RATING REPORT

Power Chemical Industries Limited

REPORT DATE:
September 12, 2022

RATING ANALYSTS:

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RATING DETAILS		
Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	*Stable*	
Rating Action	Initial	
Rating Date	*September 12, 2022*	

COMPANY INFORMATION	
Incorporated in 2008	**External auditors:** Parker Russell-A.J.S. Chartered Accountants.
Public (Unlisted) Limited Company	**CEO:** Mr. Muhammad Asghar
Key Shareholders (with stake 5% or more):	
Mr. Muhammad Akram – 27%	
Mr. Muhammad Aslam – 27%	
Mr. Muhammad Asghar – 27%	
Mr. Muhammad Asif – 9.5%	
Mr. Muhammad Amjad – 9.5%	

APPLICABLE METHODOLOGY(IES)

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

Power Chemical Industries Limited

OVERVIEW OF THE INSTITUTION

Power Chemical Industries Limited, limited by shares, incorporated in Pakistan under the Repealed Companies Ordinance, 1984 (now the Companies ACT, 2017). The Company was incorporated as a private company in 2008 and subsequently converted into public limited company on March 18, 2015. The principal activity of the Company is the manufacturing and sale of chemicals. Registered office of the Company is located at P1447B-Peoples Colony #1, Faisalabad.

Financial Snapshot

Tier-1 Equity: end-8MFY22: Rs. 1.8b; end-FY21: Rs. 1.5b; end-FY20: Rs. 1.3b.

Assets: end-8MFY22: Rs. 5.0b; end-FY21: Rs. 4.4b; end-FY20: Rs. 3.0b.

Profit After Tax: 8MFY22: Rs. 330m; FY21: Rs. 266m; FY20: Rs. 25m.

RATING RATIONALE

Power Chemical Industries Limited (POWCI) is a family-owned business. The company is primarily involved in manufacturing and sale of diverse product portfolio, including paint and coating chemicals, plasticizers, adhesives and textile chemicals. The major portion of sales is related to paint and coating industry which, in turn, is directly linked to growth in construction, infrastructure and industrial sectors of the country. POWCI is the largest producer of paint and coating chemicals with ~60% market share while rest of the local industry is highly fragmented. The industry is exposed to exchange rate risk due to considerable reliance on imported raw material while the products are primarily sold in local market, and commodity price risk due to correlation of raw materials cost to international crude oil prices. Nonetheless, the industry gets some relief in terms of absence of custom duties on import of major raw materials while import of finished goods have been imposed with duties. The company is at an advantage relative to its peers in terms of economies of scale emanating from import of raw material in bulk quantities. Moreover, the relative market positioning of the company and advance payments from clients to lock prices also mitigates the business risk to some extent.

The ratings incorporate sizeable growth in revenues in the outgoing year on account of increase in volumetric sales and average selling prices. The company was able to maintain gross margins despite increase in cost of raw materials. Net margins have improved mainly on the back of rationalized operating expenses and lower effective tax rate. Liquidity profile is underpinned by adequate current ratio and manageable net operating cycle. Debt service coverage has also remained adequate on a timeline basis. The company has moderately leveraged capital structure with limited reliance on long-term financing. The ratings are sensitive to forex volatility and availability of raw material. The ratings would remain dependent on achieving projected growth in revenues and profitability while improving cash flow coverages and leverage indicators.

Key Rating Drivers

Chemical Industry in Pakistan: Chemical industry is one of the oldest industries in Pakistan, however, it merely constitutes 1.72% of weight in Large Scale Manufacturing (LSM). Pakistan meets only 10% of chemical needs through local production. There is a huge potential of growth in this sector to improve external trade statistics given agriculture and other chemicals group imports amounted to USD 9.30b in FY21 (FY20: USD 7.35b) with a share of around 16.49% in total import bill (Source: Pakistan Bureau of Statistics-PBS). There is a synergy between the petrochemical projects envisioned and the growth of the existing chemical industry. One of the main reasons for such a high volume of imports is mainly due to lack of a Naphtha Cracker facility, from which most of the chemicals downstream. Establishment of Naphtha Cracker plant requires enormous investment of around $4 billion. However, despite the lack of this basic requisite, the sector is contributing around USD 1.15b in the country's exports.

