VIS
Credit Rating Company Limited

RATING REPORT

Analysts:
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POWER CHEMICAL INDUSTRIES LIMITED

Chief Executive: Muhammad Asghar

APPLICABLE METHODOLOGY(IES):
Corporate Rating
(https://docs.vis.com.pk/docs/CorporateMethodology.pdf)
Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A-	A2	A-	A2
RATING OUTLOOK/ WATCH	Positive		Stable	
RATING ACTION	Maintained		Reaffirmed	
RATING DATE	June 24, 2025		June 24, 2024	

Rs. Million	FY23A	FY24A	1HFY25M
Net Sales	10,997.00	12,553.45	6,430.08
PBT	589.42	537.35	293.44
PAT	309.53	329.35	167.36
Paid up Capital	746.21	746.21	746.21
Equity (ex. Reval)	2,177.12	2,506.49	2,673.85
Total Debt	1,336.67	2,341.57	1,853.24
Leverage (x)	1.87	1.92	1.81
Gearing (x)	0.61	0.93	0.69
FFO	562.78	362.59	134.41
FFO/Total Debt (x)	42.10%	15.48%	14.51%
Net Margin (%)	2.81%	2.62%	2.60%

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

RATING RATIONALE

The ratings have been maintained at ‘A-’/ ‘A2’ with a Positive Outlook, reflecting the Company’s continued status as the dominant market player in its largest revenue segment as well as higher expected profitability and cashflow coverages due to reduced interest rates. The assigned ratings also draw support from conservative capitalization levels, consistent debt servicing capacity, and adequate liquidity buffers. Profitability indicators have remained stable despite challenging macroeconomic scenario and cost pressures.

The revision in outlook reflects the Company’s ability to sustain operational and financial performance under prevailing economic constraints, maintaining a strong financial risk profile, supported by its competitive positioning.

Going forward, any rating movement will be predicated on the company’s ability to strengthen core financial metrics while maintaining its market position. In particular, sustained improvement in profitability and the preservation of capitalization indicators will remain key considerations in the rating assessment.

CORPORATE PROFILE

Power Chemical Industries Limited ("PCIL" or "the Company") 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. The company is primarily involved in manufacturing and sale paint and coating chemicals, plasticizers, adhesives, and textile chemicals.

GOVERNANCE

PCIL, incorporated in Pakistan in 2008 as a private limited company and converted to a public limited (unlisted) company in 2015, operates as a family-owned enterprise. The shareholding is primarily held by the sons of the late founder, Mr. Muhammad Afzal, with Mr. Muhammad Asghar, Mr. Muhammad Aslam, and Mr. Muhammad Akram each holding 27% shares. Mr. Muhammad Asif and Mr. Muhammad Amjad each hold 9.5% shares. The company's Board of Directors is chaired by Mr. Muhammad Asghar, who also serves as the Chief Executive Officer.

INDUSTRY PROFILE & BUSINESS RISK

The business risk profile of Pakistan's chemical manufacturing sector, with a focus on paints and coatings, is assessed as medium. The sector reflects moderate demand cyclicality, a dual market structure with both formal and informal players, and high reliance on imported raw materials. Demand is linked to construction, infrastructure, and industrial activity, while margins are influenced by input cost volatility and pricing constraints.

In FY24, sector demand remained consistent despite macroeconomic pressures. Architectural coatings experienced some contraction, while demand for industrial and water-based coatings remained stable. Formal sector participants such as Berger Paints, AkzoNobel, Diamond Paints, and Brighto Paints account for most of the market volume. Informal producers continue to operate across rural and semi-urban areas. Market entry remains feasible due to accessible production methods and moderate compliance requirements. However, development of a stable client base would remain a challenge for any new entrant.

The cost structure is import-dependent, with inputs like titanium dioxide, solvents, and resins comprising a large share of production expenses. In FY24, currency depreciation and shipping costs contributed to higher input costs, with limited pass-through due to pricing sensitivity and informal sector competition. Average USD rate in FY24 was reported at PKR 283.26, up from PKR 248.00 in FY23. Larger players maintained relative stability through scale and inventory management. The production process involves moderate capital investment and regulatory compliance related to hazardous materials, with operations reliant on stable infrastructure and high working capital requirements. However, the paint and coats subsegment is significantly less competitive with few players allowing for greater pricing power.

Tariffs on finished product imports offer a level of protection for domestic manufacturers, due to which the sector remains primarily inward-focused with limited exports. Foreign exchange risk persists due to dependence on imported inputs. Regulatory developments include enforcement of lead content limits and a gradual shift to low- Volatile Organic Compounds (VOC), water-based products, requiring additional investment. These changes align with evolving environmental standards.

The sector's outlook remains stable. Larger firms with diversified operations and resource flexibility may sustain current positions, while smaller and informal players could experience pressure from input costs, and liquidity needs.

Client base and Market Share:

The assigned ratings are supported by the Company's established market position in its core operating segments, particularly in the coating chemicals segment, where it holds an estimated market share of approximately ~55%. PCIL benefits from a stable demand base through long-standing relationships with key clients, including Brighto Paints (Pvt.) Ltd, Diamond Paint Industries (Pvt.) Ltd, and Nelson Paints (Pvt.) Ltd. These relationships contribute to demand consistency and revenue visibility. While competition from entities such as Nimir Resin Industries exists, the impact on PCIL's business profile remains limited given its entrenched client portfolio.

