RATING REPORT

Ittehad Chemicals Limited (ICL)

REPORT DATE:
February 25, 2022

RATING ANALYSTS:

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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Date	*February 25, 2022*		*November 19, 2020*	
Rating Outlook	Positive		Positive	

COMPANY INFORMATION	
Incorporated in 1991	**External Auditors:** M/s BDO Ebrahim & Co. Chartered Accountants
Listed Public Limited Company	**Chairman of the Board:** Mr. Mohammad Siddique Khatri
Key Shareholders:	**Chief Executive Officer:** Mr. Abdul Sattar Khatri
Mr. Muhammad Siddique Khatri – 13.5% Mr. Abdul Sattar Khatri– 6.0%	

APPLICABLE METHODOLOGY
VIS Entity Rating Criteria: Corporates (August 2021) ***https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf***

OVERVIEW OF THE INSTITUTION

Ittehad Chemicals Limited (ICL) was incorporated as a public limited company in 1991 under the Companies Ordinance, 1984 (now Companies Act, 2017). Privatization of the company took place in 1995. The company is listed on Pakistan Stock Exchange. ICL is engaged in the business of manufacturing and selling caustic soda and other allied chemicals.

Profile of Chairman

Mr. Mohammad Siddique Khatri has about 30 years of experience in the field of Chemical, Textile Industries, Finance and Corporate Affairs of international and local companies. He is also working as Partner of M/s Ittehad Developers.

Profile of CEO

Mr. Abdul Sattar Khatri has more than 22 years of experience across Chemical Manufacturing, Business Development and Textile Processing Industries. He is also present on the Boards of Ittehad Developers and Chemi Dyestuffs Industries (Pvt.) Limited.

Core Equity: end-FY21: Rs. 3.5b; end-FY20: Rs.3.1 end-FY19: Rs. 3.0b

Assets: FY21: Rs. 10.5b; end-FY20: Rs. 9.1; end-FY19: Rs. 9.5b

Profit After Tax: FY21: Rs. 657m; FY20: Rs. 61m; FY19: Rs. 405m

RATING RATIONALE

The ratings assigned to Ittehad Chemicals Limited (ICL) take into account its eminent position in the Chlor-alkali sector with sizable market share of around 29% and ample experience of sponsors in the industry. The ratings are underpinned by moderate business risk profile manifested by sizable revenues in a highly competitive operating environment. Growth in topline is primarily backed by higher volumetric sales of caustic soda and LABSA in tandem with overall industrial growth in the country. Diversification in LABSA has provided impetus to the topline over the years and accounted for nearly one-third of the sales mix. Profit margins have improved notably in the outgoing year on the back of rationalized cost of sales, operating costs, and lower financial charges while profit margins decreased in 1HFY22 mainly owing to hike in fuel cost, which the company could not pass on to consumers during first quarter of the ongoing year. Ratings also derive comfort from adequate liquidity and comfortable leverage indicators. The ongoing capacity enhancement in LABSA, expected to come online in April'22, would bode well for the company in lowering business and financial risks. In addition, the company is also conducting upgradation of captive gas fired engines which would enable the company to achieve operational efficiencies. Meanwhile, rising electricity cost and escalation in RLNG would remain key challenges for the entire industry in the ongoing year. The ratings will remain sensitive to sustainability of margins along with keeping leverage indicators at comfortable level.

Business and industry risk factors: The chlor-alkali sector is oligopolistic in nature with three players operating in the country. Overall capacity utilization has increased in the outgoing year; albeit remained moderate due to imbalance in demand and supply of product. As per Pakistan Bureau of Statistics (PBS), the industry produced 394,120 MT of caustic soda in FY21 as compared to 342,422 MT in the preceding year. Volumetric sales of caustic soda (both liquid and flakes) have also increased by around the same proportion i.e., 16%, to 302,000 MT (FY20: 260,157MT). ICL's sales of caustic soda have also increased in tandem with the overall industry growth, thereby maintaining its market share at around 29%. Given the sector is power intensive, the companies have setup captive power plants to support the production process indigenously. However, recent upsurge in RLNG prices have squeezed the margins of industry players in the first quarter of the ongoing year, thereby companies had to switch to the national grid. The local players have sufficient margin to increase prices given the positive differential in the local and import prices of caustic soda due to import duty and freight charges. Overall business prospects of the caustic soda sector in the long run exhibit a positive trend underpinned by growing demand and sound margins primary manifested in upsurge of textile sector.