Demand in the chemical sector of Pakistan is closely linked with the performance of multiple industries ranging from plastics, paints, paper, leather and textiles, wherein the respective chemicals form an integral part of their input cost. Also, since a large part of the chemical consumption is imported, the industry remains exposed to changes in international prices and exchange risk. Chemical industry remains fragmented with sub-sectors, such as paints depicting higher fragmentation than others. Pakistani paint and coating industry is partially consolidated, with only a few major players (not in particular order) dominating the market. Some major companies are AkzoNobel, Berger Paints Pakistan Limited, Brighto Paints, Diamond Paints, and Nippon Paint. Paint industry is categorized with presence of large number of unorganized players; 22 organized players and 350 un-organized players while market share of organized and un-organized is 64:34 (Source: Pakistan Chemical Manufacturers Association – PCMA). As per PBS, Chemical sector has exhibited a growth rate of

19.19% in July'20-Jun'21 vis-à-vis 4.89% in the preceding comparative period. Growth trends in chemical sector vary across different sub-sectors; some of which are highly dependent on growth of specific sector or combination of sectors. With strong growth prospects in the construction and infrastructure development sector and soda ash being an essential raw material for glass industry, the risk in growth trend remains low. Similarly, the paint and coating industry of Pakistan is expected to grow from Rs. 50b to (industry estimates and revenues of listed paint companies for FY19) to reach Rs. 65b by 2025 (Source: PCMA).

Company's Profile: POWCI is a family-owned business incepted by late Mr. Muhammad Afzal. It was started as a small manufacturing unit of dry powdered glue back in 1977, which over the years developed into an organized setup offering various chemical products. In 2008, POWCI was incorporated as private limited company, which then later was converted into a public (unlisted) limited company in 2015. Currently, the shareholding is vested with the sons of Mr. Muhammad Afzal, Mr. Muhammad Asghar being the CEO of the company and Mr. Aslam and Mr. Akram are the directors and shareholders while Mr. Asif and Mr. Amjad are the shareholder in the company.

The company has qualified and experienced team of engineers for each product segment, and technical staff for production processes. In addition, there is fully equipped Research & Development (R&D) and Quality Control (Q.C) lab to ensure quality products to its final customers. The company has a fleet of 40 vehicles for its delivery network and separate sales & marketing team for each product segment at its two regional offices located in Lahore and Karachi. There are head of departments (HODs) for each of the finance, internal audit, dispatch and management information system (MIS) divisions and general managers (GMs) for each of the accounts, purchase/marketing and human resource & admin divisions. Presently, the company has customized IT solutions of integrated models while the company is in process of implementing SAP business-I with additional customization.

Afzal Chemical and plastic industries (Pvt.) Limited (ACPIL) is an associated company of POWCI, also involved in production of dyes and chemicals. At present, ACPIL's scale of operations is small with a limited number of products. Meanwhile, the sponsors intend to expand its product portfolio to replace imported chemicals by setting up new production facilities. Al-Rehman Chemical Industries (Pvt.) Limited (ARCI) is another sister concern and relatively a new venture of the group. The sponsors plan to setup manufacturing facility to produce USP grade refined glycerin in the first phase and afterwards the company plans to expand its operations to manufacture stearic acid and soap noodles. The first phase of this project requires an outlay of around Rs. 600m for which financing arrangements with banks are in progress.

Production facilities: POWCI has an installed production capacity of 60,790 MT per annum. The production facilities are located at two different locations in Faisalabad. The reactors used in production have been customized to use interchangeably according to needs giving the company more flexibility to adjust production orders as opposed to majority other players who lack such technology. Overall capacity utilization increased notably to 81% (FY20: 34%; FY19: 57%) during FY21, meanwhile, considerably lower capacity utilization during FY20 was on account of closure of production facilities for around 60 days during last quarter.

