



## The Pakistan Credit Rating Agency Limited

### Rating Report

#### Olympia Chemicals Limited

##### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

##### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Jun-2023	A-	A1	Stable	Maintain	-
20-Jun-2022	A-	A1	Stable	Maintain	-
21-Jun-2021	A-	A1	Stable	Initial	-

##### Rating Rationale and Key Rating Drivers

Olympia Chemicals Limited (the Company) ratings reflect a robust business profile represented by its prominent position in manufacturing of Soda Ash light/dense (Sodium Carbonate) and Refined Sodium Bicarbonate. These products serve as crucial raw materials for various industries, including soaps & detergents, textiles, paper, glass, solar panels, baking, beverages, and tannery. Currently, the local market is characterized by a duopoly, with Lucky Core Industries (formerly ICI Pakistan) possessing a dominant ~60% market share. Olympia Chemicals, on the other hand, enjoys ~30% market share, while the remaining 10% is supplied through imports. Recently a prominent, local business group has also expressed its intention to set up a new soda ash manufacturing plant. The company's expansion of a new soda ash unit is underway and near to completion stage. This will increase the soda ash manufacturing capacity from 750TPD to 1000TPD. The Company's new 100TPD food-grade Sodium Bi Carbonate unit has also come online which is providing a competitive advantage. Despite macroeconomic turbulence and related operational challenges, the topline of the company registered a positive growth of ~46% during 1HFY23, and margins also showed improvement at all levels. The group has formidable business history, and its rating takes comfort from well-managed diversifications. The group's portfolio contains investments in poultry sector & processed chicken, poultry feeds, chemical manufacturing, edible oils extraction, agriculture crops, fruit orchards, carpets weaving, and textile products. Some of the renowned brands are "O! Food", "BreeO Laundry Detergent" "Number 1 Detergent Powder", "Areej Banaspati & Cooking Oil", "Olympia Carpets" etc. Operations are managed by a team of professionals, under the supervision of sponsors. The board of the company is family-oriented where sponsors are close family members and thus indicating room for improvement. The Company is benefitting from sound systems of internal controls. The financial profile of the Company is considered strong with healthy coverages, efficient working capital management, and sizeable cashflows. Capital structure is leveraged, and borrowings are mainly comprised of concessionary long-term loans (TERF) for capacity expansions. Going forward the company is expecting to increase its export sales to UAE, Qatar, KSA, South Africa, Afghanistan, Bangladesh, and Kuwait.

The ratings are dependent on upheld sustainable profits and market share while retaining sufficient cash flows and coverages. However, adherence to maintaining its debt metrics at an adequate level is a prerequisite

##### Disclosure

<b>Name of Rated Entity</b>	Olympia Chemicals Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Chemical(Jul-22)
<b>Rating Analysts</b>	Kanwal Ejaz   kanwal.ejaz@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Olympia Chemicals Limited (the company) was incorporated in Pakistan on January 01, 1995, as a public unlisted under the Companies Ordinance, 1984 (now the Companies Act, 2017). The registered office of the company is situated at 25-A Davis Road, Lahore, Pakistan, and manufacturing facilities are located at Unit(I) Warcha Tehsil Quaidabad, District Khushab Warcha, and (II) 45-KM Multan Road, Tehsil Pattoki, District Kasur.

**Background** Initially, the company started its operations with 120TPD of Soda Ash after that company planned its expansion in phases. In Phase I of expansion company reached 240 TPD, in the second phase of expansion, production capacity was enhanced to 300TPD, and in the third phase of expansion the company reached 750TPD. Furthermore, an expansion of 1000TPD is going on by the company.

**Operations** The company is principally engaged in the manufacturing and marketing of alkaline chemicals, its by-products, and detergents. The company's final products are i) Soda Ash (Dense Grade) ii) Soda Ash (Light grade) and iii) Refined Sodium Bicarbonate.

## Ownership

**Ownership Structure** The company is owned by the Monnoo family, its shareholding is divided among the family of Mr. Hamayun Monnoo (42%), Muhammad Shakil Monnoo and his family (19%), and Muhammad Khurshid Monnoo and his family (20%), Muhammad Nasir Monnoo (19%).

