RATING REPORT

Power Chemical Industries Limited

REPORT DATE:
June 24, 2024

RATING ANALYSTS:
Muhammad Subhan
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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	*June 24, 2024*		*September 12, 2022*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Initial	

COMPANY INFORMATION

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

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Industrial Corporates
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

Power Chemical Industries Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Power Chemical Industries Limited *is a public company, limited by shares, incorporated in Pakistan under The Repealed Companies Ordinance, 1984 (Repealed with the Companies Act, 2017 on May 30, 2017). The Company was incorporated as a private company, limited by shares, on November 21, 2008 and subsequently converted to a public company on March 18, 2015. The principal activity of the Company is the manufacturing and sale of chemicals.*

Corporate Profile:

Power Chemical Industries Limited ("PCIL" or "the Company") 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, PCIL was incorporated as a private limited company, which later was converted into a public (unlisted) limited company in 2015. The company is primarily involved in manufacturing and sale of diverse chemical product portfolio, including paint and coating chemicals, plasticizers, adhesives and textile chemicals.

Currently, the shareholding is vested with the sons of late Mr. Muhammad Afzal. Mr. Muhammad Asghar is the CEO of the Company while Mr. Aslam and Mr. Akram are the directors and shareholders. Mr. Asif and Mr. Amjad are the shareholder in the Company.

Product Mix:

The Company has four major product segments, which includes coating chemicals, plasticizer, adhesives, and textile chemicals while some minor segments include fiber sheet chemicals, leather chemicals and paper coating industry chemicals.

Coating Chemicals: The primary revenue driver for the Company is coating chemicals, with a notable presence in the organized paint and coating industry, primarily centered in Punjab. Leveraging this positioning, the Company efficiently serves demand through a just-in-time (JIT) inventory system, aligning product supplies directly with buyer production schedules. Its product portfolio spans raw materials like monomers and edible oil for oil-based and water-based paints, specialized paints for original equipment manufacturers (OEMs), and powder coatings for appliances. With a market share of approximately 50%, the Company holds a significant portion, dominating the water-based segment with 50-60% and the oil-based segment with 40-50%. Key competitors include Nimir Resins Limited, Archroma, Nimir Chemical Pakistan, and Shalimar Resins, each holding varying shares of the market.

Plasticizers: The second product segment encompasses Dioctyl Phthalate (DOP), a widely utilized plasticizer across various industries. According to management, the Company commands a market share of approximately 30%-35%. Key competitors in this segment include ATS Synthetic, HN Synthetics, LG Petroleum, and Chawla Aluminum. The Company's clientele for DOP consists of manufacturers in sectors such as artificial leather, cable insulation, footwear, and gardening pipes. Notably, 99% of the raw materials for this segment are imported.

Adhesives: Third product segment is adhesive glue/white glue. PCIL is the market leader in the unorganized sector with around 20-registered low to high tier brands while company has around 50-60%% share in the local industry.

Textile Chemicals: The fourth segment comprises textile chemicals, representing a minor share in the local market. The Company produces approximately 40 different chemicals utilized in various stages from pre-treatment to finishing of textile products. Archroma Pakistan emerges as the leading player in this segment.

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.

Operational Performance:

PCIL 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 85% (FY22: 81%; FY21: 85%) during FY23, majorly due to demand dynamics.

Key Rating Drivers:

Moderate to low business risk profile characterized by medium cyclicality, low competition, limited technological risks, and moderate regulatory framework

VIS classifies the chemical sector's risk in Pakistan as medium to low, characterized by moderate cyclicality, limited competition, lower technological risks, and a moderately stringent regulatory framework. Despite these factors, the sector's business nature remains highly capital intensive.

The sector's demand dynamics are influenced by its integral role in multiple industries such as plastics, paints, paper, leather, and consumer products like soaps, detergents, and textiles. Notably, most of the demand emanates from the paint and coating industry, which is directly tied to the growth in the construction, infrastructure, and broader industrial segments of the economy. This growth primarily stems from significant public sector investment through the Public Sector Development Programme (PSDP), complemented by private sector contributions.

Approximately 80% of raw materials, primarily derivatives of crude oil, are imported and are thus subject to international price fluctuations. This exposes the sector to considerable exchange rate and supply chain risks, though the imposition of protectionist duties by the Government of Pakistan (GoP) provides some buffer. However, challenges persist, particularly the volatility in the currency rate affecting operational costs, largely due to the heavy reliance on imports.

The sector's future outlook is expected to be stable, underpinned by the growth in the construction, automobiles, textile sectors. However, recent policy measures such as new real estate taxes, and high interest rates could potentially dampen the growth trajectory. As such, while the sector benefits from a stable demand base, external economic and policy shifts remain key factors, which could impact the sector's performance.

FY23 witnessed contraction in profitability while 9MFY24 witnessed improvement

The Company, in FY23, witnessed a 3.68% growth in its topline primarily fueled by higher local sales driven by price adjustments. Notably in FY23, the local sales accounted for 98.4% (FY22: 97.2%) of local sales while export sales experienced a marginal decline at 1.6% (FY22: 2.8%) on account of subdued global demand. Despite the challenges posed by lower export contributions in FY23, the Company exhibited improved gross margin at 10.4% (FY22: 8.4%), a post benefit of higher average selling prices. However, this positive momentum was somewhat offset by a decline in net margin at 2.8% (FY22: 3.3%) due to a 120.4% increase in the Company's finance cost emanating from an 825-basispoint increase in local policy rates during FY23.

In the 9MFY24, the Company continued its upward trajectory, witnessing growth in its topline on annualized basis driven by an increase in both local and export sales. The gross margin and net margin improved to 11.7% and 9.5%, respectively.

