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
25-Nov-2024	AA-	A1	Stable	Maintain	-
23-Nov-2023	AA-	A1	Stable	Maintain	-
23-Nov-2022	AA-	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings of DIC Pakistan Limited ("DIC" or the "Company") reflect its strong sponsor profile, established market position, and sound financial standing. The assigned rating also acknowledges the Company's good governance framework, a strong control environment, and an experienced management team. DIC is predominantly engaged in the manufacturing of a range of printing inks, with production closely tied to the demand for food products and other consumer goods. In CY24, the Company has further diversified its product portfolio by introducing Digital Inks, UV Wood Coatings and adhesives to its offerings. As represented by the management, DIC holds the largest market share in printing ink industry in Pakistan. Due to the economic slowdown during CY23, the capacity utilization levels declined. However, the Company maintained its growth trajectory with a 14% increase in topline revenue, reaching PKR 10.6bln (CY22: PKR 9.4bln), primarily due to higher printing ink prices.
For 9MCY24, the Company has reported a topline of PKR 8.78bln. Rotogravure ink continues to be the leading revenue contributor, accounting for ~52%, followed by Flexographic Ink-Water based at ~13%. In CY23, the Company's profit after tax (PAT) rose by 59%, reaching PKR 1,067mln compared to PKR 671mln in CY22, driven primarily by increased gross profit through effective cost control strategies and timely price increases. As of 9MCY24, PAT was recorded at PKR 788mln. The strong group structure and associated synergies have helped the management in reaping the benefits of catering to higher demand with effective inventory management.
In CY23, leverage decreased to 38.3% from 42.4% in CY22. However, as of 9MCY24, leverage rose to 65.4%, primarily due to a PKR 1.3bln long-term loan to support the construction of a purpose-built manufacturing facility at Kasur.

The Parent Company’s resolute commitment to supporting the Company in case of any financial need remains intact. 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 | Rating Modifiers(Apr-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24),Methodology | Corporate Rating(Jul-24)
Related Research	Sector Study | Chemicals(Jul-24)
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 specializes in the manufacturing and sale of high-quality printing inks and chemicals.

Background In July 1994, Dainippon Ink and Chemicals Pakistan Limited was established through a Joint venture between DIC Asia Pacific Limited and Packages Limited by holding 45% and 55% shares respectively for commenced production and sale of printing inks. Later its name was changed to DIC Pakistan Limited.

Operations DIC is engaged in manufacturing of printing inks for packaging sector in Pakistan. These inks include solvent-based liquid ink, water based liquid inks and sheetfed offset paste inks. As of CY23, the annual capacity of DIC is 16,826 tons. In CY23, it utilized 8,929 tons (53%), compared to 10,761 tons (64%) in CY22.

Ownership

Ownership Structure The majority stake in DIC Pakistan Limited is held by Packages Limited, which owns approximately 55% of the shares, while the remaining ~45% of the shares are owned by DIC Asia Pacific Limited.

Stability Packages Limited is the flagship investment holding company of the Ali Group, with a legacy spanning over 66 years. Its investment portfolio includes entities involved in manufacturing and sale of inks, flexible packaging material, paper, paperboard, corrugated boxes, biaxially oriented polypropylene film and cast polypropylene films, ground calcium carbonate products, as well as businesses in insurance, power generation, real estate, and the recently added corn-based starch manufacturing sector.

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 relationships with various multinational companies.

Financial Strength Packages Limited has a consolidated asset base of ~PKR 235bln supported by ~PKR 96bln of equity and generated a turnover of ~PKR 157bln during CY23. Whereas at the end Sep'24, consolidated asset base of ~PKR 246bln supported by ~PKR 88bln of equity with a turnover of ~PKR 135bln.

Governance

Board Structure The Company has a seven-member Board comprising six non-executive directors, and one executive director (Including the CEO). The Board is chaired by non-executive director Ms. Syeda Henna Babar Ali. The Board comprises four representatives from Packages Limited, including the CEO, and three representatives from DIC Asia Pacific Limited.

