sector products during FY20. The product categories of the Poultry segment include antibiotic growth promoters (AGPs), moisture optimization and grain treatment, antibiotics (imported and locally manufactured), biologicals, disinfectants, organic acids, enzymes and nutritional products. Poultry meat contributes 35% of the total meat production of 4,708,000 MT in the country. Poultry meat production showed a growth of 9.1% during FY20.

The animal health industry is fragmented in nature with a lot of players providing local and imported products. Since the industry is largely un-documented, credit risk is on the higher side. In pursuant to mitigate the same, during FY20, the management implemented conversion strategy from credit to cash or other alternative arrangements with efforts towards converting customers to dealer financing. Given reducing demand and supply of both livestock and poultry products amidst COVID-19, growth in this sector remained subdued during FY20. Going forward, given relaxation in lockdowns, the demand supply gap is expected to be bridged gradually.

5. Chemicals and Agri-Sciences

The Chemicals division deals in import, manufacturing and marketing of own products, and brands & variants from international partners. Product portfolio of the chemical division includes General Chemicals (Consumer chemicals and adhesives), Polyurethanes (isocyanates and polyols for the rigid and flexible segments), Specialty Chemicals (textiles dyes and auxiliaries, crop protection emulsifiers, and various general industrial chemicals) and Masterbatches. Agri-Sciences division deals in the provision of imported seeds (~49%), agro-chemicals and micronutrients (~51%) to the agricultural sector of Pakistan. The segment caters to various industries including oil, textiles, automobile, construction, footwear, appliances, health care, personal care, beverages, and food etc. During FY19, the company announced commencement of its state-of-the-art manufacturing facility of Masterbatches- which is a colourant and additive used in plastics in the packaging industry. Masterbatches industry comprises three to four major players in the market along with protection of import duty.

Overall performance of the chemicals and agri-sciences division was affected by the COVID led slowdown in the major sectors that it caters. Agri-Sciences business was further impacted during 1HFY21 owing to import ban on Indian products, higher pest attacks and unsuitable weather conditions; however, the effect of the same was mitigated through offering of alternative products. Going forward, management envisages growth in this segment through focus towards innovation and seeking for new business opportunities to expand the portfolio base.

Investment portfolio provides support to overall profitability in the form of dividends

Around 9% (FY20: 8%) of the total asset base comprises long term investments in subsidiaries and associated companies at end-Dec'20. Investment portfolio comprises investment in power and infant nutrition sectors. The investments are as below:

Rs. in m	Holding	FY19	FY20
ICI Pakistan PowerGen Limited	100%	500	500
NutriCo Morinaga Pvt Limited	51%	1,469	1,724
Cirin Pharmaceuticals	Subsidiary in FY19 and now merged	981	-

ICI Pakistan Limited and subsequently Pakistan PTA Limited, he was appointed as Managing Director of Abbott Laboratories Pakistan Limited in 2007. After serving there for nearly six years, he returned to ICI Pakistan Limited as Chief Executive in February 2013.

Mr. Jooma has previously served as President of the American Business Council, President of the Overseas Investors Chamber of Commerce and Industry (OICCI) and Chairman of the Pharma Bureau. He has also served as a Director on NIB Bank Limited, Engro Fertilizers Limited and Director and Member Executive Committee of the Board of Investment (BOI) – Government of Pakistan. Mr. Jooma currently serves on the Board of International Industries Limited, National Bank of Pakistan, Systems Limited and Pakistan Tobacco Company Limited, and is the Chief Executive Officer of NutriCo Morinaga (Private) Limited.

He is on the Board of Governors of the Lahore University of

Nutrico Pakistan	40%	960	960
Arabian Sea Country Club	Equity Investment	3	3
		3,913	**3,187**

- ICI Pakistan PowerGen Limited (IPPL)
  The company is a wholly owned subsidiary of ICI that deals in generation and supply of electricity to ICI's polyester plant in Sheikhupura, Punjab. The company consistently pays dividend income to ICI which supports overall profitability of the company. During FY20, the quantum of dividend income from IPPL amounted Rs. 30m (FY19: Rs. 135m, FY18: Rs. 120m). Going forward, dividend inflow from IPPL is expected to continue.

- Nutrico Pakistan Private Limited (NPPL)
  NPPL deals in import, marketing and distribution of nutrition products of Morinaga Milk Industry Co. Limited, Japan. NPPL's market share is estimated at around 50% in the imported formula category. Consistent dividend income stream provides additional support to overall earnings of ICI. During FY20, the quantum of dividend income from NPPL amounted Rs. 800m (FY19: Rs. 180m, FY18: Rs. 420m). Going forward, dividend inflow from NPPL is expected to continue.

- NutriCo Morinaga Pvt Limited (NMPL)
  In order to further enhance and diversify investment portfolio, ICI has invested in state-of-the-art facility that locally manufactures nutrition formula for children. Total cost of the project was around Rs. 6b with ICI's equity stake of 51%, followed by 24.5% stake of Unibrands Private Limited and Morinaga Japan each. The plant commenced operations during 2QFY20. During 1HFY21, the company is producing two products at its full pace. Going forward, the company plans to launch additional products to leverage the plant capacity. Dividend income from NMPL is expected once the company achieves economies of scale and stability in its operations.