The management conducts BMR from time to time to improve production efficiencies. During the ongoing year, the company is in process of expanding its powder coating manufacturing capacity to – from ---. Property, plant and equipment stood higher at Rs. 731.9m (FY21: Rs. 699.1m; FY20: 704.1m) at end-8MFY22. During FY21, major additions included vehicles amounting Rs. 50.9m and plant and machinery worth Rs. 21.8m, the latter mainly included nitrogen generator with speed compressor and auxiliary equipment. These machinery components pertained to in progress installation of Italian based Dioctyl phthalate (DOP) plant; previously local plant has been used for its production.

Product mix: The company has four major product segments, which includes coating chemicals, plasticizer, adhesives, textile chemicals while some minor segments include, fiber sheet chemicals, leather chemicals and paper coating industry chemicals. The largest segment in terms of revenue is coating chemicals. As the organized paint and coating industry is majorly centered in Punjab, the company is in better position to serve the demand through just in time (JIT) inventory system by aligning its product supplies directly with the production schedules of buyers. The orders from major clients are usually executed on weekly basis for one to three months supplies. The company manufactures raw material for both oil-based and water-based paints, specialized paints for original equipment manufacturers (OEMs), powder coating for washing machines, fridge etc.

Commonly used polymers in paint and coating industry include acrylic, alkyd, polyurethane, epoxy, polyester, and some other resin types. Acrylic resins are one of the widely used polymers in the paints and coatings industry, which contribution in the sales mix of the company has increased over the past few years (9MFY22: 20%; FY21: 22%; FY20: 16% and FY19: 11%) due to demand dynamics. Meanwhile, alkyd resins contribution in the sales mix has remained somewhat subdued during the last three years (9MFY22: 13%; FY21: 12%; FY20: 14%; FY19: 22%). Acrylic resins offer transparency, high color ability, and UV resistance in coating solutions. They are often used in waterborne systems, resulting in low volatile organic compound (VOC) emissions. The application of acrylic coatings is primarily found in the construction industry for high-end finishing in roofs, decks, bridges and floors. Water-based acrylic coatings are high in demand due to environmental concerns. Therefore, the demand for acrylic resin type is likely to dominate the market over the coming years (Source: Mordor Intelligence). As per management, POWCI is the largest producer of coating chemicals, with around 55-60% market share in local industry. Meanwhile, rest of the industry is highly fragmented with major players including, Archroma Pakistan Limited (Water base resins), Shalimar Resin Industries Private Limited (water-base and oil-base), Multi Resin Industries (only water-base resins) and Nimir Resins Limited (only oil-based resins), having remaining market share, respectively.

The second product segment is Dioctyl phthalate (DOP), which is a plasticizer, wide-range used across multiple industries. As per management, the company holds around 25% share in its market. Major players include Nimir Chemical Pakistan Limited and Multi Resin Industries. The company's clients for DOP include artificial leather manufacturers, cable insulation, shoes, gardening pipes etc. Third product segment is adhesive glue/white glue. POWCI is the market leader in the unorganized sector with around 20 registered low to high tier brands while company has around 30% share in the local industry. Fourth segment, includes textile chemicals, with minor share in the country. The company manufactures around 40 different chemicals used in pre-treatment to finishing of textile products. Lastly, the minor products segment includes, Unsaturated polyester resin (UPR), leather chemicals, paper coating industry chemicals and construction chemicals. The company has ~1-2% share in these products.

Product Segments	Applications	Major clients
Coating Chemicals	Paint and coating industry	Brighto Paint, Akzo Nobel, Diamond Paint, Master Paint, Nelson Paint, Reliance Paint
DOP (Plasticizer)	Artificial leather manufacturers, cable insulation, shoes, gardening pipes etc.	Pakistan Cable, Fast Cables, T.U Plastic, Bata Pakistan
Adhesives	(Polyvinyl Acetate PVA) in construction, emulsions, textile, paper, multiple other industrial and household usage	Various wholesalers and retailers
Textile Chemicals	Pre-treatment to finishing of textile products	M.K Sons, Magna Processing Industries, Ans Dyeing, AA Textile Processing Al-Ghani Dyeing
Minor Segment	Fiber sheet chemicals, leather chemicals and paper coating industry chemicals	Unorganized segment

