



The Pakistan Credit Rating Agency Limited

## Rating Report

### DIC Pakistan Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Nov-2023	AA-	A1	Stable	Maintain	-
23-Nov-2022	AA-	A1	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

DIC Pakistan Limited (“DIC” or ‘The Company’) ratings reflect the strong sponsor's profile, established market position, and adequate financial profile of the Company. The assigned rating takes into account the good governance framework, strong control environment, and qualified and experienced management team. DIC is predominately manufacturing different types of printing inks. As per management representation, the Company enjoys the good market share in the overall Printing ink industry. However, the major market is occupied by commercial importers. Production of the segment is directly linked with the demand of food products and consumer goods. During CY22, the utilization level was slightly on the higher side ~64% as compared to CY21 ~63%.

On the financial profile side, moderately leveraged capital structure i.e. CY22: ~42.4% (6MCY23: ~40.2%, CY21: ~35%) would remain imperative to the ratings where the short-term debt is related to working capital management. During CY22, the top line of the Company increased by ~40% to PKR 9,365mln as compared to CY21: PKR 6,716mln whereas at the end of 6MCY23, it stood at PKR 5,327mln. The major contribution is made by Rotogravure ink ~58% followed by Flexographic Ink-Solvent/UV-Based ~14%. As of CY22, the profit after tax of the Company stood at PKR 671mln (CY21: PKR 684mln) whereas at the end of Jun'23, PAT stood at PKR 552mln. The group synergy of DIC corporation and Packages Limited has helped the management in reaping the benefits of high demand and effective inventory management. Total borrowing of the company includes ~95.8% short-term borrowing. Furthermore, comfort for the assigned rating has also been drawn from Parent Company's resolute commitment to supporting the Company in case of any financial needs. EBITDA improved by 32% to PKR 1,565mln as of CY22 (6MCY23: PKR 1,518mln) which provides a cushion for the finance cost and debt repayment. The Company has been managing its energy requirements by using a mix of solar energy and supply from WAPDA. Moreover, the sponsor's business acumen and vast experience in the industry bodes well for the rating.

The ratings are dependent upon the management's ability to improve margins while sustaining its market share. Prudent management of the working capital, and maintaining sufficient cash flows and coverages are also imperative for the ratings. Any significant decrease in margins and coverages will impact the ratings.

#### Disclosure

<b>Name of Rated Entity</b>	DIC Pakistan Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jul-23),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Rating Modifiers(Apr-23)
<b>Related Research</b>	Sector Study   Chemical(Jul-23)
<b>Rating Analysts</b>	Madiha Sohail   madiha.sohail@pacra.com   +92-42-35869504

## Profile

**Legal Structure** DIC Pakistan Limited ('DIC' or 'The Company') was incorporated as a private limited company in July 1994, and a manufacturing concern that is involved in the production and sale of quality printing inks.

**Background** In July 1994, Dainippon Ink and Chemicals Pakistan Limited was established by entering a Joint venture between DIC Asia Pacific Limited and Packages Limited by holding 45% and 55% shares respectively for commenced production and sale of printing inks. Later its name was changed to DIC Pakistan Limited.

**Operations** DIC provides different types of printing inks such as Rotogravure inks, Flexographic Ink-Water-Based etc. The annual aggregate capacity of the printing ink plant is 16,762 tons and the actual capacity utilization is 10,761 tons for CY22. The actual capacity utilization is 64%. The annual aggregate capacity of the printing ink plant was 16,102 tons and the actual capacity utilization was 10,168 tons for CY21. The actual capacity utilization was 63%.

## Ownership

**Ownership Structure** The majority stake of DIC Pakistan Limited lies with Packages Limited which owns ~55% of the total shares and ~45% of shares are held by DIC Asia Pacific Limited.

**Stability** Packages Limited is the flagship investment holding company of the Ali Group which has a history spanning over a period of more than 66 years. Packages' investment book comprises entities engaged in the manufacturing and sale of inks, flexible packaging material, paper, paperboard, and corrugated boxes, biaxially oriented polypropylene film and cast polypropylene film, production and sale of ground calcium carbonate products, entities engaged in insurance, power generation, real estate segment of the economy and recently diversifying into manufacturing of corn-based starch.

**Business Acumen** The Group is ranked amongst the leading industrial groups of the country with interests in paper and paperboard, packaging, financial institutions, education, and real estate sectors. Packages Limited has significant successful joint ventures with international conglomerates and long standing relationship with various multinational companies.