All players in the Chlor-Alkali sector have diversified their revenue streams to dilute the impact of cost escalation in power and fuel. ICL has diversified into Linear Alkaline Benzene Sulphonic Acid (LABSA) which has been supplementing its topline for the last three years. In the outgoing year around one-third of the net revenue was contributed by LABSA. The company expects a 5% growth in demand of LABSA over the medium term. At present, total market size for LABSA stands at around 125,000 MT out of which around 35% is being met by Tufail Chemical Industries Limited (TCIL), 30% by Colgate Palmolive Pakistan while ICL is meeting around 15% of the requirement. Rest of the demand is fulfilled by some other small players and through imports. Given ICL is in process of expanding its installed capacity further by 40K MT, the company would be able to cater to roughly around 40% of the market demand, if operated at full capacity.

Improvement in capacity utilization amidst growth in overall manufacturing sector of the country: Pakistan economy witnessed a V-shaped recovery on the back on continuing accommodative fiscal and monetary policies. The provisional GDP growth rate for FY21 is estimated at 3.9% as compared to initially projected growth of 1.5% and a growth of 0.53% in the preceding year. On the industrial front, there was a significant rebound in economic activity as Large-Scale Manufacturing (LSM) registered a growth of 9.3% in FY21 as per PBS. Textile and chemical sector posted growth of 5.9% and 11.7%, respectively in the outgoing fiscal year. State Bank of Pakistan (SBP) kept the policy rate unchanged at 7% throughout FY21. While notable increase in coal and RLNG prices was witnessed in last half of FY21, average energy cost remained largely stable in the outgoing year. On the other hand, due to emerging gas crisis resulting from higher prices in the international market, RLNG prices have been escalating since Jun'21. Average RLNG prices as notified by Oil & Gas Regulatory Authority (OGRA) reached to a 15-month high of US$ 15.7828 per MMBTU in Oct'21 vis-à-vis US$ 10.3362 per MMBTU for the month of Jun'21. Average RLNG prices witnessed some decrease in the following months, albeit remained higher than corresponding periods last year.

In FY21, ICL's installed capacity of caustic soda liquid reduced to 150K MT (FY20: 170K MT) after partial disposal of IEM-I plant. The company produced 95,795 MT of liquid caustic soda (FY20: 81,907 MT) in FY21 with a higher capacity utilization of 64% (FY20: 48%). All other installed capacities remained intact except for Hydrochloric acid, available capacity of which increased to 250K MT (FY20: 200K MT). The company has total installed capacity of 250K MT of HCL and its utilization can be altered based on demand and availability of power. Actual production of HCL was recorded higher at 215.3K MT (FY20: 182.8K MT) while capacity utilization decreased slightly to 86% (FY20: 91%) due to increase in available capacity. LABSA/SLES production increased to 18,899 MT (FY20: 11,771 MT) giving higher capacity utilization of 79% (FY20: 49%). LABSA is primarily used in the detergent industry for the production of washing powder, detergent powder, scouring bar, oil soap and detergent cake. Another product Sodium Lauryl Ether Sulphate (SLES) can also be produced in place of LABSA; SLES is mostly used in the production of liquid detergents like dishwashing and personal care products like shampoo, shower gels, toothpaste etc. Given lower demand along with some manufacturing hurdles, SLES production has remained limited and is expected to remain so in the medium term.

