

## Date

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## Analyst

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## 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

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## PACRA Maintains Entity Ratings of Tufail Chemical Industries Limited

Rating Type	Entity	
	Current (23-Aug-22 )	Previous (23-Aug-21 )
Action	Maintain	Maintain
Long Term	A-	A-
Short Term	A2	A2
Outlook	Stable	Stable
Rating Watch	-	-

Tufail Chemical Industries Limited ('TCIL' or 'the Company') is principally engaged in the production & sale of industrial chemicals in Pakistan. The ratings reflect Company's leading position in domestic manufacturing of surfactants (key raw material for detergent and shampoo industry), strong customer base - mainly MNC's, and generation of persistent profitability. The chemical industry is linked with other sectors of the economy and embodies a large number of products. With time, country's reliance on imported chemicals is reducing as local manufacturers are injecting investments in lifting import substitution by enhancing production capacities and improving market base. Key opportunity is generically available to the industry in terms of rising demand from forward linked sectors; including textile, detergent, personal hygiene, etc. Adoption of advanced technology is indispensable to drive the growth. Fluctuating prices of materials and exchange rate exposure pose challenging business environment. Historically, dumping by various international players has squeezed the margins of the industry. The imposition of anti-dumping for five years on sulphonic acid imports from various countries has helped the Company in sustaining its market share and profitability. Cognizant of growing demand, the Company has continuously invested in R&D and BMR, which has enhanced automation and yielded specialized product range. The Company has strengthened its distribution network by adding new dealers across the country and also managed to pass on the increase in raw material costs effectively. TCIL intends to emphasize on export sales through established links with renowned MNCs. With effect from Feb-22, associated concerns Tufail Chemical Industries Limited and Tufail Chemical & Surfactants (Pvt.) Limited has been merged to achieve operational efficiency, economies of scale, and competitive edge. Business risk of TCIL is placed at an acceptable level on back of upward trajectory in sales and cost-reduction in manufacturing process. Post-merger, TCIL has revamped its financial risk profile; characterized by intermediate leveraging, good coverages, and adequate working capital cycle. The assigned ratings drive comfort from demonstrated sponsor support and commitment. Further, implementation of good governance and control environment is required to ensure compliance at all levels.

The ratings are dependent on the Company's ability to sustain its leading position while improving topline, profitability margins, and optimal capacity utilization post-merger integration. Better financial profile through effective working capital management, maintaining strong coverages and sufficient cushion to borrow at trade level is critical. Meanwhile, audited financial statements reflecting seamless transition and financial position of the combined entity will have a positive impact on future trajectory of ratings.

## About the Entity

Tufail Chemical Industries Limited was incorporated in 1993 and commenced operations in 1995 as a public unlisted company. Tufail Chemical is a family-owned and family-managed business. Out of total shareholding, Mr. Zubair Tufail along with his family owns 51% stakes, Mr. Pervez Tufail along with his family holds 47% shares. The Company's board comprises five-members with the dominance of the Tufail Family. Mr. Zubair Tufail is the Chairman of the board and he is also the CEO of the Company. Including Chairman, three members are executive directors, and the remaining members are spouses of directors.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.