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
09-Sep-2022	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan's ethanol industry is largely export-based owing to meager domestic consumption. The Country's ethanol exports stood at 353,936 MT in MY21 (MY20: 229,639 MT), witnessing ~54% increase. Prices in the global market have been high, on the back of spike in ethanol demand, despite unsteady economic conditions worldwide. Impact of high international ethanol prices was supplemented by devaluation of the Pakistani Rupee. Sugarcane production in Pakistan during MY21 improved, as domestic distilleries posted stable profits. During the ongoing MY22, the industry's margin are expected to remain stable owing to increased ethanol prices, though raw material prices have also increased from high cost of molasses.
The ratings reflect Premier Industrial Chemical MFG. Co. (Pvt.) Limited's ('the Company') prominent position in the country's ethanol export segment emanating from its substantial capacity. The Company's performance has remained adequately stable over the years supplemented by high margins, and profitability which bodes well for the ratings. Lately, the Company's lower capacity utilization due to lower availability of molasses impacted the financial performance. The Company procures molasses entirely from the domestic market. This exposes the Company to inherent procurement risk. Despite the challenge in this regard, the management achieved improved utilization and increase in profits during the ongoing season and anticipates to do so in subsequent years. The ratings also draw strength from the Company's association with group entities operating in the paper segment. The Company's revenue comprises primarily of ethanol exports and local sales of juices and flavored milk. The Company has a moderately leveraged capital structure supplemented by strong coverages and effective working capital management. The Company has a very strong equity base. Furthermore, the materialization of the Company's expansionary measures which are pre-dominantly funded through equity remains fundamental for the ratings. The sponsors' willingness to support the Company 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 | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Sugar(Apr-22)
Rating Analysts	Ahmad Faraz Arif | ahmad.faraz@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 120,000 M. Tons with Superfine Ethanol of 96% strength and Fuel grade Ethanol of 99.9% strength comprising ~50% of total capacity each. Capacity utilization has seen a dip in recent years due to the lower production of the raw material (molasses). However, In CY21, the Company produced 30,557MT of ethanol (CY19: 24,038) resulting in improved capacity utilization of ~31% (CY20: 24%). During the ongoing season, the management is anticipating more than two folds increase in annual capacity utilization compared to the preceding year due to better 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 Tahir (~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 30 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 CY21. 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 30 years of experience in the ethanol and paper segments. Director, Mr. Shahid Saeed, has over 25 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 Pakistan's ethanol industry is largely export-based owing to meager domestic consumption. The Country's ethanol exports stood at 353,936 MT in MY21 (MY20: 229,639 MT), witnessing ~54% increase. Prices in the global market have been high, on the back of spike in ethanol demand, despite unsteady economic conditions worldwide. Impact of high international ethanol prices was supplemented by devaluation of the Pakistani Rupee. Sugarcane production in Pakistan during MY21 improved, as domestic distilleries posted stable profits. During the ongoing MY22, the industry's margin are expected to remain stable owing to increased ethanol prices, though raw material prices have also increased from high cost of molasses.

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 and sales. Going forward, the management is planning to add corn-based ethanol production facility to address lower capacity utilization challenges.

Revenues During CY21 total revenue stood at ~PKR 5,497mln (CY20: PKR 3,330mln), witnessing significant increase of ~65% mainly attributable to higher production of ethanol, increase in international prices of ethanol, and rupee devaluation. The Company's ethanol production increase YoY due to the better availability of molasses and higher sugar-cane production. During the ongoing CY22, the management anticipates two folds increase in the Company's revenues.

Margins The Company's margins have remained under pressure in the recent years due to lower revenues resulting from shortage of molasses and high procurement costs. During CY21, the Company's gross margin declined and stood at 10.7% (CY20: 21.7%). Similarly, operating margin dipped to 4.3% (CY20: 11.7%). At net level, the profitability dipped and the Company's net income stood at PKR 57mln during CY21 (CY20: PKR 293mln). As a result, net profit margin dipped to 1.0% (CY20: 8.8%). During the ongoing CY22, the management anticipates significant improvement in the margins owing to better availability of molasses and lower costs.

Sustainability The Company plans to increase its utilization and is looking for alternatives to sugar-cane based molasses to pursue the desired targets.

Financial Risk

Working Capital During CY21, the Company's net working capital days improved to 70 days from 154 days in CY20, on the back of lower average inventory days (CY21: 75 days, CY20: 134 days). Trade receivable days decreased to 4 days in CY21 from 33 days in the preceding year and trade payable days stood at 9 days (CY20: 13 days). Short term trade leverage and short-term total leverage stood remain high, indicating ample room to borrow against trade assets and total current assets.

Coverages Interest coverage ratio in CY21 dipped to 2.0x (CY20: 5.7x) and debt coverage ratio remained the same as the Company has not obtained any long-term debt. Decreased coverages are a factor of a dip in FCFO which decreased to ~PKR 220mln in CY21 from ~PKR 416mln in the preceding year. Finance cost (CY21: PKR 112mln, CY20: PKR 79mln) increased due to higher interest rates and borrowings. Debt payback period also rose to 13.3x (CY20: 4.1x). The coverages are expected to remain strong during the ongoing CY22.

