



The Pakistan Credit Rating Agency Limited

Rating Report

Olympia Chemicals Limited

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-May-2024	A	A1	Stable	Upgrade	-
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 vigorous business profile represented by its prominent position in manufacturing of Soda Ash light/dense (Sodium Carbonate) and Refined Sodium Bicarbonate. The Company’s expansion of Soda ash unit with 250TPD has been recently completed, and now the current capacity stands at 1000TPD including 160TPD of Sodium Bi Carbonate. As part of its diversification strategy, the company ventured into the value-added segment of soda ash, and targeted the detergent markets, however, the contribution from this segment is currently modest. Currently, the local market exhibits a duopoly, with Lucky Core Industries holding a commanding ~60% market share, followed by Olympia Chemicals with approximately ~30% market share, while the remaining 10% is supplied through imports. A prominent, local business group has also got approval from the Special Economic Zone (SEZ) to set up a new soda ash manufacturing plant expected to come online within next two years. The demand for Soda Ash is closely linked with the performance of the construction/glass industries, and prevailing macroeconomic factors, such as elevated inflation, high interest rates, and currency devaluation can dampen local demand. Nonetheless, there exists an opportunity for exports to capitalize on existing production capacities, providing a potential avenue for industry growth despite domestic challenges. The topline of the company registered a positive growth of ~13% during 9MFY24 mainly due to an increase in volumes. However, margins posted a slight decline, due to cost-push inflation and soaring borrowing costs. The company follows a comprehensive and prudent business plan, and the company’s performance is aligned with it which adds comfort to the ratings. The group has a formidable business history, and its portfolio contains investments in the poultry sector & processed chicken, feeds, chemical manufacturing, edible oils extraction, agriculture crops, fruit orchards, carpets weaving, and textile products. Some of the renowned brands are “Areej Banaspati & Cooking Oil” and “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 thus indicating room for improvement. The Company is benefitting from sound systems of internal controls. The financial profile of the Company is considered good with comfortable coverages, cashflows, and working capital management. Capital structure is moderately leveraged, and borrowings are mainly comprised of concessionary long-term loans (TERF). 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	
Name of Rated Entity	Olympia Chemicals Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jul-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-24)
Related Research	Sector Study Chemical(Jul-23)
Rating Analysts	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 Unit (II) 45-KM Multan Road, Tehsil Pattoki, District Kasur.

Background Initially, company started its operations with 120TPD of Soda Ash after that Company planned its expansion in different phases. In Phase I of expansion Company reached to 240 TPD, in second phase of expansion, production capacity was enhanced to 300TPD and in the third phase of expansion, the company reached up to 750TPD. In the fourth phase of expansion, the Company has expanded its capacity by 250TPD and has a total capacity of 1000TPD which also includes a capacity of sodium bicarbonate with 160TPD. The Company is a pioneer in making refined sodium bicarbonate

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 (25%), Muhammad Shakil Monnoo and his family (36%), and Muhammad Khurshid Monnoo and his family (19.33%), and Muhammad Nasir Monnoo and his family (19.33%).

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 decades of extensive experience in the chemicals industry. They are the second-largest manufacturer of Soda Ash products in Pakistan.

Financial Strength The group has multiple and diversified businesses and has exposure in poultry, feeds, and frozen foods. The financial strength of the group is considered strong.

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, hence depicts room for further improvement. 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 3 times in the 9MFY24 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, 2023.

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 53 years. Mr. Irfan Majeed Chughtai is a Chartered Accountant with more than 42 years of professional experience. All other team members are seasoned professionals operating under the supervision of departmental heads, the COO & CFO.

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 implemented a strong control environment within the Company supplemented by a robust quality control system for its financial reporting, planning & 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. The demand for Soda Ash is closely linked with the performance of the construction/glass industries, for which soda ash is a raw material. Meanwhile, demand for sodium bicarbonate (food grade) has been strong due to significant demand from poultry, confectionary and etc. Currently almost 90% of soda ash demands met through local production and import portion currently at minimum. Going forward the industry is expected to receive benefiting from export of soda ash, as sufficient capacities are available to grab the opportunity.

Relative Position Olympia Chemicals is the second largest player in the manufacturing of Soda Ash. OCL's market share is ~30% whereas ICI has ~60% share, while the remaining 10% is supplied through imports. A prominent, local business group has also got approval from the Special Economic Zone (SEZ) to set up a new soda ash manufacturing plant expected to come online within next two years. Though, barriers to the new entrants are considered strong as it requires huge capital investments.

Revenues During 9MFY24, the Company's top-line increased by ~13% YoY and stood at PKR 15,663mln (FY23: 18,461mln, FY22: PKR ~11,274mln). The Company's top line is well diversified as it is engaged in both B2B and B2C businesses (detergents). The largest product segment of the company is the Soda Ash.