Apart from calcium chloride prills, all other products production was recorded higher in the outgoing year. Calcium chloride prills, used in oil and gas drilling, are exported by the company. Installed capacities, actual production and capacity utilization of all products of ICL are tabulated in the following table:

(Quantity in Metric Tons)	Installed Capacity		Actual Production		Capacity Utilization	
	FY20	FY21	FY20	FY21	FY20	FY21
Caustic soda Liquid	170,000	150,000	81,907	95,795	48%	64%
Caustic soda Flakes	10,000	10,000	5,232	5,569	52%	56%
LABSA / SLES	24,000	24,000	11,771	18,899	49%	79%
Liquid Chlorine	13,200	13,200	6,886	7,943	52%	60%
Hydrochloric acid	200,000	250,000	182,763	215,297	91%	86%
Sodium hypochlorite	49,500	49,500	22,152	25,125	45%	51%
Zinc sulphate	600	600	7	90	1%	15%
Sodium Sulphate (Anhydrous)	4,000	4,000	814	1,532	20%	38%
Sulphuric acid	3,300	3,300	329	389	10%	12%
Calcium Chloride Prills	30,000	30,000	24,283	19,138	81%	64%
Humic Acid	120	120	18	22	15%	19%

In FY21, ICL has remained primarily reliant on indigenous source, gas fired captive power plant of 30 MW generation capacity, however, its contribution in power mix decreased owing to higher fuel cost. Overall power requirement while operating at full capacity, is around 35 MW out of which almost 90% of the power is required for caustic soda production. LABSA production and auxiliaries requires only 2 MW to operate at full capacity. Gas fired engines produced 60% (FY20: 74%) of the total electricity required followed by secondary source of 132 KV LESCO line, producing 40% (FY20: 26%) of the total required energy. Meanwhile, in Sep'22, the company had to switch its power source to national grid due to hike in fuel prices. The current in-house power generation costs around Rs. 27 per unit based on higher RLNG prices and average per unit from national grid costs about Rs. 17. The management intends to switch back to captive power source once the fuel prices return to the normal level. Meanwhile, increase in operational efficiency of power engines through upgradation would also assist in rationalizing the power cost, going forward.

The management is in the process of increasing operational efficiency of gas fired engines along with capacity enhancement of LABSA: Given the company is operating in highly power intensive sector, the management decided to improve operational efficiency of its gas fired engines (6 engines of 5 MW each), located within the vicinity of plant at Kala Shah Kaku, that would reduce carbon emissions and increase power output. For the said purpose, the company has signed an agreement with the original equipment manufacturer, M/s Wartsila in Jan'21. The project is being implemented in a phased manner to avoid disruptions in plant operations. Once fully implemented, it will enhance the power generation capacity by almost 20% and fuel efficiency by 9%. Estimated cost on this project is Rs. 650m which would be financed through SBP concessionary scheme of Temporary Economic Refinance (TERF) at the rate of 4%. At present, the upgradation of one engine has been completed along with its trial run while the same for remaining engines is expected to be completed during the next six months period.

In addition, equipment related to LABSA plant has arrived while commissioning of the plant is expected to be completed shortly. The management contemplates to start trial production by Apr'22. The cost of machinery for LABSA is Rs. 450m which has been partially financed through TERF whereas Rs. 300m are required for working capital requirements to operate the plant. Main raw material for LABSA production is linear alkylbenzene or LAB which is imported entirely.

The company has also embraced some latest technological innovations to facilitate its customers and improve logistics in the outgoing year. These include deployment of Trukkr portal to integrate transporters and their vehicles; sales portal for online ordering and tracking; deployment of Business Intelligent Module for management report and stewardship; Provision of Toll Manufacturing Process (for LABSA) and Integrated Out-Bound Logistics Process.