Sales revenue of the company has grown at a CAGR of 7% over the past six years. Revenue base of the company is well-diversified across various business segments, mitigating segment concentration risk. Moreover, diverse customer base and wide-spread distribution network mitigates client and geographical concentration risk. Going forward, management expects sales revenue to depict an upward trajectory in view of projected gradual improvement in overall economic demand of the country along with planned expansions.

Sales Mix	FY19	FY20	1HFY21
Polyester	41%	37%	38%
Soda Ash	28%	29%	28%
Pharmaceuticals	11%	11%	12%
Animal Health	6%	7%	8%
Chemicals and Agri Sciences	14%	15%	14%
	100%	**100%**	**100%**

Sales revenue of the company has grown at a CAGR of 7% over the past six years with the same amounting Rs. 53.6b (FY19: Rs. 58.3b) during FY20. Sales mix of the company depicts around 66% of the sales revenue being contributed by two segments- Soda Ash and Polyester followed by Chemicals & Agri-Sciences, Pharmaceuticals and Animal Health segments. The decline in revenues is contributed by sales reduction across all segments except Animal Health majorly on account of COVID-19 induced slowdown. However, well-diversified revenue and customer base, and wide-spread distribution network bodes well for the business, client and geographical concentration risk profile, respectively. Going forward, management expects sales revenue to depict un upward trajectory in view of projected gradual improvement in overall economic demand of the country along with planned expansions in Soda Ash and Polyester segments.

Efficient and diversified operations with focus towards innovative products, own power generation, and support from investment income has facilitated in improving profitability

Management Sciences (LUMS) and a Trustee of the Duke of Edinburgh's Awards Programme whilst previously also serving on the Board of Indus Valley School of Art and Architecture (IVSAA). Mr. Jooma graduated cum laude from Boston University with a Bachelor of Arts in Development Economics. He has attended Executive Development Programmes at INSEAD and Harvard Business School.

indicators on a timeline basis. Going forward, management envisages improvement in margins on the back of projected expansions in value-added business segments.

EBIT Contribution Mix	FY19	FY20	1HFY21
Polyester	1%	10%	29%
Soda Ash	74%	64%	46%
Pharmaceuticals	6%	10%	8%
Animal Health	5%	4%	5%
Chemicals and Agri Sciences	14%	13%	12%
	100%	**100%**	**100%**

Gross and operating margins of the company have witnessed an increasing trend on a timeline basis with the same reported at 22.7% (FY20: 19.5%, FY19: 16.2%) and 13.6% (FY20: 10.4%, FY19: 8.5%), respectively during 1HFY21. Improvement in the same was a function of healthy margins on value-added products, cost rationalization initiatives undertaken by the company, lower sales volumes amidst COVID-19, better product mix and increasing market share across all business segments. Improvement in operating profit of 13% during FY20 was contributed by Polyester, Pharmaceuticals and Chemicals & Agri Sciences businesses by 711%, 99% and 5% respectively. Financial charges increased by 10% during FY20 on account of higher policy rate. Furthermore, the company faced exchange losses during FY20 due to PKR devaluation. Profitability profile has historically been supported by dividend income from investments which amounted Rs. 233m (FY20: Rs. 955m, FY19: Rs. 409m) during 1HFY21. Net profit after tax was reported higher at 2.6b (FY20: Rs. 3b; FY19: Rs. 2.3b) during 1HFY21. Going forward, management envisages further improvement in profitability profile of the company on the back of projected expansions in value-added business segments.

Satisfactory liquidity profile as evident from sufficient cash flows coverages of outstanding obligations. In line with projected increase in profitability, liquidity profile of the company is expected to further strengthen, going forward.

Adjusted funds flow from operations (FFO including dividend income from subsidiary and associate) was reported at Rs. 6.4b (FY19: Rs. 4.9b) and Rs. 4.8b during FY20 and 1HFY21, respectively. Debt Service Coverage Ratio (DSCR), FFO/Total Debt and FFO/ Long Term Debt remain sufficient at 4.86(x) (FY20: 2.39x, FY19: 2.73x), 125% (FY20: 57%, FY19: 32%) and 140% (FY20: 83%, FY19: 59%) at end-Dec'20, respectively. Working capital cycle is satisfactory while receivable and inventory days have been maintained within manageable levels. Stock in trade and trade debts are well in excess of short term borrowings while current ratio has historically remained consistently at over 1(x). In line with projected increase in profitability, liquidity profile of the company is expected to further strengthen, going forward.