Members' Profile The Board, with its diverse backgrounds and relevant expertise, provides vital oversight and guidance to the management. The Chairperson, Ms. Syeda Henna Babar, brings extensive experience to DIC, having joined Packages Limited in 1990 as a Product Manager. The other Board members also have a wealth of expertise in various fields including paper and packaging, financial planning, financial budgeting and forecasting, financial analysis, group accounting, treasury management, asset investment and taxation.

Board Effectiveness The Board met four times during CY23, with the majority attending to discuss pertinent matters. To ensure effective governance, the Board has formed two committees, namely, (i) Audit Committee and (ii) HR Committee

Financial Transparency M/s A.F. Ferguson & Co, are the external auditors of the Company. They gave an unqualified opinion on the Company's financial statements for the year ended Dec 31, 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 CEO, Mr. Syed Muhammad Ismail Hussain Naqvi, joined DIC as Chief Operating Officer in June 2019 and took over as CEO from January 1, 2021. Previously, he served as Business Manager at AkzoNobel Pakistan Limited, Country Manager at Buhler Holding AG, and Senior Manager of Business Development at Descon Engineering Limited. He has also worked at Applied Materials in USA for 10 years in various technical and managerial positions before moving to Pakistan in 2008. Ms. Mehreen Zafar is the Chief Financial Officer and Company Secretary of DIC. She is a Fellow Member of ICAP with over 13 years of post-qualification experience in varying lines of services including financial management, budgeting, strategic business planning, corporate compliance, and risk management operations.

Effectiveness The expertise of the professional management team has enabled the Company to streamline operations and reduce costs. The production facilities generate minimal wastage, which is effectively managed through recycling and reuse, minimizing overall losses.

MIS To generate MIS and operational reports, ERP software, SAP ECC6 is used. As part of its group strategy, the Company is in the process of transitioning its ERP system to SAP S/4HANA.

Control Environment To ensure operational efficiency, the in-house Internal Audit Function is in place that identifies and reports risks. The audit committee reviews the internal audit department reports and planned activities.

Business Risk

Industry Dynamics The packaging industry in Pakistan is categorized into four primary segments: paper, plastic, tinplate, and glass. Among these, the paper and plastic segments dominate the market, holding the largest share of total demand. Despite the economic slowdown in CY23, the demand for these segments remained relatively stable. The direct costs in these segments are heavily influenced by imported raw materials, with chemical wood pulp being a key input for paper packaging production. Consequently, fluctuations in exchange rates and international pricing trends significantly impact production costs. In the domain of packaging inks, the market comprises Rotogravure, Flexographic-Solvent/UV, Flexographic-Water-based, and Offset inks. Rotogravure ink leads the market due to its versatility and suitability for a wide range of packaging applications.

Relative Position The Company has captured the local market and enjoys the largest market share in the local printing inks industry.

Revenues The Company primarily generates revenue from the sale of printing inks in the local market however also plans to penetrate the export market. On the back of an increase in the prices of the product, the Company's topline demonstrated notable growth, increasing from ~PKR 9,365mln in CY22 to PKR 10,632mln in CY23. As of the first nine months of CY24 (9MCY24), the topline stood at ~ PKR 8,786mln.

Margins The GP Margin has seen an increase to 28.1% in CY23 (9MCY24: 23.1%, CY22: 19.9%). The operating profit margin also experienced an increase to 23.9% in CY23 (9MCY24: 18.7%, CY22: 16.4%). The net profit margin of the Company has increased to CY23: 10.0% (9MCY24: 9.0%, CY22: 7.2%).

Sustainability The industry faces intense competition driven by price sensitivity. The Company maintains a strong brand presence, particularly in consumer products, and is enhancing its geographic reach in the printing inks sector. To support growth, it plans to expand capacity by relocating its plant to Kasur.

Financial Risk

Working Capital The Company's working capital management is supported by a short-term running finance facility from a consortium of banks. Due to raw material lead times, inventory days increased to 77 in CY23 (9MCY24: 85 days, CY22: 69 days). Trade receivable days remained stable at ~65 in CY23 (9MCY24: 66 days, CY22: 65 days), while trade payable days also stayed consistent at ~51 (9MCY24: 52 days, CY22: 51 days). Average net working capital days increased to 91 in CY23 (9MCY24: 99 days, CY22: 83 days).

