The Pakistan Credit Rating Agency Limited

Rating Report

Premier Industrial Chemical MFG. Co. (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
06-Sep-2024	A-	A2	Stable	Maintain	-
08-Sep-2023	A-	A2	Stable	Maintain	-
09-Sep-2022	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect Premier Industrial Chemical MFG. Co. (Pvt.) Limited's ('the Company') satisfactory market position, strong financial standing and significant role in the country's ethanol export segment, driven by its substantial production capacity. The Company operates across two key segments: ethanol and juice & dairy, which contribute 85% and 15% to its revenue, respectively. In terms of industry outlook, the area cultivated for sugarcane production in MY23 expanded to approximately 1.3 mln hectares (MY22: approximately 1.2 mln hectares). However, sugarcane production declined to approximately 87.9 mln metric tons (MY22: approximately 88.6 mln metric tons), reflecting a year-over-year decrease of approximately 0.7%. This reduction in production resulted in decreased molasses availability, which has adversely impacted Premier Industrial Chemical MFG. Co. (Pvt.) Limited. Consequently, the Company’s capacity utilization fell to (CY23: 45%, CY22: 60%). To mitigate the impact of reduced molasses availability, the Company is transitioning to corn-based ethanol production, with operations expected to commence in CY25, This strategic diversification is expected to enhance the Company’s financial resilience and strengthen its overall financial health. The Company’s performance has remained resilient, supported by high margins and strong profitability. For the period, sales growth was 37%, with the gross margin improving to 33% (CY22: 24%). The net margin also showed significant improvement, rising to (CY23: 21.9%, CY22: 14.5%),These enhancements reflect notable progress in the Company’s financial metrics. The ratings are also supported by the Company’s affiliation with group entities operating in the paper segment, which provides additional support and strengthens the overall credit profile. The Company’s capital structure is characterized by moderate leverage, with a debt-to-equity ratio of 36% (CY22: 34%), This is complemented by strong coverage metrics and effective management of working capital. The Company’s solid equity base further underpins its financial stability, while the sponsors' willingness to provide ongoing support bodes well for the ratings.

Ratings are dependent on the management’s ability to effectively sustain the improved volumes and margins. Prudent debt and liquidity management is critical for ratings. Any deterioration in coverages and/or drag of high advances extended to group concerns, if any, will adversely impact the ratings. Meanwhile, strengthening governance framework remains imperative for ratings.

Disclosure	
Name of Rated Entity	Premier Industrial Chemical MFG. Co. (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Rating Modifiers(Apr-24),Methodology | Corporate Rating(Jul-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24)
Related Research	Sector Study | Sugar(Aug-24)
Rating Analysts	Muhammad Atif Chaudhry | Atif.Chaudhry@pacra.com | +92-42-35869504

Profile

Legal Structure Premier Industrial Chemical Manufacturing Co. (Private) Limited ('the Company') was incorporated in Jun-03 as a private limited company.

Background Premier Group of Industries ('the Group') consists of companies operating in the ethanol, paper, and juices segment. The Group, founded by Sheikh Zahoor Ali (late), started its operations in 1979 with a paper mill. Over the years the second generation of the business diversified the operations by venturing into ethanol and juices segments. The Company was formed in 2003 and started operations in 2007 mainly producing industrial grade ethanol. In 2012, the dairy and juices plant was also added for manufacturing juices and flavored milk

Operations The Company is primarily engaged in the manufacturing and sale of food grade ethanol, dairy products and juices. Total annual production capacity is 124,000 M. Tons with Superfine Ethanol of 96% strength and Fuel grade Ethanol of 99.9%. In CY23, the Company produced 56,483. MT of ethanol (CY22: 71,000MT) resulting dip in capacity utilization of~45% (CY22: 60%). This decrease in annual capacity utilization during CY23 was primarily due to the less availability of molasses.

Ownership

Ownership Structure The Company is completely owned by the sponsoring family. Majority shareholding rests with Mr. Zahoor's sons, Mr. Muhammad Saeed (~20.8%), Mr. Shahid Saeed (~20.8%), and Mr. Tahir Saeed (~20.8%). The remaining shareholding rests with Mrs. Zahra Tahir (~12.5%), Mrs. Nagma Shahid (~12.5%), and Mr. Muhammad Saeed's sons, Mr. Ahsen Ali (~5.5%), Mr. Asad Ali (~5.5%), and Mr. Turab Ali (~1.50%).

Stability The ownership structure is seen as stable. However, formal succession plan further enhances the stability of the structure

Business Acumen Sponsors are considered to have adequate business acumen through its group. The Group has vested business interest in the industries of ethanol, paper and steel lately.

Financial Strength The Company has adequate financial strength derived from its Group and support of sponsors.

Governance

Board Structure Board of Directors comprises five members including the Chairman, who is also the CEO, and four Executive-Directors. The Board is dominated by the sponsoring family.

