RATING REPORT

ICI Pakistan Limited (ICI)

REPORT DATE:
June 30, 2022

RATING ANALYST:
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Rating Details	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	AA	A-1+	AA	A-1+
Rating Outlook	Stable		Stable	
Rating Action	*Reaffirmed*		*Initial*	
Rating Date	*June 30, 2022*		*April 09, 2021*	

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: Industrial Corporates ***(August 2021)*** ***https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf***

ICI Pakistan Limited

OVERVIEW OF THE INSTITUTION

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.

Profile of Chairman

Mr. Muhammad Sohail Tabba is an industry veteran with experience in diverse sectors – manufacturing, cement, energy, entertainment, real estate and philanthropy – spanning over almost three decades. Mr. Sohail is the 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.

Profile of CEO

Asif Jooma has over 35 years of extensive experience in senior commercial and leadership roles. Mr. Jooma currently serves on the Board of International Industries Limited,

RATING RATIONALE

ICI Pakistan Limited ('ICI' or 'the Company') is a diversified business conglomerate listed on Pakistan Stock Exchange. The Company's product portfolio comprises Soda Ash, Polyester Staple Fibre (PSF), General and Specialty Chemicals, Pharmaceuticals & Nutraceuticals, Animal Health products and Agricultural products. ICI provides an array of drugs in the area of cardiology, oncology, probiotics and others. The Company also commercializes field crop seeds. The Company has an investment in wholly owned Subsidiary "ICI Pakistan PowerGen Limited". It also has an investment in Subsidiary Company namely NutriCO Morinaga (Private) Limited, engaged in manufacturing, marketing and distributing formula products. Production facilities of the Company are located in Karachi, Lahore, Khewra (Jhelum), Sheikhupura, Kasur and Hattar.

Business Update – ICI

Operations, Sales & Profitability

Table 1: Capacity Utilization – Major Segments

MT	FY17	FY18	FY19	FY20	FY21
Soda Ash					
Capacity	350,000	425,000	425,000	425,000	425,000
Production	342,416	378,248	422,168	372,518	395,609
Utilization	98%	89%	99%	88%	93%
Sodium Bicarbonate					
Capacity	40,000	40,000	40,000	40,000	54,000
Production	31,660	38,000	40,353	38,122	45,522
Utilization	79%	95%	101%	95%	84%
Polyester					
Capacity	122,250	122,250	122,250	122,250	122,250
Production	121,929	126,853	121,585	108,339	137,720
Utilization	100%	104%	99%	89%	113%

- The capacity utilization of all major segments posted improvement in FY21 subsequent to posting contraction in FY20, which was mainly attributable to the pandemic-induced lockdowns. Part of planned expansion came online in the Sodium Bicarbonate segment, as a result of which the capacity utilization of this particular segment decreased.

Table 2: Sales & Profitability

	FY20	FY21	9M'FY21	9M'FY22
Sales	**53,599**	**62,618**	**46,527**	**62,441**
Sales Growth (%)	*(8.1%)*	*16.8%*	*7.6%*	*34.2%*
Gross Margin	19.7%	22.9%	23.9%	22.1%
Operating Margin	10.6%	13.4%	14.6%	13.9%
Net Margin	5.8%	9.5%	9.6%	8.8%

- ICI has been posting strong topline growth, subsequent to experiencing a one-off contraction in FY20. As illustrated in the table below, the growth was mainly driven by the Polyester segment in FY21, contributing 49% of the growth with almost equal contributions from all other segments. In 9M'FY22, the growth emanated from both Polyester and Soda Ash segment, which constituted 53% and 32% of the revenue uptick respectively.

Table 3: Segment-wise Breakup of Sales

	FY20	FY21	9M'FY21	9M'FY22	▲FY21	▲9M'FY22
Sales	**53.6**	**62.6**	**46.5**	**62.4**	**9.0**	**15.9**
Polyester	19.9	24.3	18.1	26.5	4.4	8.4
Soda Ash	15.6	16.7	12.4	17.5	1.1	5.1
Pharmaceuticals	6.1	7.8	5.8	6.5	1.7	0.7
Animal Health	3.9	5.1	3.8	4.2	1.2	0.4

National Bank of Pakistan, Systems Limited and Pakistan Tobacco Company Limited, and is the CEO of NutriCo Morinaga (Private) Limited.

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.

Chemicals and Agri Sciences	8.0	8.7	6.5	7.8	0.7	1.4

- In terms of segment-wise gross margins, across the board improvement was noted in FY21. Overall gross margins contracted slightly in 9M'FY22, mainly as a result of contraction in margin in the Polyester and Soda Ash segments, which are the biggest contributors, comprising 70% and 60% of the topline and gross profit respectively in 9MFY22.