**Stability** The Company's operations are majorly met by Muhammad Shakil Monnoo. Muhammad Shakil Monnoo is associated with the company since 1995. He is a seasoned businessman with diversified knowledge and expertise.

**Business Acumen** The owners have extensive experience in the chemicals industry. They are the second-largest manufacturer of Soda Ash products in Pakistan.

**Financial Strength** Company has a strong group of companies with diversified exposure in poultry, feeds, and frozen foods which strengthens its financial aspects.

## Governance

**Board Structure** The board comprises nine members with a diversified range of experiences. All of them are close family members and there are not any independent directors on the board. The board is currently chaired by Muhammad Shakil Monnoo.

**Members' Profile** Muhammad Shakil Monnoo is the Chief Executive Officer and possesses more than 30 years of business experience. All other members are professionally qualified with extensive professional experience and a diversified skill mix.

**Board Effectiveness** The board met 4 times in the FY22 with the majority of members present in the meeting. The board has established one management committee which is Plant Operational Review Committee, which includes the GM plant site, the Manager mechanical & maintenance, the Manager powerhouse, the Manager Production, and Manager Administration.

**Financial Transparency** UHY Hassan Naeem & Co., Chartered Accountants are the external auditors of the Company. They gave an unqualified opinion on the company's financial statements for the year ended June 30, 2022.

## Management

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

**Management Team** The company has a team of diversified seasoned professionals. Mr. Masood Khaliq, the COO has a versatile experience of 52 years. Mr. Irfan Majeed Chughtai is a Chartered Accountant with more than 41 years of professional experience. All other team members are seasoned professionals operating under the supervision of the COO.

**Effectiveness** The Company has established a management committee to coordinate its operations. The management committee is the apex management committee, which comprises senior management. The management committee meeting is held monthly to appraise the Company's performance and is headed by the chairman. The other departments are purchase, finance, and credit which handle monthly targets.

**MIS** The Company has implemented Microsoft dynamics ERP to generate reports and manage the flow of information. It is capable of generating customized MIS /dashboard reports for the board and top management. The management maintains strong controls through the ERP.

**Control Environment** The management has a strong control environment within the Company supplemented by a robust quality control system for its production processes. Additionally, Olympia chemicals have technical collaboration agreements with international firms to ensure that quality standards are adhered to.

## Business Risk

**Industry Dynamics** Soda Ash is an essential raw material used in the manufacturing of Glass, chemicals, detergents, and various industrial products. It is an anhydrous white powder or granular material that is available in two grades, light and dense. Demand for soda ash is expected to be spurred on as the trickle-down effects of the new construction package begin to benefit glass demand, for which soda ash is a raw material. Meanwhile, demand for sodium bicarbonate has been strong due to significant demand from poultry, confectionary, and especially the textile industry which has been experiencing an increase in value-added export orders during the last few months.

**Relative Position** Olympia Chemicals is the second largest player in the manufacturing of Soda Ash. OCL's market share is ~35% share whereas ICI has ~65% share respectively. Barriers to the new entrants are considered strong as it requires huge capital investments.

**Revenues** During IHFY23, the Company's top-line increased by ~46% YoY and stood at PKR 8,249m (FY22: PKR ~11,274m). The Company's top line is well diversified as it is engaged in both B2B and B2C businesses. The largest product segment is Soda Ash, which contributes over 50% of the top line.

**Margins** In IHFY23, the Company's gross margins sustained at 24% (FY22: ~23%). The operating margin remained at ~20% (FY22 ~17%). The Company's finance cost recorded in IHFY23 to PKR ~105m (FY22: ~86m). The Company's net profit in IHFY23 clocked in at PKR ~1,132m (FY22: ~1,178m).

**Sustainability** The company has an essential segment of products that were allowed to operate in line with government directives. Management prepares financial projections/budgets efficiently.

