The Pakistan Credit Rating Agency Limited

Rating Report

DIC Pakistan Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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 the different types of printing inks. As per management representation the Company enjoys the largest market share in the overall Printing ink industry. Production of the segment is directly linked with the demand of food products and consumer goods. During CY21, the utilization level was on the lower side ~63% as compared to CY20 ~73% due to capacity enhancements made during the year.
The assigned ratings also incorporate the consistent growth in sales and higher margins. During CY21, the top line of the Company has increased by ~20%, the major contribution is made by Rotogravure ink ~54% followed by Flexographic Ink-Water-Based ~18%. The profit after tax of the Company has significantly increased by ~60% to PKR 683mln (CY20: PKR 427mln) mainly due to high growth in the food and consumer goods sector and effective marketing strategies. Resultantly, the free cash flows have also improved by 1.5 times as compared to last year. The group synergy of DIC corporation has helped the Company in reaping the benefits of high demand and effective inventory management. On the financial profile side, moderately leveraged capital structure i.e. ~33% (CY20: ~35%) would remain imperative to the ratings where the short-term debt is related to working capital management. Total borrowing of the company includes ~84.5% 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. Good FCFO 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

Name of Rated Entity	DIC Pakistan 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 | Chemical(Jul-22)
Rating Analysts	Madiha Sohail | madiha.sohail@pacra.com | +92-42-35869504

Profile

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

Background In July 1994, DIC 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 production and sale of printing inks.

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 16,102 tons and the actual capacity utilization is 10,168 tons for CY21 i.e., 63%. The annual aggregate capacity of the printing ink plant was 13,275 tons and the actual capacity utilization was 9,650 tons for CY20 i.e., 73%.

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 65 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 has a consolidated asset base of ~ PKR 118bln supported by ~ PKR 59bln of equity and generated a turnover of ~PKR 82bln during CY21.

Governance

Board Structure The Company has a seven member board comprising of six non-executive directors and one executive director (The CEO). The board is chaired by non-executive director 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 chairperson of the board Syeda Henna Babar Ali 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 CY21, all the meeting were well attended while discussions were held on Company performance. The minutes of the meetings are documented and circulated with the members timely. To ensure effective governance, the Board has formed two committees, namely Audit Committee and Human Resource & Remuneration Committee.

Financial Transparency M/s A.F. Ferguson & Co, are the external auditors of the Company. The auditors gave an unqualified opinion on the Company's financial statements for the year ended Dec 31, 2021. The board has also established an internal audit department for ensuring operational efficiency and effective control environment.

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 has minimal wastage of around ~3.3% which is effectively managed through re-cycling and re-using inks in the process 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 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 local and international market, and enjoys the largest market share in the local printing inks industry. DIC is considered as a becoming a well-known and oldest in the printing ink industry.

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 6,508mln in CY20 to ~PKR 7,832mln in CY21 while the exports also increased from ~PKR 26mln to ~PKR 31mln. While in the 1QCY22 local sales are ~PKR 2,438mln, while its export sales are ~PKR 4mln.

Margins GP Margin has increased marginally to CY21: 20.7% (3MCY22: 19.8%, CY20: 19.5%) while the operating profit margin has increased to CY21: 16.9% from (3MCY22: 16.4%, CY20: 14.7%). The main reason for the increasing profitability is increase in sales volume due to high demand of the products in the industry. The sales prices have increased in line with increasing cost of raw materials and exchange rates fluctuations. As result the net profit margin of company increased to CY21: 10.2% (3MCY22: 9.1%, CY20: 7.6%).

Sustainability There is strong competition in the industry due to price sensitivity however the Company has a well-established brand name in the market. Going forward, DIC is strengthening its geographic footprints in the printing inks industry and expanding its capacity by moving its plant to Kasur expected next year.

Financial Risk

Working Capital DIC's 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 on the higher side CY21: 72days (3MCY22: 80days, CY20: 74days). The trade receivables days almost remained the same at ~62days during CY21 (3MCY22: 63days, CY20: 65days). While trade payable days also remained the same at ~53days during CY21 (3MCY22: 51days, CY20: 51days). The average net working capital days were clocked in at 82 days during CY21 (3MCY22: 92days, CY20: 89days)

Coverages The Company's interest coverage ratio has increased from CY20: 6.6x to (CY21: 14.4x, 3MCY22: 11.5x). While the Company's core and total debt service coverage stood at CY21: 6.1x (CY20: 3.3x, 3MCY22: 5.7x) which is still on the lower side.