Operational Profile:

PCIL's operations are conducted at two manufacturing sites located in Faisalabad, where the installed reactors are designed for interchangeable use, allowing for adjustments in production based on varying product specifications and order requirements.

In FY24, utilization levels remained below the historical average of over 80%, primarily due to prevailing economic headwinds. In FY24, overall production increased by 9.5%, supported by continued demand from longstanding customers compared to FY23. However, capacity utilization levels remain lower than optimal levels. According to management, demand had bottomed out in FY23, with base demand for downstream products providing stability.

FINANCIAL RISK

Capital Structure

Power Chemical's capitalization ratios temporarily spiked towards the end of FY24, as reflected by an increase in gearing and leverage ratios to 0.93x and 1.92x, respectively (FY23: 0.61x and 1.87x) due to a buildup in inventory levels following the sudden release of previously blocked shipments and delays caused by the Red Sea crisis resulting in heavy payments near the year-end of both LC and contract-based liabilities. Consequently, short term borrowing rose in FY24 as compared to a year earlier. The fact that the company was easily able to meet its additional unusual financial requirements shows its ready access to short-term financing.

The rationalization of the inventory levels in 1HFY25 reduced the company's short-term borrowing requirements, which, along with equity accretion through profit retention contributed to capitalization metrics reverting to pre-FY24 levels, with gearing and leverage ratios reported at 0.69x and 1.81x, respectively. The Company's capitalization profile continues to be relatively conservative.

Profitability

In FY24, the company reported higher net sales with a growth of 15.59%, primarily driven by an increase in average selling prices as demand remained mostly stable. Revenue remained concentrated in the paints and coatings segment, which continued to constitute the primary source of revenue generation. The company enjoys a dominant position in this segment with approximately 55% market share and a stable clientele.

The Company's gross margin has generally remained stable as the Company maintains significant pricing power on account of its strong market presence. Minor fluctuations occur due to time lag between price adjustments and cost fluctuations. Going forward reduced interest costs will have a positive impact on the profitability of the company.

Liquidity and Coverage

In FY24, while lower, the Company's coverage profile is considered to remain healthy, as reflected in a debt service coverage ratio (DSCR) of 1.41x (FY23: 2.15x). The lower coverage ratio was primarily on account of temporarily higher short-term borrowing by the company during an elevated interest rate environment. The DSCR has remained sufficient in 1HFY25, at 1.39x.

Liquidity profile has also remained strong, reflected by a current ratio at 1.37x in FY24 (FY23: 1.38x), increasing to 1.40x in 1HFY25 supported by sufficient internal cashflow generation.

Financial Summary

Appendix I

Balance Sheet (PKR Millions)	FY23A	FY24A	6MFY25M
Property, plant and equipment	1,812.41	1,850.75	1,889.92
Intangible Assets	0.00	5.61	4.94
Stock-in-trade	2,162.70	2,981.25	2,315.17
Trade debts	2,508.46	2,388.72	3,128.18
Cash & Bank Balances	115.25	182.44	150.62
Other Assets	597.84	860.41	958.47
Total Assets	7,196.66	8,269.18	8,447.30
Creditors	343.66	865.67	447.60
Long-term Debt (incl. current portion)	188.73	184.56	194.66
Short-Term Borrowings	1,147.94	2,157.01	1,658.58
Total Debt	1,336.67	2,341.57	1,853.24
Other Liabilities	2,397.01	1,613.21	2,530.41
Total Liabilities	4,077.34	4,820.45	4,831.25
Paid up Capital	746.21	746.21	746.21
Revenue Reserve	1,430.91	1,760.28	1,927.64
Equity (excl. Revaluation Surplus)	2,177.12	2,506.49	2,673.85

Income Statement (PKR Millions)	FY23A	FY24A	6MFY25M
Net Sales	10,997.00	12,553.45	6,430.08
Gross Profit	1,148.11	1,242.87	683.42
Operating Profit	901.28	986.58	538.62
Finance Costs	311.86	449.23	245.18
Profit Before Tax	589.42	537.35	293.44
Profit After Tax	309.53	329.35	167.36

Ratio Analysis	FY23A	FY24A	6MFY25M
Gross Margin (%)	10.44%	9.90%	10.63%
Operating Margin (%)	8.20%	7.86%	8.38%
Net Margin (%)	2.81%	2.62%	2.60%
Funds from Operation (FFO) (PKR Millions)	562.78	362.59	134.41
FFO to Total Debt* (%)	42.10%	15.48%	14.51%
FFO to Long Term Debt* (%)	298.19%	196.46%	138.10%
Gearing (x)	0.61	0.93	0.69
Leverage (x)	1.87	1.92	1.81
Debt Servicing Coverage Ratio* (x)	2.15	1.41	1.39
Current Ratio (x)	1.38	1.37	1.40
(Stock in trade + trade debts) / STD (x)	4.07	2.50	3.29
Return on Average Assets* (%)	4.62%	4.26%	4.00%
Return on Average Equity* (%)	15.31%	14.06%	12.92%
Cash Conversion Cycle (days)	139.50	134.68	141.54

**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		
6/24/2025	A-	A2	Positive	Maintained
6/24/2024	A-	A2	Stable	Reaffirmed
12/06/2023		Suspended		
9/12/2022	A-	A2	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 Meeting Conducted

Name	Designation	Date
Mubashar Zaheem	Executive Director – Finance & Operations	June 3, 2025
Esha Khalil	Finance Manager	