Raw material procurement: The raw material required for production largely includes derivatives of crude oil, therefore, the prices are directly correlated with international oil prices. Around 90% of the raw material required for production is imported while soyabean oil, refined glycerin and packing material are the main materials which are purchased from local suppliers. Major international suppliers of the company include, Tricon Energy (USA), ICC Chemical Corporation (USA), Oxyde Chemical (South Korea), Spichem Marketing Company (Saudi Arabia), Petrochem Middle East FZE (UAE) and Saudi Basic Industries Corporation - SABIC (KSA). The company has a competitive advantage relative to other industry players in terms of economies of scale as it imports majority of the required chemicals in bulk quantities. According to management, POWCI imports majority of the bulk purchase of vinyl acetate monomer (VAM) in the country. VAM is a significant intermediate used in production of a wide range of resins and polymers for paints & coatings, adhesive, glue, textile finishes and numerous other industrial and consumer applications. VAM is one of the major chemical in raw material mix of the company. Other major chemicals include, 2-Ethyl Hexanol, Butyl Acrylate, Methyl Methacrylate Monomer, 2-Ethyl Hexyl Acrylate and Phthalic Anhydride, which on aggregate constituted major portion of the raw material procurement while the rest constitute various other chemicals. In order to boost local industry, the aforementioned constituents, along with many other have 0% custom duty levied on them while a small proportion of raw materials have 3-20% duty levied. On the other hand, finished goods have custom duties ranging between 3-20% and additional custom duties ranging between 2-7%.

Over the years the company has shifted its imports from drums to bulk supplies. As the required raw material is highly price elastic, the company has developed a highly efficient sourcing system entailing bulk purchases at favorable rates from international suppliers. This gives the company a competitive advantage relative to other players who don’t have access to such economies of scale.

Growth in topline in FY21 and the ongoing year largely in tandem with uplift in construction sector: During FY21, net sales of the company more than doubled to Rs. 7.0b vis-à-vis Rs. 3.1b (FY19: Rs. 5.1b) in the preceding year on account of increase in volumetric sales along with average selling prices of the products. Meanwhile, over the period of three years, net revenues have exhibited a CAGR of 14%. The major portion of sales derive demand from paint and coating industry, which in turn is directly linked to growth in construction, infrastructure and industrial sectors of the country. The growth in construction sector largely emanates from Public Sector Development Programme (PSDP) expenditure, followed by private investments. Therefore, the company’s sales took a hit during FY20 due to the combined impact of overall economic slowdown and pandemic, which in effect hampered paint industry sales amidst its peak demand season. Meanwhile, the GoP announced ~ Rs. 100b package in April’20 to support construction industry during pandemic. PSDP budget allocation for construction industry for FY21 was reported higher at Rs. 1,325b (FY20: Rs. 1,155b). In addition, the GoP announced special package for the construction industry which entails amnesty scheme, tax exemptions and ~Rs. 30b subsidy for Naya Pakistan Housing Scheme. The company’s sales also exhibited growth in FY21 and the ongoing year largely in line with the related industry growth. Net sales were recorded at Rs. 6.6b during 8MFY22 and in full year are at Rs. 10.6b. Sales mix of the company with proportion of each product category is tabulated below:

Sales Mix	FY19	FY20	FY21
Paint and coating chemicals	60.1%	64.7%	68.7%
Plasticizer (DOP)	21.4%	20.4%	16.3%
Adhesives/Glue	2.8%	6.4%	9.1%
Textile chemicals	10.3%	6.2%	4.9%
Others	5.5%	2.3%	1.0%
Net Sales	**5,080**	**3,091**	**7,018**

Export sales as a percentage of net revenue remained limited, with 5% contribution in the revenue mix (FY20: 3%; FY19: 1%) in FY21. Export sales largely comprised plasticizer and are mainly targeted in UAE and Afghanistan. Sales concentration risk in terms of major clients increased in FY21, as top ten clients accounted for 47% of the net revenue (FY20: 32%; FY19: 25%). Meanwhile, the risk is manageable as apart from one client, all clients have less than 10% contribution in the topline. In addition, the company has longstanding relationship with majority of its clients, underpinned by quality, better pricing and capacity to meet higher demand. List of major clients for FY21 is as follows:

