

RATING REPORT

Ittehad Chemicals Limited (ICL)

REPORT DATE:

April 02, 2024

RATING ANALYSTS:

Muhammad Subhan

subhan@vis.com.pk

Muhammad Humza Khan

humza.khan@vis.com.pk

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	April 02, 2024		March 30, 2023	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Maintained	

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 (with stake 5% or more):

Chief Executive Officer: Mr. Abdul Sattar Khatri

General Public – 67.62%

Mr. Muhammad Siddique Khatri – 13.45%

M/S Chemitex Industries Ltd. – 5.5%

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (May 2023)

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

Ittehad Chemicals Limited

OVERVIEW OF THE INSTITUTION RATING RATIONALE

Ittehad Chemicals Limited (ICL) Corporate Profile

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.

Ittehad Chemicals Limited (“ICL” or “the Company”), established through a merger involving Ittehad Chemicals and Ittehad Pesticides on September 28, 1991, is one of the major corporates in Pakistan's chemical industry. The Company has its origin in United Chemicals, which was set in 1962 in the private sector, nationalized in 1971 and subsequently was privatized on July 3, 1995. It is a key player in manufacturing and selling caustic soda along with a suite of allied chemicals. The Company holds 100% shares of Ittehad Salt Processing (Private) Limited (subsidiary company), which is a private limited company incorporated in Pakistan under the Companies Act, 2017 on December 3, 2019. The subsidiary company is engaged in the business of exploring, operating, and working on mines and quarries. Majority shareholding is held by the Chemi Group of Industries, which also has interests in other chemical businesses and real estate development.

Product Mix

Operating from its manufacturing base in Kala Shah Kaku, District Sheikhpura, with head office in Lahore, ICL has undergone significant technological and capacity upgrades since its commencement. ICL's product range has also expanded to include liquid chlorine, hydrochloric acid, sodium sulphate, sodium hypochlorite, calcium chloride, and carbon dioxide, catering to local demand and exporting to the Gulf Cooperation Council (GCC) region.

Production Capacity

The Company has two distinct production lines. One is production for caustic soda and allied products and the other is 70,000 tons per annum LABSA-SLES plant commissioned in 2019. While the installed capacity of caustic soda remained unchanged in FY23 at 160,000 tons per annum however, the installed capacity of zinc sulphate, sodium sulphate, and sulphuric acid witnessed fluctuations as under:

Chairman Profile:
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 a partner of M/s Ittehad Developers.

CEO Profile: 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.

	Installed Capacity (Tonnes)		Actual Production (Tonnes)		Utilization	
	2023	2022	2023	2022	2023	2022
Caustic Soda Liquid	150,000	150,000	92,145	100,175	61.43%	66.78%
Caustic Soda Flakes	10,000	10,000	8,409	5,330	84.09%	53.30%
LABSA/ SLES	70,000	70,000	26,227	22,165	37.47%	31.66%
Liquid Chlorine	13,200	13,200	5,782	8,911	43.80%	67.51%
Hydrochloric Acid	250,000	250,000	207,393	222,176	82.96%	88.87%
Sodium Hypochlorite	49,500	49,500	36,134	30,388	73.00%	61.39%
Zinc Sulphate	600	600	-	89	-	14.83%
Sodium Sulphate (anhydrous)	4000	4000	596	2,090	-	52.25%
Calcium Chloride Prills	30,000	30,000	25,412	12,744	84.71%	42.48%
Humic Acid	120	120	-	-	-	-

As seen from table above, the actual production and utilization levels experienced variations during the reviewed year. While there was an increase in the production of caustic soda flakes, sodium hypochlorite, LABSA/SLES, and calcium chloride prills, a reduction in utilization was observed in other segments. Nonetheless, these adjustments in utilization was part of the plan tailored to actual demand, as evidenced by the overall aggregate utilization levels remaining almost consistent despite these shifts. The low utilization was witnessed in Zinc Sulphate and Sodium Sulphate,