Margins In 9MFY24, the Company's gross margins reduced slightly to ~23% (FY23: ~27%, FY22: ~23%). The operating margin also reduced to ~20.4% (FY23: ~24%, FY22 ~17%) due to cost-push inflation. The Company's finance cost recorded in 9MFY24 to PKR ~286mln (FY23: ~103mln, FY22: ~86mln). The Company's net profit in 9MFY24 clocked in at PKR ~2,038mln (FY23: ~3,204, FY22: ~1,178mln).

Sustainability The company deals in products which are used as essential raw materials of multiple industries, that ensures the business sustainability and growth. Management pursue a well define business plan, with realistic assumptions, and the actual performance is closely monitored by senior management on periodic basis.

Financial Risk

Working Capital In 9MFY24, Company's inventory days reached to ~36 days (FY23: ~32 days, FY22: ~24 days). Meanwhile, in 9MFY24, trade receivable days have reached to 38 days (FY23: 31 days, FY22: 32days). Gross working capital days reached to 74 days (FY23: 63 days, FY22: 56 days). The trade payable days during 9MFY24 were clocked at 28 days (FY23: 22 days, FY22: 14 days), Resultantly, the net working capital days clocked in at 46 days in 9MFY24 (FY23: 41 days, FY22: 42 days).

Coverages The company's total cash flows from operations reached PKR 2,918mln during 9MFY24 (FY23: 4,216mln, FY22: PKR 2,458mln).

Capitalization The capital structure of the Company is moderately leveraged. During 9MFY24, Company's leveraging remained at ~15.3% (FY23: ~21.4%, FY22: ~17.2%). While in 9MFY24 short-term borrowing reached at ~8% (FY23: ~6.2%, FY22: ~31.5%)



Olympia Chemicals Limited Chemicals	Mar-24 9M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	13,995	11,576	6,478	5,518
2 Investments	778	226	1,195	276
3 Related Party Exposure	12	15	21	25
4 Current Assets	7,578	9,505	5,875	4,843
<i>a Inventories</i>	1,822	2,343	943	531
<i>b Trade Receivables</i>	2,311	1,991	1,098	905
5 Total Assets	22,363	21,322	13,569	10,662
6 Current Liabilities	5,072	5,308	2,243	1,799
<i>a Trade Payables</i>	1,525	1,680	551	340
7 Borrowings	2,282	2,995	1,634	400
8 Related Party Exposure	213	218	198	218
9 Non-Current Liabilities	991	1,034	701	488
10 Net Assets	13,806	11,767	8,794	7,757
11 Shareholders' Equity	13,806	11,767	8,794	7,757
B INCOME STATEMENT				
1 Sales	15,663	18,461	11,274	8,918
<i>a Cost of Good Sold</i>	(12,059)	(13,539)	(8,716)	(6,890)
2 Gross Profit	3,604	4,922	2,558	2,028
<i>a Operating Expenses</i>	(416)	(506)	(675)	(651)
3 Operating Profit	3,188	4,416	1,883	1,377
<i>a Non Operating Income or (Expense)</i>	(117)	(96)	124	329
4 Profit or (Loss) before Interest and Tax	3,071	4,319	2,007	1,705
<i>a Total Finance Cost</i>	(286)	(103)	(86)	(108)
<i>b Taxation</i>	(747)	(1,012)	(743)	(356)
6 Net Income Or (Loss)	2,038	3,204	1,178	1,241
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	2,918	4,216	2,458	1,903
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	2,635	4,162	2,181	1,762
<i>c Changes in Working Capital</i>	779	(1,031)	(1,897)	156
1 Net Cash provided by Operating Activities	3,415	3,132	284	1,918
2 Net Cash (Used in) or Available From Investing Activities	(2,818)	(4,689)	(2,403)	(596)
3 Net Cash (Used in) or Available From Financing Activities	(714)	2,154	952	(1,464)
4 Net Cash generated or (Used) during the period	(117)	597	(1,168)	(141)
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	13.1%	63.8%	26.4%	17.3%
<i>b Gross Profit Margin</i>	23.0%	26.7%	22.7%	22.7%
<i>c Net Profit Margin</i>	13.0%	17.4%	10.4%	13.9%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	23.6%	17.3%	5.0%	23.1%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]</i>	21.3%	31.2%	14.2%	17.2%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	74	63	56	72
<i>b Net Working Capital (Average Days)</i>	46	41	42	60
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.5	1.8	2.6	2.7
3 Coverages				
<i>a EBITDA / Finance Cost</i>	14.0	85.9	43.4	28.9
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	8.6	19.6	16.4	8.0
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.6	0.7	0.5	0.3
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	15.3%	21.4%	17.2%	7.4%
<i>b Interest or Markup Payable (Days)</i>	40.2	184.4	0.0	10.7
<i>c Entity Average Borrowing Rate</i>	12.1%	1.9%	4.8%	5.7%

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB	
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility.
CC	Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
C	
D	Obligations are currently in default.

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



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

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

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

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

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

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

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

Note. This scale is applicable to the following methodology(s):

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

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(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)

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ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).

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(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

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(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity

(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)

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(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)

(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

Probability of Default

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

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