Property, plant and equipment (PP&E) stood higher at Rs. 6.7b (FY21: Rs. 6.1b; FY20: Rs. 5.9b) at end-1HFY22. The increase mainly pertained to capital work in progress (CWIP) additions in plant and machinery worth Rs. 949.6m (FY21: Rs. 417.2m; FY20: Rs. 46.5m), which is related to ongoing LABSA expansion project and power plant efficiency enhancement project along with setting up of a water waste treatment plant (WWTP). CWIP also includes advances of Rs. 169.4m (FY21: Rs. 161.4m; FY20: 17.3m) in lieu of partial advance payment of Rs. 155m for acquisition of land in Karachi to establish a detergent plant. Total capex on detergent plant is expected to be Rs. 650m which would be funded through rights issuance and sale of a land held as investment property; presently the proposal is at feasibility stage. Investment property held by the company amounted to Rs. 307.5m (FY21: Rs. 307.5m; FY20: Rs. 195m); increase in FY21 was due to fair value gain on its revaluation.

ICL has also acquired entire equity stake in a group company, Ittehad Salt Processing (Pvt.) Limited (ISPL) in FY21. The main objective is to explore the opportunities in rock salt mining near Chakwal and trading in pink salt. Long-term deposits of Rs. 51.7m (FY21: Rs. 51.0m; FY20: Rs. 52.0m) at end-1HFY22 included security deposits against rented premises and deposits paid to utility companies.

Growth in topline was primarily backed by higher volumetric sales of caustic soda and LABSA in tandem with overall industrial growth in the country with improvement in profit margins in the outgoing year: Net sales were recorded higher at Rs. 11.1b (FY20: Rs. 8.9b) in FY21. Sales mix shows that 46% (FY20: 51%) of the revenue was contributed by caustic soda liquid, followed by LABSA (FY20: 24%) at 30%. Revenue from liquid caustic soda amounted to Rs. 5.1b (FY20: Rs. 4.5b) on account of increase in volume sold to 81,675 MT (FY20: 71,663 MT) while average rates were lower at Rs. 62,330/MT (FY20: Rs. 63,472/MT). Caustic soda flakes sales amounted to Rs. 439.2m (FY20: Rs. 414.4m) with a higher volume sold of 5,679 MT (FY20: 5,239 MT) and slightly lower average price of Rs. 77,332 MT (FY20: 79,092 MT). Average prices of caustic soda were lower in the outgoing year given the company decreased the prices to pass on the impact of lower fuel cost w.e.f Nov'20. The prices were later increased in Jun'21. LABSA sales were recorded higher at Rs. 3.4b (FY20: Rs. 2.1b) on the back of increase in volumetric sales to 17,507 MT (FY20: 11,171 MT) at higher average rate of Rs. 193,191/MT (FY20: Rs. 190,790/MT). SLES sales amounted to Rs. 291.3m (FY20: Rs. 46.4m). All other products sales also increased due to some increase in volume and average selling prices, except for export sales of calcium chloride prills which amounted to Rs. 512.6m (FY20: Rs. 566.3m) in FY21. Breakdown of sales mix is given as follows:

	Quantity (MT)		Average Price (Rs./MT)		Net Sales value (000)	
	FY20	FY21	FY20	FY21	FY20	FY21
Breakdown of Sales Mix:						
Caustic Soda Liquid	71,663	81,675	63,472	62,330	4,548,590	5,090,762
Caustic Soda Flakes	5,239	5,679	79,092	77,332	414,388	439,152
LABSA	11,171	17,507	190,790	193,191	2,131,395	3,382,272
SLES	244	1,427	190,466	204,135	46,443	291,305
Chlorine Liquid	6,882	8,055	29,916	30,782	205,868	247,933
Hydrochloric Acid	78,699	94,895	5,319	5,735	418,568	544,231
Sodium Hypochlorite	22,136	25,259	19,613	20,948	434,152	529,121
Zinc Sulphate	44	60	185,923	75,652	8,126	4,573
Ittehad Humate	16	17	56,548	62,249	921	1,058
Calcium Chloride	22,924	20,239	27,348	26,554	626,933	537,422
Other	-	-	-	-	21,216	55,965
Net Sales					8,856,601	11,123,792