Key Rating Drivers

Medium to low business risk profile backed by medium cyclicity, lower competition, and highly capital intensive sector

VIS classifies the business risk of the chemical sector as medium to low, supported by moderate cyclicity, low competition, and high capital-intensive nature. Demand in the chemical sector of Pakistan originates from industries such as plastics, paints, paper, leather, soaps, detergents, shampoos, textiles wherein the respective chemicals form an integral part of input materials. Additionally, as a large proportion of chemical demand is met through imports, making the industry susceptible to dumping, albeit the Government of Pakistan has put in place protectionist duties for local industry, which are regularly reviewed. However, a significant part of the raw material is imported; the industry does depict sensitivity to exchange risk.

Growth in topline in FY23 because of higher selling prices coupled with increasing export sales.

The Company experienced a notable increase in revenues to PKR 24,268 mln (FY22: PKR 15,681 mln), a 54.7% rise from FY22, driven by increase in both local (85.52% of total sales) and export sales (14.48% of total sales). The increase in the export sales is on account of higher export of calcium chloride comprising 90% of total export sales. Moreover, the Company was also able to increase its average selling price by passing on the increasing input costs to its customers, which further supported the topline. Caustic soda liquid and LABSA, with market share of 29% and 40% respectively, continued to be the Company's top-selling products over both years. The sales composition further highlighted a growing concentration on the top 10 clients, representing 45.32% (FY22: 41.46%) of net sales in FY23, retaining its top seven clients in FY23 with Unilever Pakistan as the largest contributor at 21.60% (PKR 5,241 mln).

The Company, as mentioned above, experienced a significant growth in its topline, which directly contributed to an increase in its gross profits up by 142% to PKR 4,994 mln (FY22: PKR 2,065 mln). Despite substantial increase in operating expenses and finance costs, the strong revenue growth led to substantial increase in net profit to PKR 1,826 mln (FY22: PKR 415 mln) in FY23, marking a 340% increase from the FY22. The 1HFY24 continues to sustain revenue and gross margin, however net margin dropped to 5.7% (FY23: 7.5%) on account of higher finance cost.

Coverage profile strengthened due to higher FFO, a result of increased profitability and operational performance

The funds flow from operations (FFO) metrics showcase ICL's operational efficiency and cash-generating capabilities, as evidenced by a significant increase of 136.7% in FFO during FY23. This substantial increase is primarily attributed to the Company's impressive revenue growth. This further strengthened the Company's debt service coverage ratio (DSCR) to 2.40x (FY22: 1.54x) in FY23. Moving forward, finance costs may present an ongoing challenge owing to elevation expected in the interest rates.

Funds From Operations				
<i>Rupees in million</i>	<i>June-21</i>	<i>June-22</i>	<i>June-23</i>	<i>Dec-23</i>
Profit Before Tax	980.11	764.05	2,680.19	1,276.32
Adjustments for non-cash items	681.17	787.47	918.70	669.03
Profit Before Tax Working Capital Changes	1,661.28	1,551.52	3,598.89	1,945.34
Taxes (Paid)/received	(97.33)	(227.97)	(637.32)	(668.52)
Gratuity Paid	(34.44)	(5.19)	(8.45)	(0.44)
Finance Costs Paid	(265.15)	(307.22)	(559.23)	(307.13)
FFO	1,264.36	1,011.14	2,393.88	969.25

Capitalization metrics improved on account of higher equity base. However anticipation of long term debt drawdown may constrain the capitalization metrics

The Company's equity has seen a notable enhancement, with an 70.12% rise from FY21 to 1HFY24, driven by higher retained earnings, which led to improvement in the gearing and leverage ratios to 0.46x (FY22: 0.69x) and 1.19x (FY22: 1.49x) in FY23, respectively. However, the total debt has been increasing primarily on the account of additional long-term financing acquired by the Company to fund the upgradation of power plant. Going

forward, ratings will remain sensitive to the maintenance of company's overall debt profile on account of its upcoming CAPEX plans.