Major Clients

1.	Brighto Paint (Pvt.) Ltd.
2.	Brighto Chemical Pakistan
3.	Diamond paint Industries (Pvt.) Ltd.
4.	Akzo Nobel Pakistan Ltd.
5.	Master Paint Industries (Pvt.) Ltd.
6.	Nelson Paint Industries (Pvt.) Ltd.
7.	Allied Paint Industries (Pvt.) Ltd.
8.	T.U Plastic Industry Co. (Pvt.) Ltd.
9.	Magna Textile Industries (Pvt.) Ltd.
10.	Pakistan Cables Limited

During FY21, the company reported higher gross profit of Rs. 642.9m (FY20: Rs. 342.9m; FY19: Rs. 342.8m) while gross margins decreased to 9.2% (FY20: 11.1%; FY19: 6.7%) due to increase in raw material cost. Cost of sales was recorded higher at Rs. 6.4b (FY20: 2.7b; FY19: 4.7b), with raw material consumed accounting for nearly 97% of the cost of goods manufactured (FY20: 94%; FY19: 95%). The variation in gross margins is primarily a function of two factors, first, considerable reliance on imported raw material while offtake of finished goods is in local market and secondly, its linkage to international crude oil prices. Hence, the gross margins were recorded higher in FY20 in line with decrease in average crude oil prices and relatively stable exchange rate, conversely, in FY21 and the ongoing year crude oil prices underwent a hike combined with the impact of substantial local currency depreciation, leading to decrease in gross margins in FY21 and FY22 (projected). To mitigate some of the exchange rate risk, SBP has provided forward cover on 50% of the outstanding LCs in FY20 and onwards, meanwhile, such cover was not available in FY19, hence the margins were notably lower in FY19 vis-à-vis subsequent years. Furthermore, the company has blanket contracts with majority of its large clients, which entails three months advance booking of sales orders. While the company is able to pass on partial impact of increase in raw material cost to its major clients, the resin industry is generally considered as price taker due to its competitive environment and raw material prices, as discussed above.

Administrative expenses were recorded at Rs. 115.6m (FY20: Rs. 104.6m; FY19: Rs. 116.8m) during FY21. Distribution expenses amounted to Rs. 9.0m (FY20: Rs. 4.6m; FY19: Rs. 12.5m). Other expenses were recorded higher at Rs. 29.3m (FY20: Rs. 3.4m; FY19: Rs. 3.4m) due to increase in contribution in employee related funds. Despite some increase in average borrowings, finance cost was recorded considerably lower at Rs. 93.9m (FY20: Rs. 189.6m; FY19: Rs. 165.0m) on account of decrease in average markup rates during FY21. Accounting for taxation, the company recorded notably higher net profits of Rs. 265.7m (FY20: Rs. 25.4m; FY19: Rs. 29.6m). Net margins improved to 3.8% (FY20: 0.8%; FY19: 0.6%) mainly on account of higher gross profits, rationalized operating expenses, lower finance cost and some decrease in effective tax rate.

Profitability profile of the company has showed further improvement during the ongoing year with Rs. 696.6m of gross profit recorded in 8MFY22 and gross margins of 10.5%. Profit after tax was reported higher at Rs. 330m with increase in net margins to 5.0%. Despite higher raw material prices and volatility in exchange rate, the management expects the profits margins to remain at prior year level amidst economies of scale. The management projects revenue growth of around 25% in FY23 as the demand dynamics from construction sector are expected to remained largely intact. Meanwhile, imposition of real estate taxes imposed in recent budget and hike in interest rates may hinder the expected growth in the construction sector.

Adequate liquidity: Liquidity position of the company has improved during the ongoing year and the outgoing year in line with higher cash flow generation. The funds from operations (FFO) increased to Rs. 396.7m (FY21: Rs. 265.8m; FY20: Rs. 43.6m) in 8MFY22. Resultantly, annualized FFO to total debt and FFO to long-term debt increased to 0.49x (FY21: 0.19x; FY20: 0.04x) and 6.01x (FY21: 3.0x; FY20: 6.14x), respectively. Debt service coverage has also improved to 4.46x (FY21: 2.97x; FY20: 1.21x).