## Financial Risk

**Working Capital** In IHFY23, Company's inventory days reached to ~34 days (FY22: ~24 days). Meanwhile, in IHFY23, trade receivable days have reached to 32 days (FY22: 32days). Gross working capital days reached to 66 days (FY22: 56 days). The trade payable days during IHFY23 were clocked at 16 days (FY22: 14 days). Resultantly, the net working capital days clocked in at 50days in IHFY23 (FY22: 42 days).

**Coverages** The company's total cash flows from operations reached PKR 1,744m during IHFY23 (FY22: PKR 2,676m).

**Capitalization** The capital structure of the Company is moderately leveraged. During IHFY23, Company's leveraging remained at ~29% (FY22: ~17.2%). While in IHFY23 short-term borrowing reached at ~19%(FY22: ~31.5%)



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Olympia Chemicals Limited Chemicals	Dec-22 6M	Jun-22 12M	Jun-21 12M	Jun-20 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	9,823	6,478	5,518	5,507
2 Investments	326	1,195	276	2
3 Related Party Exposure	24	21	25	18
4 Current Assets	7,070	5,875	4,843	4,512
a Inventories	2,115	943	531	1,246
b Trade Receivables	1,775	1,098	905	845
5 Total Assets	17,244	13,569	10,662	10,039
6 Current Liabilities	2,549	2,243	1,799	906
a Trade Payables	859	551	340	241
7 Borrowings	3,854	1,634	400	1,664
8 Related Party Exposure	208	198	218	244
9 Non-Current Liabilities	708	701	488	582
10 Net Assets	9,926	8,794	7,757	6,643
11 Shareholders' Equity	9,926	8,794	7,757	6,643
<b>B INCOME STATEMENT</b>				
1 Sales	8,249	11,274	8,918	7,605
a Cost of Good Sold	(6,292)	(8,716)	(6,890)	(5,904)
2 Gross Profit	1,957	2,558	2,028	1,701
a Operating Expenses	(293)	(675)	(651)	(422)
3 Operating Profit	1,664	1,883	1,377	1,279
a Non Operating Income or (Expense)	35	124	329	(16)
4 Profit or (Loss) before Interest and Tax	1,699	2,007	1,705	1,263
a Total Finance Cost	(105)	(86)	(108)	(261)
b Taxation	(462)	(743)	(356)	(285)
6 Net Income Or (Loss)	1,132	1,178	1,241	718
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	1,744	2,676	2,003	1,871
b Net Cash from Operating Activities before Working Capital Changes	1,704	2,399	1,862	1,553
c Changes in Working Capital	(466)	(1,897)	156	(784)
1 Net Cash provided by Operating Activities	1,239	501	2,018	769
2 Net Cash (Used in) or Available From Investing Activities	(3,624)	(2,403)	(596)	(305)
3 Net Cash (Used in) or Available From Financing Activities	2,220	952	(1,464)	(47)
4 Net Cash generated or (Used) during the period	(165)	(950)	(41)	417
<b>D RATIO ANALYSIS</b>				
1 Performance				
a Sales Growth (for the period)	46.3%	26.4%	17.3%	32.5%
b Gross Profit Margin	23.7%	22.7%	22.7%	22.4%
c Net Profit Margin	13.7%	10.4%	13.9%	9.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	15.5%	6.9%	24.2%	14.3%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity) ]	24.2%	14.2%	17.2%	11.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	66	56	72	90
b Net Working Capital (Average Days)	50	42	60	81
c Current Ratio (Current Assets / Current Liabilities)	2.8	2.6	2.7	5.0
3 Coverages				
a EBITDA / Finance Cost	22.5	43.6	28.9	8.6
b FCFO / Finance Cost+CMLTB+Excess STB	15.5	17.9	8.4	3.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.0	0.5	0.2	1.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	29.0%	17.2%	7.4%	22.3%
b Interest or Markup Payable (Days)	116.4	0.0	10.7	74.0
c Entity Average Borrowing Rate	8.1%	4.8%	5.7%	11.9%

### 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+	
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-	
BB+	
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-	
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	
CC	<b>Very high credit risk.</b> 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.
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

**Disclaimer:** PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

### **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**

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA’s prior written consent