**Financial Strength** Packages Limited has a consolidated asset base of ~PKR 172bln supported by ~PKR 67bln of equity and generated a turnover of ~PKR 122bln during CY22.

## Governance

**Board Structure** The Company has a seven-member board comprising six non-executive directors, and one executive director (Including CEO). The board is chaired by non-executive director Ms. Syeda Henna Babar Ali.

**Members' Profile** The BoD, with a well-diversified background and relative expertise of its members, is a key source of oversight and guidance for the management. The chairman of the board Ms. Syeda Henna Babar brings a wealth of experience and expertise to DIC. She joined Packages Limited in 1990 as a product manager.

**Board Effectiveness** The Board met four times during CY22, with the majority attending to discuss pertinent matters. While the minutes of the meetings are documented, there is room for improvement concerning the details and clarity of the minutes. To ensure effective governance, the Board has formed two committees, namely, (i) Audit Committee and (ii) HRRC

**Financial Transparency** M/s A.F. Ferguson & Co, are the external auditors of the Company. They gave an unqualified opinion on the Company's financial statements for the year ended Dec 31, 2022. The board has also established an internal audit department.

## Management

**Organizational Structure** The Company has established a well-defined management structure divided into functional departments with clear lines of responsibilities.

**Management Team** Mr. Ismail joined DIC as Chief Operating Officer in June 2019 and took over as CEO from January 1, 2021. He has previously worked as a Business Manager for AkzoNobel Pakistan Limited. He has also been Country Manager for Buhler Holding AG and has served as Senior Manager Business Development at Descon Engineering Limited.

**Effectiveness** The experience of the sponsors along with a professional management team has helped the Company to streamline its operations and cut down on its costs. The production facilities have minimal wastage of around 3.3% which is effectively managed through re-cycling and re-using in the process of being scrapped to decrease loss.

**MIS** To generate MIS and operational reports, ERP software, SAP ECC6 is used.

**Control Environment** To ensure operational efficiency, the Internal Audit Function is in place that identifies and reports risks. The audit committee reviews the internal audit department reports and planned activities.

## Business Risk

**Industry Dynamics** Pakistan's packaging industry consists of four major segments, paper, plastic, tinplate and glass. Paper and plastic segments occupy the major share in total market, while other materials such as tinplate and glass have relatively smaller size. The paper packaging segment has remained relatively stable in recent years. Despite, the economic slowdown caused by the COVID-19 pandemic, demand for the segment remained almost consistent as it falls in the supply chain of various essential products and industries. The segment's direct costs consist largely of imported raw materials (~75%).

**Relative Position** The Company has captured the local and international market, and enjoys largest market share in the local printing inks industry. DIC is increasingly becoming a well-known name in the printing ink market segment.

**Revenues** The Company generates revenue from the sale of printing inks in the local market as well as through exports. Local sales increased from ~PKR 7,832mln in CY21 to ~PKR 10,933mln in CY22 while the exports also increased from ~PKR 31mln to ~PKR 44mln. As of 6MCY23, local sales are ~PKR 6,286mln, while its export sales are ~PKR 2.8mln.

**Margins** The GP Margin has seen a slight decrease to 19.9% in CY22 (6MCY2023: 32.5%, CY21: 20.7%). The operating profit margin also experienced a slight drop to 16.4% in CY22 (6MCY2023: 28.6% CY21: 16.9%). This is in line with the increase in sales prices, which have been adjusted to reflect the rising costs of raw materials and fluctuating exchange rates. The net profit margin of the company has similarly decreased to CY22: 7.2% (6MCY23:10.4%, CY21:10.2%)

**Sustainability** There is strong competition in the industry due to price sensitivity. The Company has a well-established brand name in the market, especially in consumer products. Going forward, DIC is also strengthening its geographic footprints in the printing inks industry and expanding its capacity utilization by installing another plant in Kasur expected next year.

## Financial Risk

**Working Capital** The working capital management is supported through a short-term running finance facility obtained from a consortium of banks. Considering the raw material lead time and high product demand, the inventory days of the Company remained stable CY22: 69 days (6MCY23: 72 days, CY21: 72 days). The trade receivables days almost remained the same at ~65 days during CY22 (6MCY23: 65 days, CY21: 62 days). While trade payable days also remained on lower side at ~52 days during CY22 (6MCY23: 61days, CY21: 53days). The average net working capital days were clocked in at 83 days during CY22 (6MCY23: 75 days, CY21: 82 days).