Table 4: Segment-wise Gross Margins

	FY20	FY21	9M'FY22
Gross Margin	**19.7%**	**22.9%**	**22.1%**
Polyester	*5.8%*	*13.6%*	*13.4%*
Soda Ash	*28.4%*	*30.8%*	*27.1%*
Pharmaceuticals	32.3%	32.6%	33.9%
Animal Health	23.1%	23.8%	29.01%
Chemicals and Agri Sciences	24.6%	24.6%	26.4%

A brief business overview of each segment is as follows

- **Polyester:** The segment posted 22% and 46% increase in net revenues, during FY21 and 9MFY22 respectively, with rising price trend and demand mainly being driven by the textile industry. Company's margins improved mainly on the back of rising price trend seen in International Market, a trend which has continued in 9M'FY22. Going forward, in overview of tight availability of cotton and consistent trend of increase in cotton pricing, Polyester segment performance is expected to remain robust.
- **Soda Ash:** Growth in Soda Ash segment revenues was recorded at a meagre 7% for FY21, while segment margins remained strong. In 9MFY22, the segment's performance has remained strong with 41% growth in revenue and margins broadly being maintained. In January 2022, the Ministry of Commerce implemented a regulatory duty of 20% on Soda Ash import till 30 June 2022.
  In view of increasing demand, the Company is expanding soda ash capacity to 560,000 MT which will be completed in two phases. Phase I and II with 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.
- **Pharmaceutical:** The Pharmaceutical segment posted growth of 27% and 13% in FY21 and 9MFY22 respectively. The higher growth in revenues is mainly attributable to growth in sales of existing products and new product launches. Gross margin also depicted improvement on account of an improved sales mix and favorable manufacturing efficiencies.
- **Animal Health:** The Animal Health segment posted 31% and 10% growth in net revenues during FY21 and 9MFY22 respectively, while gross margin has also depicted improvement. The segment has benefited from the strong demand recovery in both the livestock and poultry segments and new product launches by the Company.
- **Chemical & Agri Sciences:** Net revenue for the segment grew by a 8% in FY21. The growth entirely emanated from a strong recovery of consumer demand in the Chemicals segment. This was, however, partly offset by the lower revenue in the Agri Sciences segment due to adverse conditions that negatively impacted the cotton crop last season and unfavourable weather.
  In 9MFY22 strong growth of 21% was observed in the segment. The Chemicals segment benefitted from the improved demand scenario amid consistent growth in the manufacturing industry across all sectors. Favourable weather conditions and low pest attacks enabled the Agri Sciences segment to deliver strong operating performance in the seeds sub-segment. Going forward, volatility in commodity pricing, consistent supply chain disruptions together with substantial devaluation of the PKR and an increase in interest rate are likely to weigh on the segment's profitability margins.
- **Float Glass JV:** In Feb'22, ICI has signed an agreement to establish a Joint Venture with Tariq Glass Industries Ltd for a state-of-the-art float glass manufacturing facility, with a total production capacity of up to 1,000 metric tonnes per day. This will be established in two phases, each with a production capacity of up to 500 metric tonnes per day.

Financial Risk Profile

Table 5: Cash Flow Coverages & Financial Risk Indicators (All Figures in PKR' Millions, unless stated otherwise)

	Jun'20	Jun'21	Mar'22
FFO*	**6,266**	**9,741**	**8,049**
Debt	**11,089**	**7,037**	**13,857**
- **Long Term**	7,690	5,238	5,652
- **Short Term**	3,399	1,799	8,205
Equity	**20,232**	**23,879**	**25,678**
FFO to Debt	57%	138%	77%**
FFO to LT Debt	81%	186%	190%**
Gearing	0.55x	0.29x	0.54x
Leverage	1.05x	0.83x	1.14x
DSCR	2.36x	5.44x	5.80x**
*** Includes dividend on subsidiaries & associates and interest received on deposits**			
****Annualized**			

- ICI's financial risk profile remains commensurate with the assigned rating. As illustrated in the table above, we have noted a change in debt composition, with short term running finance now comprising majority (59%) of the debt. The sizable growth in short term borrowing is mainly attributable to the rising working capital requirement.
- Given the uptick in short term borrowing, shorter term liquidity measures – such as coverage of short term debt by stock of inventory and trade debts - have come under stress, when viewed in context of the 'A-1+' short term rating assigned to the Company. As per management, the uptick in short term debt is a one-off, wherein international commodity prices increased drastically along with rupee devaluation. Moreover, inventory buying was ramped up in response to the volatility in commodity prices and supply chain disruptions. Accordingly, these are likely to normalize as the global economic situation normalizes.
- As of Mar'22, financial risk indicators, such as gearing and leverage were aligned with historical trend. Recently, in Feb'22, ICI has signed an agreement to establish a joint venture with Tariq Glass Industries Ltd for a state-of-the-art float glass manufacturing facility, which will require an equity injection of Rs. 4.6b (ICI's share). Incorporating the enhanced debt requirements, ICI's gearing is expected to rise, albeit it is projected to remain below 1x through the rating horizon. Furthermore, some portion of debt is at reduced rates in the form of TERF and LTFF and fixed for long term.