Coverage profile contracted on account of higher finance cost

In FY23, PCIL encountered a weakening in its coverage profile, marked by a decline in its debt service coverage ratio (DSCR) to 2.1x (FY22: 3.2x). This deterioration was primarily attributed to increased payments of finance costs during the period. Furthermore, the DSCR experienced a slight decline to 2.0x in 9MFY24 due to elevated finance costs and tax expenses incurred during the quarter.

Stable debt profile in FY23; however, capitalization metrics weakened in 9MFY24 due to significant increase in contract liabilities

Throughout FY23, the Company maintained a stable debt profile, characterized by a consistent gearing ratio of 0.6x and a slight increase in leverage to 1.9x (FY22: 1.8x). This stability in capitalization metrics is attributed to cautious approach in debt utilization. Contrary to the stability observed in FY23, the Company's capital structure weakened in the 9MFY24, as both gearing and leverage ratio deteriorated to 1.0x and 2.5x, respectively. This deterioration in the capital structure in 9MFY24 is on account of higher short term borrowings coupled with substantial increase in advances from customers during the period.

Adequate liquidity position in FY23 and 9MFY24

Historically the Company has maintained a stable liquidity profile with a current ratio between 1.2x and 1.4x. In FY23, the liquidity profile witnessed the same stability with current ratio remaining at 1.4x. The Company's short-term debt (STD) coverage saw a marginal improvement, reaching 3.8x (FY22: 3.7x) in FY23. However, in 9MFY24, the current ratio experienced a slight decrease to 1.3x, while the STD coverage witnessed a significant drop to 2.4x, driven by elevated short-term borrowings.

Financial Summary						
Balance Sheet (PKR Millions)	**FY21A**	**FY22A**	**FY23A**	**9MFY24**	**FY24P**	**FY25P**
Property, plant and equipment	746.5	1,019.9	1,812.4	1,770.8	1,763.6	1,677.0
Stock-in-trade	1,463.2	1,537.9	2,162.7	2,849.5	2,444.5	2,644.7
Trade debts	1,564.6	2,456.4	2,508.5	2,522.8	2,884.7	3,457.6
Cash & Bank Balances	71.4	66.2	115.3	182.2	203.9	219.8
Total Assets	525.1	1,128.8	597.8	1,502.5	7,999.7	8,721.5
Trade and Other Payables	4,370.7	6,209.2	7,196.7	8,827.8	1,590.7	1,647.7
Long-term Debt (incl. current portion)	99.8	275.1	343.7	519.2	156.1	73.0
Short-Term Borrowings	106.2	104.2	188.7	149.2	1,320.1	1,518.1
Total Debt	1,296.0	1,037.6	1,147.9	2,128.1	1,476.3	1,591.2
Total Liabilities	1,402.2	1,141.9	1,336.7	2,277.3	4,531.6	4,813.5
Paid up Capital	1,351.7	1,982.4	2,397.0	2,571.3	746.2	746.2
Equity (excl. Revaluation Surplus)	2,853.7	3,399.3	4,077.3	5,367.7	2,525.9	2,965.7
Income Statement (PKR Millions)	**FY21A**	**FY22A**	**FY23A**	**9MFY24**	**FY24P**	**FY25P**
Net Sales	7,018.0	10,606.7	10,997.0	9,177.5	12,095.2	13,420.7
Gross Profit	642.9	909.3	1,148.1	1,076.9	1,184.9	1,355.0
Operating Profit	489.0	715.4	901.3	875.4	931.0	1,078.7
Finance Costs	93.9	141.5	311.9	301.6	332.1	353.3
Profit Before Tax	395.1	573.9	589.4	573.8	598.9	725.4
Profit After Tax	265.7	350.6	309.5	340.8	348.7	439.9
Ratio Analysis	**FY21A**	**FY22A**	**FY23A**	**9MFY24**	**FY24P**	**FY25P**
Gross Margin (%)	9.2%	8.6%	10.4%	11.7%	9.8%	10.1%
Operating Margin (%)	7.0%	6.7%	8.2%	9.5%	7.7%	8.0%
Net Margin (%)	3.8%	3.3%	2.8%	3.7%	2.9%	3.3%
Funds from Operation (FFO)	265.8	475.7	562.8	447.7	419.5	559.7
FFO to Total Debt* (%)	19.0%	41.7%	42.1%	26.2%	28.4%	35.2%
FFO to Long Term Debt* (%)	250.3%	456.3%	298.2%	400.1%	268.7%	766.4%
Gearing (x)	0.9	0.6	0.6	0.9	0.6	0.5
Leverage (x)	1.9	1.8	1.9	2.1	1.8	1.6
Debt Servicing Coverage Ratio* (x)	2.3	3.2	2.1	2.0	1.8	2.2
Current Ratio	1.3	1.3	1.4	1.3	1.4	1.5
(Stock in trade + trade debts) / STD (x)	2.2	3.7	3.8	2.4	3.8	3.9
Return on Average Assets* (%)	7.3%	6.6%	4.6%	5.7%	4.4%	5.0%
Return on Average Equity* (%)	19.2%	20.7%	15.3%	19.4%	13.8%	14.8%

**Annualized, if required*
A - Actual Accounts
P - Projected Accounts
M - Management Accounts

REGULATORY DISCLOSURES	**Appendix II**
Name of Rated Entity	Power Chemical Industries Limited
Sector	Chemicals
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				
06/24/2024	**A-**	**A-2**	**Stable**	**Reaffirmed**
12/06/2023	Suspended			
09/12/2022	A-	A-2	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.
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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Mubashar Zaheem	Chief Financial Officer (CFO)	23rd May 2024
Mr. Amjad Islam	General Manager (GM) - Accounts	
Mr. Zeeshan Ghafoor	Manager – Finance	