Capitalization The Company has a moderately leveraged capital structure represented through a debt-to-equity ratio of ~44% in CY21 (CY20: 38%). The Company's debt comprises of ~99% short-term borrowings. The Company has mainly obtained ERF-Part II facility and also running finance for working capital requirement. Total debt as at CY21 stood at ~PKR 3,340mln and registered an increase of 50% YoY (CY20: PKR 2,225mln). Going forward, the Company's capital structure is expected to remain similar.

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Financial Summary
PKR mln

Premier Indstrial Chemical MFG. Co (Pvt.) Ltd	Dec-21	Dec-20	Dec-19	Dec-18
Sugar	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	5,462	4,584	4,214	3,425
2 Investments	-	100	-	-
3 Related Party Exposure	-	1	1	1
4 Current Assets	5,362	5,090	6,392	6,321
a Inventories	*1,050*	*1,211*	*1,231*	*2,041*
b Trade Receivables	*43*	*87*	*506*	*523*
5 Total Assets	10,824	9,775	10,606	9,746
6 Current Liabilities	286	195	277	403
a Trade Payables	*176*	*109*	*122*	*106*
7 Borrowings	3,340	2,255	2,797	4,001
8 Related Party Exposure	1,240	1,423	1,918	1,419
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	5,959	5,902	5,614	3,923
11 Shareholders' Equity	5,959	5,902	5,614	3,923
B INCOME STATEMENT				
1 Sales	5,497	3,330	5,702	7,600
a Cost of Good Sold	*(4,909)*	*(2,609)*	*(4,153)*	*(5,445)*
2 Gross Profit	588	722	1,549	2,155
a Operating Expenses	(353)	(331)	(450)	(601)
3 Operating Profit	235	391	1,098	1,554
a Non Operating Income or (Expense)	*30*	*39*	*31*	*(59)*
4 Profit or (Loss) before Interest and Tax	265	430	1,129	1,495
a Total Finance Cost	*(123)*	*(79)*	*(111)*	*(171)*
b Taxation	*(85)*	*(58)*	*(100)*	*(56)*
6 Net Income Or (Loss)	57	293	918	1,268
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*220*	*416*	*999*	*1,515*
b Net Cash from Operating Activities before Working Capital Change	*208*	*394*	*1,032*	*1,363*
c Changes in Working Capital	*783*	*(237)*	*1,453*	*(2,341)*
1 Net Cash provided by Operating Activities	990	156	2,486	(978)
2 Net Cash (Used in) or Available From Investing Activities	(895)	(506)	(138)	(540)
3 Net Cash (Used in) or Available From Financing Activities	902	(1,038)	(705)	917
4 Net Cash generated or (Used) during the period	997	(1,388)	1,643	(601)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	65.0%	-41.6%	-25.0%	--
b Gross Profit Margin	10.7%	21.7%	27.2%	28.4%
c Net Profit Margin	1.0%	8.8%	16.1%	16.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sa	18.2%	5.4%	43.0%	-10.9%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Asse*	1.0%	5.1%	19.2%	32.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	79	166	155	98
b Net Working Capital (Average Days)	70	154	148	93
c Current Ratio (Current Assets / Current Liabilities)	18.7	26.1	23.1	15.7
3 Coverages				
a EBITDA / Finance Cost	2.6	6.6	10.1	9.7
b FCFO / Finance Cost+CMLTB+Excess STB	2.0	5.7	9.3	9.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Co	13.3	4.1	2.2	1.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	43.5%	38.4%	45.6%	58.0%
b Interest or Markup Payable (Days)	101.8	58.2	78.2	96.4
c Entity Average Borrowing Rate	3.7%	1.7%	2.1%	3.0%

Credit Rating

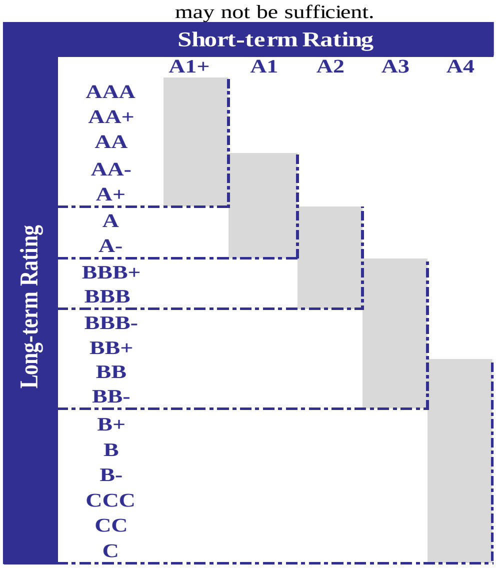
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

Entities

a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk 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 | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(f-VII)
Proprietary Information