Concentration in sales as measured in terms of top ten customers has increased to 34% (FY20: 23%) in FY21 mainly due to inclusion of some more LABSA clients. The company has secured contracts with national and international conglomerates for the sale of LABSA. Proportion of top ten clients with their respective contribution to sales in FY21 is presented below:

	Customers Name	% of Sales
1	Unilever Pakistan Limited	8.6%
2	Awais Trading Corporation	6.6%
3	Islam Soap Industries (Pvt.) Limited	4.3%
4	Colgate-Palmolive (Pakistan) Limited	3.1%
5	Local Line LLC	2.5%
6	Nimir Industrial Chemicals Limited	2.4%
7	Kohinoor Soap & Detergents (Pvt.) Limited	1.9%
8	Mandiali Paper Mills	1.5%
9	Sarena Textile Industries (Pvt.) Limited	1.5%
10	Premier Paper Mills Limited	1.3%

In FY21, the company generated gross profit of Rs. 1.9b (FY20: Rs. 1.2b) with increase in gross margin to 17.0% (FY20: 13.3%). Average chlor alkali gross margins remained around 19% while LABSA margin was 12-13%. Cost of sales was recorded higher at Rs. 9.2b (FY20: Rs. 7.7b) in FY21. Raw material consumed amounted to Rs. 3.6b (FY20: Rs. 2.3b) which contributed 39% (FY20: 31%) in cost of goods manufactured (COGM). Fuel and power cost amounted to Rs. 4.2b (FY20: Rs. 3.8b) with decrease in contribution to COGM to 45% (FY20: 50%) in FY21. Salaries, wages and other benefits increased in line with inflationary adjustments. Selling and distribution expenses increased to Rs. 576.5m (FY20: Rs. 501.0m) mainly owing to higher freight charges. General and administrative expenses remained largely stable at Rs. 200.6m (FY20: Rs. 208.3m) in the outgoing year. Other operating expenses were recorded higher at Rs. 109.7m (FY20: Rs. 60.7m) mainly due to higher contributions to employees related funds and loss on sale of fixed assets. Other income amounted to Rs. 94.3m (FY20: Rs. 84.4m), which mainly included gain on discounting of GIDC, gain on disposal of leased assets and recovery of doubtful debts. Financial charges were lower at Rs. 225.4m (FY20: Rs. 480.2m) primarily on account of lower markup rate during FY21. Accounting for taxation, bottomline was recorded notably higher at Rs. 656.8m (FY20: Rs. 60.8m). Net margin has also increased to 5.9% (FY20: 0.7%).

The company recorded net revenue of Rs. 6.8b in 1HFY22 as compared to Rs. 5.3b in corresponding period last year. However, gross profit decreased to Rs. 829.1m (1HFY21: Rs. 1.2b) with decline in gross margin to 12.2% (1HFY21: 22.3%) mainly owing to surge in fuel and power cost and raw material consumed. Raw material consumed has increased mainly due to higher cost of LAB in line with local currency depreciation. Gross margins squeezed to 7.7% in 1QFY22 as the impact of higher cost of production was not passed on to the customers. As per management, prices have been increased by the company in Oct'2021 to Rs. 105,000 per MT for caustic soda flakes and Rs. 84,000 per MT for caustic soda liquid leading to considerable improvement in gross margins to 16.3% in 2QFY22. Liquid caustic soda prices were further revised to Rs. 90,000 per MT in last quarter. The management expects to recoup margins to a greater extent on a full year basis. Net sales are projected at Rs. 14b while net profit for FY22 is projected to exceed Rs. 600m after absorbing the impact in hike in cost. However, with current uncertainty in RLNG prices, sustainability of margins is considered critical. Higher cost of imported raw material and increase in policy rate may put pressure on the bottom line.