Members' Profile Mr. Muhammad Saeed, acts as the Chairman of the Board. He has over 32 years of industrial experience in Paper and Ethanol sectors and has been associated with the Company since inception.

Board Effectiveness Board meetings are conducted on need-basis. The Board lacks any sub-committees

Financial Transparency External Auditors of the Company, Crowe Hussain Chaudhary & Co. Chartered Accountants have expressed an unqualified opinion on financial statements for CY23. The firm has been categorized in category 'A' by SBP and has been QCR rated by ICAP.

Management

Organizational Structure The Company's organizational structure has been optimized as per the operations. The Company operates through Finance, Sales & Marketing, Production, and Admin & HR. The functions of finance and production are headed by Directors along with departmental heads. Ultimate reporting lines rest with the CEO, who makes pertinent decisions of the Company.

Management Team The Company's management comprises experienced and qualified individuals. Mr. Muhammad Saeed, the Chief Executive Officer, is a graduate and has been associated with the Company since inception. He has more than 32 years of experience in the ethanol and paper segments. Director, Mr. Shahid Saeed, has over 27 years of experience in the paper and juices sectors and heads the Company's dairy and juices segment.

Effectiveness The Company does not have formal management committees in place. However, performance is discussed among management on a frequent basis to review activity.

MIS The Company has deployed ERP software from Cosmosoft. Reports are generated on daily basis for the management.

Control Environment The Company has outsourced its internal audit function to Saim & Co. Chartered Accountants.

Business Risk

Industry Dynamics Sugarcane is an important agricultural and cash crop of Pakistan. It contributed ~20.5% to country's "important crops" and ~3.7% to the overall agriculture sector, with ~0.9% share in country's GDP during MY23 (MY22: ~0.8%). Total sugar production clocked in at ~6.7mln MT during MY23, a YoY decline of ~15.1%. Meanwhile, sugar imports remained nil in MY23 due to sufficient local supply and surplus of sugar stock. During the year, only a limited quota of ~0.3mln MT was allowed for sugar export. MY24 sugar production is projected to decline by ~0.1% YoY whereas imports are expected to stay nil. The sugarcane production is expected to increase during MY25 as prices are encouraging farmers to maintain sugarcane area over planting other crops.

Relative Position The Company's rated capacity for ethanol ranks amongst the highest in the country, however, low-capacity utilization has kept the market share of the Company relatively low in terms of production. Going forward, the management is planning to add corn-based ethanol production facility to address lower capacity utilization challenges.

Revenues In CY23, total revenue reached approximately PKR 18,951 mln (CY22: PKR 13,836 mln), reflecting a significant growth of around 37%. This increase was primarily driven by higher international ethanol prices and the devaluation of the rupee. The dairy and juice segment also showed improvement, with gross sales in the dairy and juice segments totaling PKR 3,716 mln (CY22: PKR 2,319 mln),marking a growth of approximately 60%.

Margins The Company's margins have strengthened in recent years, driven by increased ethanol prices and reduced procurement costs. In CY23, the Company's gross margin improved to 33% (CY22: 24%), while the operating margin increased to 27.8% (CY22: 18%). At the net level, profitability rose significantly, with the Company's net income reaching PKR 4,147 mln in CY23 (CY22: PKR 2,000 mln). Consequently, the net profit margin improved to 21.9% (CY22: 14.5%). For the ongoing CY23, management anticipates further substantial improvements in margins, attributed to enhanced molasses availability and lower costs.

Sustainability The Company intends to enhance its utilization and is exploring alternatives to sugar-cane based molasses, such as corn-based ethanol, to achieve its targets. Letters of Credit (LCs) for the imported machinery have been approved. The corn-based ethanol plant is anticipated to become operational in the near future.

Financial Risk

Working Capital During CY23, the Company's net working capital days remained relatively stable at 39 days, compared to 36 days in CY22. This stability was impacted by an increase in average inventory days, which rose to 42 days in CY23 from 40 days in the previous year. Trade receivable days improved to 0 days in CY23 from 1 day in CY22, while trade payable days decreased to 3 days from 4 days in CY22. The Company's short-term trade leverage and total short-term leverage remain high, indicating substantial capacity for borrowing against trade and total current asset.

Coverages The interest coverage ratio rose to 8.2x in CY23 (CY22: 7.8x). This improvement in coverage is attributable to a significant increase in Free Cash Flow from Operations (FCFO), which reached approximately PKR 5,059 mln in CY23 (CY22: PKR 2,264 mln). Finance costs increased to PKR 689 mln in CY23 (CY22: PKR 340 mln) due to higher interest rates and increased borrowings. Additionally, the debt payback period has also improved.

Capitalization The Company maintains a moderately leveraged capital structure, with a debt-to-equity ratio of approximately 36% in CY23 (CY22: 34%). The composition of the Company's debt is predominantly short-term, comprising around 96% of total borrowings. This debt mainly includes the ERF-Part II facility and running finance used for working capital needs. Total debt as of CY23 amounted to approximately PKR 7,510 mln (CY22: PKR 4,850 mln). Looking ahead, the Company's capital structure is anticipated to remain relatively stable.