Stock in trade stood at Rs. 1.5b (FY21: 1.5b; FY20: Rs. 920m) at end-8MFY22. This largely comprised raw material inventory worth Rs. 1.3b (FY21: Rs. 1.4b; FY20: Rs. 798.3m) while finished goods inventory stood at Rs. 159.5m (FY21: Rs. 78.8m; FY20: Rs. 101.6m). Trade receivables increased to Rs. 2.4b (FY21: Rs. 1.6b; FY20: Rs. 796m) by end-8MFY22; as proportion of net sales *(annualized)* trade debts remained at 24% (FY21: 22%; FY20: 26%). Aging profile is considered satisfactory as 22% of the receivables were less than 30 days old while 63% fall due under 180 days credit bracket. Credit terms with major clients ranges from 60 to 90 days. Apart from limited exposure in unorganized sector, risk is mitigated by placing caps on credit limits and guarantee checks from small clients. Loans and advances amounted to Rs. 82.2m (FY21: 74.0m; FY20: Rs. 29.2m) which mainly included loan to director of Rs. 51.1m (FY21: Rs. 7.4m; FY20: Nil) and unsecured advances to suppliers amounting Rs. 29.2m (FY21: Rs. 63.9m; FY20: Rs. 27.2m). The advances to suppliers also included Rs. 24.5m (FY21: Rs. 23.9m; FY20: Rs. 24.3m) as advance payment to ACPIL - *a related party*, for purchase of chemicals. All transactions involving related parties arising in normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions. Tax refunds due from Govt. stood at Rs. 322.9m (FY21: Rs. 395.1m; FY20: Rs. 293.7m) at end-8MFY22. Trade and other payables increased sizably to Rs. 1.3b (FY21: Rs. 750.7m; FY20: Rs. 182.1m) primarily on account of increase in outstanding LCs (8MFY22: RS. 1.0b; FY21: Rs. 594.8m; FY20: Rs. 292.1m) and trade creditors (8MFY22: Rs. 168.6m; FY21: Rs. 99.8m; FY20: Rs. 63.5m). Whereas as percentage of cost of sales *(annualized)* trade and other payables stood at 15% (FY21: 12%; FY20: 14%). Credit terms with international suppliers entail usance LCs of 120-180 days and LCs at sight while local materials are purchased on 30-120 days credit. Contract liabilities amounted to Rs. 658.4m (FY21: Rs. 687.6m; FY20: Rs. 91.3m) and have witnessed an increase in FY21 and the ongoing year due to higher advance payments from customers to lock prices and payments from unorganized or new clients to whom the company does not provide credit. Net operating cycle has also remained manageable at 91 days (FY21: 97 days; FY20: 153 days); meanwhile, long net operating cycle in FY20 was on account of slower receivable turnover amidst pandemic. Current ratio stood at 1.37x (FY21: 1.28x; FY20: Rs. 1.28x) at end-8MFY22. In addition, coverage of short-term borrowings via stock in trade and trade debts remained adequate at 3.48x (FY21: 2.34x; FY20: 1.49x). Liquidity profile is projected to remain adequate in terms of working capital management and cash flow coverages.

Moderately leveraged capital structure: The paid-up capital of the company is reported at Rs. 746.1m (FY21 & FY20: Rs. 746.1m). Core equity of the company enhanced to Rs. 1.8b (FY21: Rs. 1.5b; FY20: Rs. 1.3b) by end-8MFY22 on the back of profit retention. Debt profile of the company largely comprised short-terms borrowings to support working capital requirements while reliance on long-term financing has remained limited over the years. In addition, the company has limits of Rs. 3.4b (FY21: Rs. 3.3b; FY20: Rs. 3.5b) for documentary letter of credit primarily for purchase of various types of raw materials and limit of Rs. 10m (FY21 & FY20: Rs. 10m) for hedging future payables against imports.