Coverages The Company's interest coverage ratio has increased to CY23: 12.2x (9MCY24: 6.9x, CY22: 6.6x). The Company's core and total debt service coverage stood at CY23: 8.1x (9MCY24: 4.3x, CY22: 5.1x) which is still on the higher side.

Capitalization DIC has a moderate leveraged structure, with leverage at ~38.3% in CY23, down from 42.4% in CY22. As of 9MCY24, leverage increased to 65.4%.

PKR mln

DIC Pakistan Limited	Sep-24	Dec-23	Dec-22	Dec-21
Chemical	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	2,986	1,218	533	392
2 Investments	-	100	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	5,736	4,433	4,269	3,333
a Inventories	*2,936*	*2,502*	*1,958*	*1,601*
b Trade Receivables	*2,504*	*1,728*	*2,041*	*1,282*
5 Total Assets	8,722	5,751	4,802	3,725
6 Current Liabilities	2,165	1,798	1,572	1,117
a Trade Payables	*1,928*	*1,414*	*1,543*	*1,102*
7 Borrowings	4,224	1,476	1,309	850
8 Related Party Exposure	6	11	35	58
9 Non-Current Liabilities	94	74	63	45
10 Net Assets	2,234	2,393	1,823	1,656
11 Shareholders' Equity	2,234	2,393	1,823	1,656
B INCOME STATEMENT				
1 Sales	8,786	10,632	9,365	6,716
a Cost of Good Sold	*(6,758)*	*(7,648)*	*(7,504)*	*(5,329)*
2 Gross Profit	2,027	2,984	1,861	1,387
a Operating Expenses	(384)	(444)	(328)	(251)
3 Operating Profit	1,644	2,541	1,533	1,136
a Non Operating Income or (Expense)	*(102)*	*(453)*	*(225)*	*(102)*
4 Profit or (Loss) before Interest and Tax	1,542	2,088	1,308	1,034
a Total Finance Cost	*(245)*	*(212)*	*(239)*	*(84)*
b Taxation	*(509)*	*(809)*	*(399)*	*(266)*
6 Net Income Or (Loss)	788	1,067	671	684
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,071*	*1,911*	*1,365*	*1,015*
b Net Cash from Operating Activities before Working Capital Changes	*947*	*1,758*	*1,144*	*933*
c Changes in Working Capital	*(818)*	*(758)*	*(867)*	*(658)*
1 Net Cash provided by Operating Activities	128	999	277	275
2 Net Cash (Used in) or Available From Investing Activities	(1,811)	(758)	(207)	(96)
3 Net Cash (Used in) or Available From Financing Activities	92	(297)	(581)	(366)
4 Net Cash generated or (Used) during the period	(1,591)	(56)	(511)	(187)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	10.2%	13.5%	39.4%	0.0%
b Gross Profit Margin	23.1%	28.1%	19.9%	20.7%
c Net Profit Margin	9.0%	10.0%	7.2%	10.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sal	2.9%	10.8%	5.3%	5.3%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Asset*	45.4%	50.6%	38.5%	41.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	151	141	134	157
b Net Working Capital (Average Days)	99	91	83	97
c Current Ratio (Current Assets / Current Liabilities)	2.6	2.5	2.7	3.0
3 Coverages				
a EBITDA / Finance Cost	6.9	12.2	6.6	14.4
b FCFO / Finance Cost+CMLTB+Excess STB	4.3	8.1	5.1	6.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost	1.2	0.0	0.1	0.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	65.4%	38.3%	42.4%	35.4%
b Interest or Markup Payable (Days)	227.1	136.6	43.8	58.0
c Entity Average Borrowing Rate	21.6%	18.1%	19.4%	9.1%

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.

Scale	Long-Term Rating
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.

Scale	Short-Term Rating
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.

Rating Modifiers | Rating Actions

Outlook (Stable, Positive, Negative, Developing)	Rating Watch	Suspension	Withdrawn	Harmonization
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'.	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.	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.	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.	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. Rating actions may include "maintain", "upgrade", or "downgrade".

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 Company

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
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(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)
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(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument;| Chapter III | 17-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)
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