Low leverage indicators, conservative financial policy and healthy internal capital generation depicts sound capitalization profile

Equity base of the Company has grown at a CAGR of 8% over the past three years (FY17-FY20) on account of healthy internal capital generation. Dividend payout ratio of the Company has ranged between 30%-50% over the past three years. Total debt was reported at Rs. 7.7b (FY20: Rs. 11.1b, FY19: Rs. 15.5b) at end-Dec'20. Debt profile largely comprises long term debt which has been withdrawn for acquisition & expansion projects. During FY20, the company availed the long term debt pertaining to payroll finance. The company has a running finance facility to the tune of Rs. 14.25b, out of which 6% (FY20: 23%) was mobilized at end-Dec'20. Gearing and leverage indicators of the company were reported at 0.34x (FY20: 0.55x, FY19: 0.83x) and 0.27x (FY20: 0.54x, FY19: 0.82x) at end-Dec'20. Interest rate risk is considered on the lower side given concessionary rate borrowings comprising around 60% of the total debt portfolio. Given expansion plans in the Soda Ash and Polyester business segments, leverage indicators of the company are expected to increase, however, VIS expects gearing levels to remain below 1(x) over the rating horizon led by consistent improvement in projected profitability profile.

Sound corporate governance framework supported by a well-designed organizational structure, experienced management team and strong disposition towards transparency and disclosures

ICI has instituted a well-designed organizational structure comprising separate departments for key functions. All divisions have independent management teams and organizational structure. Board composition is in line with best practices while effective oversight mechanism is in place through functioning board committees. Detailed annual report disclosures reflect strong disposition towards transparency and disclosures.

ICI Pakistan Limited (ICI) Appendix I

ICI Pakistan Limited(Unconsolidated Financial Summary) (PKR m)					
BALANCE SHEET	**FY17**	**FY18**	**FY19**	**FY20**	**1HFY21**
Fixed Assets	19,613.5	20,576.3	20,329.2	19,521.9	18,844.3
Long term Investments	2,954.3	3,913.1	3,913.1	3,186.8	3,441.8
Short term investments	-	-	-	-	-
Stock-in-Trade	5,746.6	8,737.6	9,841.2	9,327.8	8,145.1
Trade Debts	2,547.3	2,605.8	2,388.0	2,289.0	2,237.0
Cash & Bank Balances	141.7	218.8	237.4	246.4	1,733.1
Total Assets	36,155.9	43,148.1	44,222.7	42,123.4	40,384.8
Trade and Other Payables	10,040.0	6,159.8	7,185.1	8,231.4	7,937.7
Long Term Debt	5,553.7	9,200.5	8,454.2	7,690.0	6,888.5
Short Term Debt	2,118.4	7,356.5	7,056.4	3,399.2	816.5
Total Debt	7,672.1	16,557.0	15,510.5	11,089.1	7,705.0
Total Liabilities	19,308.1	25,066.7	25,015.6	21,360.3	17,475.7
Paid Up Capital	923.6	923.6	923.6	923.6	923.6
Total Equity (without revaluation surplus)	16,183.9	17,411.9	18,608.9	20,231.8	22,405.7
INCOME STATEMENT					
Net Sales	41,363.7	49,107.6	58,328.8	53,598.5	29,372.8
Gross Profit	7,765.5	8,499.6	9,451.7	10,462.2	6,681.4
Operating Profit	4,043.6	4,397.8	4,935.4	5,575.1	4,006.8
Profit Before Tax	4,394.4	3,650.4	3,180.5	4,235.7	3,626.3
Profit After Tax	3,296.1	3,059.7	2,304.9	3,029.0	2,607.9
RATIO ANALYSIS					
Gross Margin (%)	18.8%	17.3%	16.2%	19.5%	22.7%
Net Margin	8.0%	6.2%	4.0%	5.7%	8.9%
Net Working Capital	94.8	2,447.5	2,209.2	3,605.0	4,895.1
Trade debts/Sales	6%	5%	4%	4%	4%
Adjusted FFO	6,408.6	5,217.5	4,989.5	6,365.5	4,827.3
FFO to Total Debt (%)	84%	32%	32%	57%	125%
FFO to Long Term Debt (%)	115%	57%	59%	83%	140%
Current Ratio (x)	1.01	1.17	1.13	1.27	1.46
Debt Servicing Coverage Ratio (x)	8.97	5.02	2.73	2.39	4.86
Gearing (x)	0.47	0.95	0.83	0.55	0.34
Leverage (x)	1.19	1.44	1.34	1.06	0.78
Dividend payout	50%	50%	36%	49%	71%
(Stock in Trade+ Trade Debts)/STD	392%	154%	173%	342%	1271%
ROAA (%)	10%	7.7%	5.3%	7.0%	12.6%
ROAE (%)	22%	18.2%	12.8%	15.6%	24.5%

ISSUE/ISSUER RATING SCALE &DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES					Appendix III
Name of Rated Entity	ICI Pakistan Limited				
Sector	Chemicals/Resins/Alkali				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: ENTITY				
	Apr-9-2021	AA	A-1+	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
Probability of Default	VIS ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2021 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Atif Aboobukar	CFO	18-March-2021
2	Mr. Muhammad Nauman	Manager – Planning, Budgeting & Taxation	18-March-2021
3	Mr. Vijay Kumar Kukreja	Assistant Manager – Treasury & Retirement Funds	18-March-2021
4	Mr. Ahmed Faraz	Corporate Treasury Officer	18-March-2021