Adequate liquidity in terms of cash flow coverages: Funds from Operations (FFO) increased to Rs. 1.3b (FY20: Rs. 532.1m) in the outgoing year in line with higher profitability. Resultantly, FFO to total debt and long-term debt improved to 0.43x (FY20: 0.18x) and 0.70x (FY20: 0.28x), respectively. Debt service coverage also increased to 3.29x (FY20: 1.26x) on account of higher cash flows and lower long-term repayments made during FY21.

Stock in trade stood higher at Rs. 1.1b (FY20: Rs. 685.1m) at end-FY21 mainly due to increase in raw material inventory to Rs. 609.9m (FY20: Rs. 238.5m). As per management, the increase was due to LCs of LAB which were opened in the last month of FY21. Trade debts increased to Rs. 1.17b (FY20: Rs. 799.2m) largely in line with growth in overall scale of operations. LABSA sales are made on cash or advance basis while for caustic soda, credit period of around 30 days is provided. Aging is considered satisfactory given around 95% fall in 3 months' credit bracket. Loans and advances increased to Rs. 341.5m (FY20: Rs. 208.4m) largely due to higher advance payments to local suppliers and against import of raw materials. Tax refunds due from Government amounted to Rs. 529.2m (FY20: Rs. 419.6m). Taxation net of provision decreased to Rs. 66.5m (FY20: Rs. 297.6m). Cash and bank balances stood higher at Rs. 338.7m (FY20: Rs. 134.7m) by end-FY21. Current ratio decreased marginally to 1.04x (FY20: 1.18x) while coverage of short-term borrowings via trade debts and stock in trade improved to 1.97x (FY20: 1.30x) by end-FY21. On an annualized basis, cash flow coverages decreased in 1HFY22 on account of lower profitability and higher borrowings, albeit remained adequate. The same are projected to largely recover in line with improvement in profits, going forward.

Manageable leverage indicators: Core equity enhanced to Rs. 3.5b (FY20: Rs. 3.1b) on account of internal capital generation. The company also paid Rs. 254.1m as cash dividend in FY21. With revaluation surplus of Rs. 1.4b (FY20: Rs. 972.7m), total equity amounted to Rs. 4.9b (FY20: Rs. 4.1b). Total liabilities increased to Rs. 5.7b (FY20: Rs. 5.1b) mainly due to increase in trade and other payables. Trade and other payables stood higher at Rs. 2.1b (FY20: Rs. 1.2b) mainly due to increase in accrued liabilities to Rs. 1.5b (FY20: Rs. 988.5m) and higher trade creditors of Rs. 407.7m (FY20: 88.5m). Accrued liabilities increased mainly due to the impact of higher payments related to RLNG and employees related payments. These also include provision of Rs. 327m (FY20: Rs. 304.4m) related to GIDC Cess for cost of supply RLNG from February 2018, based on interim order passed by OGRA. On August 13, 2020, the Supreme Court of Pakistan (SCP) announced its decision pertaining to GIDC, directing recovery of Rs. 417b GIDC payables from the industries. According to the decision, the amount is payable in twenty-four equal monthly installments starting from August 01, 2020 without the component of late payment surcharges. The company has paid around Rs. 122m in seven installments. For the remaining amount, the company along with other industrial units, have filed a writ petition against the said order in Lahore High Court. No further payment has been made against the outstanding provision as the matter is still in the court for grant of relief for this tariff. Increase in trade creditors at end-FY21 was mainly due to LCs payable against LAB. Payment terms for LAB are documents against acceptance or at sight.

Total borrowings remained at Rs. 3.0b at end-FY21. Total conventional long-term borrowings including current portion amounted to Rs. 419.8m (FY20: Rs. 359.2m). The company obtained term finance facility of Rs. 197m under SBP Refinance facility for payment of salaries and wages. Long-term diminishing Musharaka including current portion stood at Rs. 1.35b (FY20: Rs. 1.46b). All outstanding payments of long-term borrowings were deferred under SBP relief for Covid-19. The company repaid Rs. 465.1m of long-term debt (FY20: Rs. 842.1m) in FY21. Short-term borrowings amounted to Rs. 1.2b (FY20: Rs. 1.1b) at end-FY21. The company has aggregate standby working capital lines of Rs. 2.1b (FY20: Rs. 1.0b) at end-FY21. Gearing and debt leverage decreased marginally to 0.85x (FY20: 0.98x) and 1.63x (FY20: 1.65x) by end-FY21.