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Financial Summary
PKR mln

Premier Indstrial Chemical MFG. Co (Pvt.) Ltd	Dec-23	Dec-22	Dec-21	Dec-20
Sugar	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	5,484	5,333	5,462	4,584
2 Investments	-	-	-	100
3 Related Party Exposure	573	551	-	1
4 Current Assets	15,582	8,595	5,371	5,100
a Inventories	*2,398*	*1,948*	*1,050*	*1,211*
b Trade Receivables	*13*	*13*	*43*	*87*
5 Total Assets	21,638	14,479	10,833	9,785
6 Current Liabilities	804	456	286	195
a Trade Payables	*164*	*161*	*176*	*109*
7 Borrowings	7,510	4,850	3,340	2,255
8 Related Party Exposure	-	-	-	1,423
9 Non-Current Liabilities	59	-	-	-
10 Net Assets	13,265	9,173	7,208	5,912
11 Shareholders' Equity	13,265	9,173	7,198	5,902
B INCOME STATEMENT				
1 Sales	18,951	13,836	5,497	3,330
a Cost of Good Sold	*(12,646)*	*(10,517)*	*(4,909)*	*(2,609)*
2 Gross Profit	6,305	3,319	588	722
a Operating Expenses	(1,043)	(831)	(353)	(331)
3 Operating Profit	5,262	2,487	235	391
a Non Operating Income or (Expense)	*(41)*	*15*	*30*	*39*
4 Profit or (Loss) before Interest and Tax	5,221	2,503	265	430
a Total Finance Cost	*(689)*	*(340)*	*(123)*	*(79)*
b Taxation	*(385)*	*(163)*	*(85)*	*(58)*
6 Net Income Or (Loss)	4,147	2,000	57	293
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*5,059*	*2,264*	*220*	*416*
b Net Cash from Operating Activities before Working Capital	*4,461*	*2,028*	*208*	*394*
c Changes in Working Capital	*(4,337)*	*(3,620)*	*783*	*(237)*
1 Net Cash provided by Operating Activities	124	(1,593)	990	156
2 Net Cash (Used in) or Available From Investing Activities	(25)	324	(895)	(506)
3 Net Cash (Used in) or Available From Financing Activities	2,681	1,485	902	(1,038)
4 Net Cash generated or (Used) during the period	2,780	217	997	(1,388)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	37.0%	151.7%	65.0%	-41.6%
b Gross Profit Margin	33.3%	24.0%	10.7%	21.7%
c Net Profit Margin	21.9%	14.5%	1.0%	8.8%
d Cash Conversion Efficiency (FCFO adjusted for Working C	3.8%	-9.8%	18.2%	5.4%
*e Return on Equity [Net Profit Margin * Asset Turnover * (To*	37.0%	24.4%	0.9%	5.1%
2 Working Capital Management				
a Gross Working Capital (Average Days)	42	40	79	166
b Net Working Capital (Average Days)	39	36	70	154
c Current Ratio (Current Assets / Current Liabilities)	19.4	18.9	18.8	26.1
3 Coverages				
a EBITDA / Finance Cost	8.2	7.8	2.6	6.6
b FCFO / Finance Cost+CMLTB+Excess STB	7.3	7.0	2.0	5.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fin	0.0	0.1	1.9	4.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity	36.2%	34.6%	31.7%	38.4%
b Interest or Markup Payable (Days)	87.6	79.2	101.8	58.2
c Entity Average Borrowing Rate	14.0%	11.2%	4.2%	1.7%

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Corporate Rating Criteria

Scale

Credit Rating

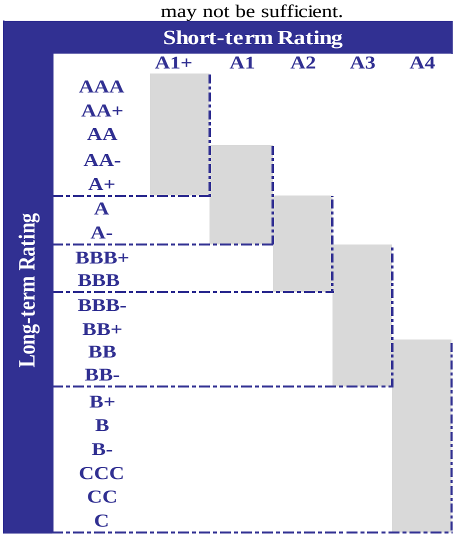
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** 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.
A+ A A-	**High credit quality.** 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.
BBB+ BBB BBB-	**Good credit quality.** 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.
BB+ BB BB-	**Moderate risk.** 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.
B+ B B-	**High credit risk.** 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.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. 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.
D	Obligations are currently in default.

Short-term Rating

Scale	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
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 surveill 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

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(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).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(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)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

(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)

Proprietary Information