**Coverages** The Company's interest coverage ratio has increased from CY22: 6.6x to (CY21: 14.4x, 6MCY23: 14.8x). The Company's core and total debt service coverage stood at CY22: 5.1x (CY21: 6.1x, 6MCY23: 9.8x) which is still on the lower side.

**Capitalization** DIC has a moderate leveraged structure, with long-term liabilities being ~5% of equity at end of 6MCY23 and ~5.3% of equity at the end of CY22. Its gearing ratio has increased rapidly at CY22: ~42.4% from CY21: ~35.4%, indicating that it is increasing its debt ratio because the working capital of the entity is being managed with debt and due to rise in working capital its debt is also rising. While it has decreased to 40.1% at the end of 6MCY23.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

DIC Pakistan Limited Chemical	Jun-23 6M Management	Dec-22 12M Audited	Dec-21 12M Audited	Dec-20 12M Audited
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	718	533	392	302
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	4,811	4,269	3,333	2,686
<i>a Inventories</i>	2,220	1,958	1,601	1,059
<i>b Trade Receivables</i>	1,762	2,041	1,282	1,014
5 Total Assets	5,529	4,802	3,725	2,989
6 Current Liabilities	2,328	1,572	1,117	857
<i>a Trade Payables</i>	2,043	1,543	1,102	841
7 Borrowings	1,238	1,309	850	784
8 Related Party Exposure	19	35	58	46
9 Non-Current Liabilities	69	63	45	36
10 Net Assets	1,875	1,823	1,656	1,266
11 Shareholders' Equity	1,875	1,823	1,656	1,266
<b>B INCOME STATEMENT</b>				
1 Sales	5,327	9,365	6,716	5,576
<i>a Cost of Good Sold</i>	(3,598)	(7,504)	(5,329)	(4,489)
2 Gross Profit	1,729	1,861	1,387	1,088
<i>a Operating Expenses</i>	(203)	(328)	(251)	(265)
3 Operating Profit	1,526	1,533	1,136	822
<i>a Non Operating Income or (Expense)</i>	(415)	(225)	(102)	(73)
4 Profit or (Loss) before Interest and Tax	1,111	1,308	1,034	749
<i>a Total Finance Cost</i>	(105)	(239)	(84)	(133)
<i>b Taxation</i>	(454)	(399)	(266)	(190)
6 Net Income Or (Loss)	552	671	684	427
<b>C CASH FLOW STATEMENT</b>				
<i>a Free Cash Flows from Operations (FCFO)</i>	1,167	1,365	1,015	695
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	1,095	1,144	933	536
<i>c Changes in Working Capital</i>	(415)	(867)	(658)	209
1 Net Cash provided by Operating Activities	680	277	275	745
2 Net Cash (Used in) or Available From Investing Activities	(213)	(207)	(96)	(65)
3 Net Cash (Used in) or Available From Financing Activities	(292)	(581)	(366)	(135)
4 Net Cash generated or (Used) during the period	175	(511)	(187)	544
<b>D RATIO ANALYSIS</b>				
1 Performance				
<i>a Sales Growth (for the period)</i>	13.8%	39.4%	20.4%	6.7%
<i>b Gross Profit Margin</i>	32.5%	19.9%	20.7%	19.5%
<i>c Net Profit Margin</i>	10.4%	7.2%	10.2%	7.6%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	14.1%	5.3%	5.3%	16.2%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	59.7%	38.5%	46.8%	36.8%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	137	134	135	139
<i>b Net Working Capital (Average Days)</i>	75	83	82	89
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.1	2.7	3.0	3.1
3 Coverages				
<i>a EBITDA / Finance Cost</i>	14.8	6.6	14.4	6.6
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	9.8	5.1	6.1	3.3
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.0	0.1	0.2	0.3
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	40.1%	42.4%	35.4%	39.6%
<i>b Interest or Markup Payable (Days)</i>	105.6	43.8	58.0	36.1
<i>c Entity Average Borrowing Rate</i>	20.2%	19.4%	9.5%	13.1%

### Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB	
BBB-	
BB+	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility.
CC	Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



\*The correlation shown is indicative and, in certain cases, may not hold.

**Outlook (Stable, Positive, Negative, Developing)** Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

**Suspension** It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):  
 a) Broker Entity Rating  
 b) Corporate Rating  
 c) Debt Instrument Rating  
 d) Financial Institution Rating  
 e) Holding Company Rating  
 f) Independent Power Producer Rating  
 g) Microfinance Institution Rating  
 h) Non-Banking Finance Companies Rating

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### **Rating Team Statements**

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

### **Conduct of Business**

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

### **Monitoring and review**

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

### **Probability of Default**

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

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