Total debt increased to Rs. 3.8b by end-1HFY22 as a result of higher short-term borrowings in line with working capital requirements and increase in long-term loans. Long-term debt including current portion increased to Rs. 2.2b at end-1HFY22. The company obtained long-term financing of Rs. 263.1m for LABSA plant, Rs. 217m for power plant project and Rs. 110m for WWTP in 1HFY22. Gearing and debt leverage have increased to 1.03x and 1.81x by end-1HFY22. With increase in equity base due to profit retention, capitalization indicators are expected to remain at manageable level in the ongoing year.

BALANCE SHEET	Jun 30, 2020	Jun 30, 2021	Dec 31, 2021
Property, Plant and Equipment	5,919	6,140	6,678
Investment Property	195	308	308
Store, Spares and Loose Tools	419	443	789
Stock-in-Trade	685	1,121	1,450
Trade Debts	799	1,168	1,225
Loans and Advances	208	341	230
Tax Refunds due from Government	420	529	558
Cash & Bank Balances	135	339	258
Other Assets	361	158	213
Total Assets	**9,141**	**10,547**	**11,709**
Trade and Other Payables	1,202	2,140	2,263
Long Term Debt (including current maturity)	1,870	1,801	2,168
Short Term Debt	1,139	1,161	1,593
Total Debt	**3,009**	**2,958**	**3,761**
Other Liabilities	876	574	627
Total Liabilities	**5,087**	**5,672**	**6,651**
Paid Up Capital	847	847	1,000
Total Equity	4,054	4,875	5,058
Tier-1 Equity	**3,081**	**3,483**	**3,666**

INCOME STATEMENT	Jun 30, 2020	Jun 30, 2021	Dec 31, 2021
Net Sales	8,857	11,124	6,798
Gross Profit	1,182	1,886	829
Operating Profit	496	1,093	403
Profit Before Tax	78	980	267
Profit After Tax	61	657	183

RATIO ANALYSIS	Jun 30, 2020	Jun 30, 2021	Dec 31, 2021
Gross Margin (%)	13.3	17.0	12.2
Net Margins (%)	0.7	5.9	2.7
Current Ratio	1.18	1.04	1.02
Net Working Capital	458	166	111
Funds from Operations (FFO)	532	1,264	409
FFO to Total Debt (x)	0.18	0.43	0.22*
FFO to Long Term Debt (x)	0.28	0.70	0.38*
Gearing (x)	0.98	0.85	1.03
Debt Leverage (x)	1.65	1.63	1.81
Debt Servicing Coverage Ratio (x)	1.26	3.29	1.44
ROAA (%)	0.7	6.7	3.3*
ROAE (%)	2.0	20	10.3*
(Stock in Trade+ Trade Debt) to Short-Term Borrowing Ratio	1.30	1.97	1.68

**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	Ittehad Chemicals Limited
Sector	Chlor-alkali (Chemical Sector Sub-set)
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see table below

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
02/25/2022	A-	A-2	Positive	Reaffirmed
11/19/2020	A-	A-2	Positive	Reaffirmed
26/08/2019	A-	A-2	Positive	Maintained
01/25/2018	A-	A-2	Stable	Reaffirmed
12/20/2016	A-	A-2	Stable	Reaffirmed
12/22/2015	A-	A-2	Stable	Reaffirmed
12/22/2014	A-	A-2	Stable	Reaffirmed
03/18/2013	A-	A-2	Stable	Reaffirmed

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
Mr. Shahbaz Ali	Unit Manager Budget	02-Oct-2021