Capitalization DIC has a moderate leveraged structure, with long-term liabilities being ~ 7% of equity at end of 1QCY22 and ~ 7.65% of equity at end of CY21. Its gearing ratio has increased rapidly at 1QCY22 being ~51% from at end of CY21 being ~35.4%, while it has decreased from 39.6% at the end of CY20 indicating that it is increasing its debt ratio currently because the working capital of the entity is being managed with debt and due to rise in working capital its debt is also rising.

The Pakistan Credit Rating Agency Limited

DIC Pakistan Limited Chemical	Mar-22 3M	Dec-21 12M	Dec-20 12M
A BALANCE SHEET			
1 Non-Current Assets	398	392	302
2 Investments	-	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	4,127	3,333	2,686
a Inventories	*2,045*	*1,601*	*1,059*
b Trade Receivables	*1,595*	*1,282*	*1,014*
5 Total Assets	4,525	3,725	2,989
6 Current Liabilities	1,727	1,117	857
a Trade Payables	*1,207*	*1,102*	*841*
7 Borrowings	1,357	850	784
8 Related Party Exposure	48	58	46
9 Non-Current Liabilities	48	45	36
10 Net Assets	1,345	1,656	1,266
11 Shareholders' Equity	1,345	1,656	1,266
B INCOME STATEMENT			
1 Sales	2,083	6,716	5,576
a Cost of Good Sold	*(1,671)*	*(5,329)*	*(4,489)*
2 Gross Profit	413	1,387	1,088
a Operating Expenses	(72)	(251)	(265)
3 Operating Profit	341	1,136	822
a Non Operating Income or (Expense)	*(41)*	*(102)*	*(73)*
4 Profit or (Loss) before Interest and Tax	299	1,034	749
a Total Finance Cost	*(31)*	*(84)*	*(133)*
b Taxation	*(80)*	*(266)*	*(190)*
6 Net Income Or (Loss)	189	684	427
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*273*	*1,015*	*695*
b Net Cash from Operating Activities before Working Capital Changes	*248*	*933*	*536*
c Changes in Working Capital	*(721)*	*(658)*	*209*
1 Net Cash provided by Operating Activities	(473)	275	745
2 Net Cash (Used in) or Available From Investing Activities	(22)	(96)	(65)
3 Net Cash (Used in) or Available From Financing Activities	(22)	(366)	(135)
4 Net Cash generated or (Used) during the period	(517)	(187)	544
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	24.1%	20.4%	6.7%
b Gross Profit Margin	19.8%	20.7%	19.5%
c Net Profit Margin	9.1%	10.2%	7.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-21.5%	5.3%	16.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	50.4%	46.8%	36.8%
2 Working Capital Management			
a Gross Working Capital (Average Days)	143	135	139
b Net Working Capital (Average Days)	92	82	89
c Current Ratio (Current Assets / Current Liabilities)	2.4	3.0	3.1
3 Coverages			
a EBITDA / Finance Cost	11.5	14.4	6.6
b FCFO / Finance Cost+CMLTB+Excess STB	5.7	6.1	3.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.1	0.2	0.3
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	51.1%	35.4%	39.6%
b Interest or Markup Payable (Days)	55.9	58.0	36.1
c Entity Average Borrowing Rate	10.4%	9.5%	13.1%

Credit Rating

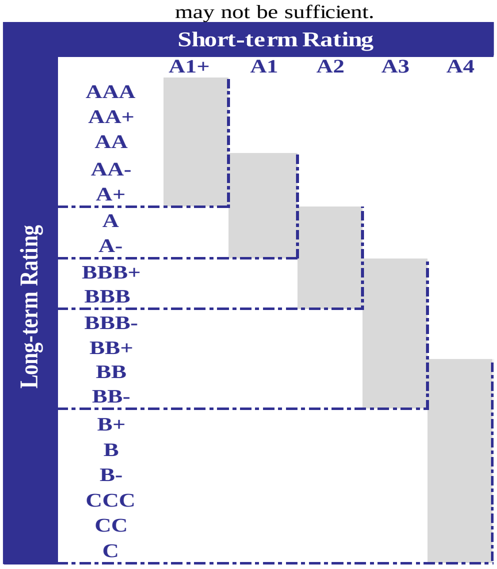
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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