Key Rating Drivers

Assigned rating incorporates Sponsor Profile

Ratings assigned to ICI also draw support from strong financial profile and diversified presence of the Company's sponsor, Yunus Brothers Group (YBG) which is a leading conglomerate having presence across multiple sectors including Cement, Power, Real Estate, Textiles, Chemicals, Pharmaceuticals, Healthcare, Food and Automotive Sectors.

The assigned rating incorporates low and diversified business risk profile of the Company

Business risk profile of the company is considered well-diversified with minimal inter-dependence between segments. Ratings incorporate ICI's market leadership position in the soda ash segment, second largest market share in polyester segment, low business risk profile of the pharmaceuticals segment, and sizeable growth potential in the animal health and chemicals and agri-sciences divisions. While all business segments remain exposed to changes in the macro environment, ratings derive comfort from the diversity across industries, existence in businesses/ products which are essential to the needs of local customers and supported by historical track record of sustained profitability.

Assigned rating incorporates conservative financial risk profile and strong cash flow coverage indicators

The assigned rating incorporates ICI's financial risk measures (gearing & leverage), which have remained aligned with historical trend. The cash flow coverage indicators remain adequate for the assigned rating.

	Going forward, there are plans to take up additional debt, which will be used to partly finance the newly planned float glass JV. Incorporating the enhanced debt requirements, ICI's gearing is expected to rise, albeit it is projected to remain below 1x through the rating horizon.

ICI Pakistan Limited (ICI) Appendix I

ICI Pakistan Limited(Unconsolidated Financial Summary) (PKR m)					
BALANCE SHEET	**Jun'18**	**Jun'19**	**Jun'20**	**Jun'21**	**Mar'22**
Fixed Assets	20,576.3	19,620.8	18,907.7	19,379.8	25,535.0
Long term Investments	3,913.1	3,913.1	3,186.8	3,696.8	4,467.0
Short term investments	-	-	-	-	-
Stock-in-Trade	8,737.6	9,841.2	9,327.8	11,286.4	13,936.2
Trade Debts	2,605.8	2,388.0	2,289.0	2,653.8	3,502.9
Cash & Bank Balances	218.8	237.4	246.4	234.0	246.0
Total Assets	43,148.1	43,514.2	41,509.1	43,803.6	55,051.3
Trade and Other Payables	6,159.8	7,185.1	8,231.4	10,991.5	12,423.1
Long Term Debt	9,200.5	8,454.2	7,690.0	5,238.3	5,652.4
Short Term Debt	7,356.5	7,056.4	3,399.2	1,799.1	8,204.8
Total Debt	16,557.0	15,510.5	11,089.1	7,037.4	13,857.2
Total Liabilities	25,066.7	24,905.3	21,277.3	19,924.4	29,373.6
Paid Up Capital	923.6	923.6	923.6	923.6	923.6
Total Equity (without revaluation surplus)	17,411.9	18,608.9	20,231.8	23,879.2	25,677.6
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**9M'FY21**	**9M'FY22**
Net Sales	58,328.8	53,598.5	62,618.0	46,526.6	62,441.0
Gross Profit	9,451.7	10,556.3	14,348.2	11,098.2	13,781.1
Operating Profit	4,935.4	5,669.2	8,398.8	6,790.4	8,704.2
Profit Before Tax	3,180.5	4,329.8	8,228.8	6,188.7	7,555.8
Profit After Tax	2,304.9	3,095.8	5,959.4	4,444.3	5,466.1
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**FY21**	**9M'FY22**
Gross Margin (%)	17.3%	16.2%	19.7%	22.9%	22.1%
Net Margin	6.2%	4.0%	5.8%	9.5%	8.8%
Net Working Capital	2,447.5	2,209.2	3,605.0	3,527.6	(737.9)
Trade debts/Sales	5%	4%	4%	4%	4%
Adjusted FFO	5,217.5	4,989.5	6,265.5	9,740.8	8,049.2
FFO to Total Debt (%)	32%	32%	57%	138%	77%*
FFO to Long Term Debt (%)	57%	59%	81%	186%	190%*
Current Ratio (x)	1.17	1.13	1.27	1.24	0.97
Debt Servicing Coverage Ratio (x)	5.02	2.73	2.36	5.44	5.80*
Gearing (x)	0.95	0.83	0.55	0.29	0.54
Leverage (x)	1.44	1.34	1.05	0.83	1.14
Dividend payout	50%	36%	49%	62%	34%
(Stock in Trade+ Trade Debts)/STD	154%	173%	342%	775%	213%
ROAA (%)	7.7%	5.3%	7.3%	14.0%	14.7%*
ROAE (%)	18.2%	12.8%	15.9%	27.0%	29.4%*
*** Annualized**					

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				
	Jun-30-2022	AA	A-1+	Stable	Reaffirmed
	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.				
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Due Diligence Meetings Conducted		**Name**	**Designation**	**Date**	
	1	Mr. Farhan Patel	Corporate Finance Manager	11-April-2022	
	3	Mr. Umair Ali Bhatti	Planning & Treasury Manager		