Liquidity profile demonstrates improvement in terms of current and short-term debt coverage ratios

The current ratio witnessed an improvement in FY23 and as per the financial projections provided by the Company; it is expected to sustain. It currently stands at 1.10x (FY22: 0.99x) in FY23. Notably, both current assets as well as current liabilities have increased in FY23. However, current assets have increase on higher proportion backed by increase in short-term investments, cash and bank balances, inventory levels and trade debts. Similarly, the short-term debt coverage also depicts an improvement reporting at 3.15x (FY22: 2.21x) in FY23.

Sustainability impact with development of biomass power plant as an ESG initiative

The company is currently advancing the development of a biomass power plant in addition to its existing RLNG captive gas-fired power facility. This innovative biomass plant will utilize bagasse as a feedstock for power generation through a sustainable and efficient process. In addition, ICL has taken a further step towards environmental, sustainability, and governance (ESG) framework by implementing a wastewater recycling plant.

FINANCIAL SUMMARY					(amounts in PKR millions)
BALANCE SHEET	FY21	FY22	FY23	HY24	
Non-Current Assets	6,505	7,159	7,863	9,767	
Stores, Spares. And Loose Tools	443	496	534	609	
Stock-in-Trade	1,121	2,169	2,197	2,760	
Trade Debts	1,168	1,787	1,940	2,559	
Tax Refunds	529	529	723	836	
Short term investments	-	-	300	13	
Other Current Assets	205	531	210	236	
Cash and Bank Balances	339	195	924	445	
Total Assets	10,310	12,865	14,691	17,225	
Trade and Other Payables	1,903	3,232	3,738	3,612	
Short-Term Borrowings	1,161	1,791	1,314	2,291	
Long-Term Borrowings (Inc. current maturity)	1,779	1,915	1,943	1,587	
Total Liabilities	5,435	7,684	7,987	8,429	
Paid-Up Capital	847	1,000	1,000	1,000	
Tier-1 Equity	3,482	3,789	5,312	5,924	
Total Equity	4,874	5,181	6,704	8,797	
INCOME STATEMENT	FY21	FY22	FY23	HY24	
Net Sales	11,124	15,681	24,268	12,174	
Gross Profit	1,886	2,065	4,994	2,431	
Finance Cost	(225)	(330)	(562)	(394)	
Other Income	92	60	219	104	
Profit Before Tax	980	764	2,680	1,276	
Profit After Tax	657	415	1,826	694	
FFO	1,264	1,011	2,394	969	
RATIO ANALYSIS	FY21	FY22	FY23	HY24	
Gross Margin (%)	17.0%	13.2%	20.6%	20.0%	
Net Margin (%)	5.9%	2.6%	7.5%	5.7%	
Net Working Capital	166.3	-68.2	612.9	595.9	
ROAA (%)*	6.8%	3.6%	13.3%	8.7%	
ROAE (%)*	17.4%	11.4%	40.1%	24.7%	
Current Ratio (x)	1.05	0.99	1.10	1.09	
FFO	1,264	1,011	2,394	969	
FFO to Long-Term Debt*	1.55	0.76	1.37	1.26	
FFO to Total Debt*	0.64	0.32	0.78	0.51	
DSCR (x)*	4.33	1.54	2.40	1.86	
Inventory + Receivable/Short-term Borrowings (x)	1.97	2.21	3.15	2.32	
Cash Conversion Cycle (Days)	7	10	3	11	
Gearing (x)	0.41	0.60	0.46	0.44	
Leverage (x)	1.12	1.48	1.19	0.96	

REGULATORY DISCLOSURES						Appendix II
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	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action	
	<u>RATING TYPE: ENTITY</u>					
	02/04/2024	A-	A-2	Stable	Reaffirmed	
	03/30/2023	A-	A-2	Stable	Maintained	
	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.					
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. Copyright 2024 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			
	Mr. Muhammad Asif Khan Mr. Shahbaz Ali	Chief Financial Officer Unit Manager Budget	March 11, 2024			