Long-term debt including current portion stood at Rs. 99.0m (FY21: Rs. 88.6m; FY20: Rs. 7.1m) at end-8MFY22, which included lease liabilities against vehicles, amounting Rs. 63.1m (FY21: 50.2m; FY20: Rs. 7.1m), subsidized loan under SBP refinance scheme for payment of salaries and wages amounting Rs. 16.2m (FY21: 24.9m; FY20: Nil) and term finance amounting Rs. 12.0m (FY21: 12.3m; FY20: Nil) to import machinery. Gearing has improved to 0.65x (FY21: Rs. 0.91x; FY20: Rs. 0.92x) due to equity expansion and some decrease in overall debt level. Debt leverage decreased slightly to 1.73x (FY21: 1.88x; FY20: Rs. 1.36x). Meanwhile, debt leverage has increased by end-FY21 owing to augmentation in trade and other payables and contract liabilities. Capitalization indicators are projected to remain at a comfortable level, going forward.

Power Chemical Industries Limited Annexure I

BALANCE SHEET	Jun 30, 2019	Jun 30, 2020	Jun 30, 2021	Feb 28, 2022
Property, Plant and Equipment	770	716	746	738
Stock in Trade	479	920	1,463	1,488
Trade Debts	1,297	796	1,565	2,367
Tax Refunds Due from Government	245	294	395	323
Cash and Bank Balance	93	106	71	48
Other Assets	121	124	130	78
Total Assets	**3,004**	**2,956**	**4,371**	**5,042**
Trade and Other Payables	572	382	751	1,311
Contract Liabilities	56	91	688	658
Short Term Borrowings	1,082	1,148	1,296	1,109
Long-Term Borrowings (incl. current maturity)	4	7	89	99
Total Interest-Bearing Debt	**1,086**	**1,156**	**1,385**	**1,208**
Other Liabilities	65	76	32	18
Total Liabilities	**1,778**	**1,704**	**2,854**	**3,195**
Paid Up Capital	746	746	746	746
Tier-1/ Total Equity	1,226	1,251	1,517	1,847
INCOME STATEMENT	**Jun 30, 2019**	**Jun 30, 2020**	**Jun 30, 2021**	**Feb 28, 2022**
Net Sales	5,080	3,091	7,018	6,605
Gross Profit	343	343	643	697
Operating Profit	214	234	518	595
Finance Cost	165	190	94	89
Profit Before Tax	45	41	395	471
Profit After Tax	30	25	266	330
RATIO ANALYSIS	**Jun 30, 2019**	**Jun 30, 2020**	**Jun 30, 2021**	**Feb 28, 2022**
Gross Margin (%)	6.7	11.1	9.2	10.5
Net Margins (%)	0.6	0.8	3.8	5.0
Current Ratio	1.24	1.28	1.28	1.37
Net Working Capital	427	475	776	1,169
Cash Conversion Cycle (days)	85	153	97	91*
Funds from Operations (FFO)	85	44	266	397
FFO to Total Debt (x)	0.08	0.04	0.19	0.49*
FFO to Long Term Debt (x)	22.0	6.14	3.0	6.01*
Debt Leverage (x)	1.45	1.36	1.88	1.73
Gearing (x)	0.89	0.92	0.91	0.65
Debt Servicing Coverage Ratio (x)	1.42	1.21	3.18	5.06
ROAA (%)	1.0	0.9	7.3	10.5*
ROAE (%)	2.4	2.0	19.2	29.4*
(Stock in Trade+ Trade Debt) to Short-Term Borrowing (x)	1.64	1.49	2.34	3.48

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure 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 — Annexure III

Name of Rated Entity	Power Chemical Industries Limited
Sector	Chemicals
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see table below
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. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2022 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.
Due Diligence Meeting/s Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
12-09-22	A-	A-2	Stable	Initial

Due Diligence Meeting/s Conducted

Name	Designation	Date
Mr. Mubashir Zaheem	CFO/Executive Director	June 21, 2022
Mr. Tauheed Ahmad Mubashir	GM Finance	June 21, 2022