

## RATING REPORT

### Linde Pakistan Limited

**REPORT DATE:**

September 9, 2015

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-2	-	-
Rating Date	September 8, 2015		-	
Rating Outlook	Stable		-	
Outlook Date	September 8, 2015		-	

#### COMPANY INFORMATION

Incorporated in 1949	External auditors: M/s KPMG Taseer Hadi & Co., Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Munnawar Hamid – OBE
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. M Ashraf Bawany
The BOC Group Limited – 60.0%	
General Public – 15.6%	
Public Sector Companies – 7.6%	

#### APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporates (October 2003)*<http://www.jcrvis.com.pk/images/IndustrialCorp.pdf>

## Linde Pakistan Limited

### OVERVIEW OF THE INSTITUTION

Incorporated in 1949 as a private limited company, Linde Pakistan Limited (LPL) is primarily engaged in the business of manufacturing and selling industrial & medical gases and welding electrodes and marketing of medical equipment. LPL is listed on all three stock exchanges of Pakistan.

### RATING RATIONALE

The ratings assigned to Linde Pakistan Limited (LPL) take into account the shareholding structure of the company, with 60% shares held by The BOC Group Limited (BOC). BOC is a wholly owned subsidiary of Linde Group AG, Germany (Linde AG rated A+/A-1 by Standard & Poor's), one of the largest gas and engineering companies in the world. The group is present in more than 100 countries and operates through 600 affiliated companies.

Senior management team comprises seasoned professionals. The functioning of the company reflects strong integration at the group level, with organizational structure at LPL entailing direct reporting lines at cluster level and indirect reporting to a local resource while audit and IT functions are overseen directly by group level resources. Policy framework at LPL is also aligned with the group. The financial results of LPL are consolidated into Linde AG.

LPL belongs to the industrial and medical gases sector comprising a wide array of products such as specialty gases, medical gases, fuel gases and refrigerant gases. Customer profile of the industry varies from oil and gas, petrochemicals, chemicals, power, mining, medicine, pharmaceuticals, food and fertilizer companies etc. In recent years, market prices have been faced with downward pressure on account of excess supply and increased competition. Given that this industry is de-regulated, entry of additional players may result in further pressure on prices.

There are currently ten plants available at LPL with total gas production of 133.8m cubic meters (FY13: 126.9m cubic meters) in FY14. Given restricted demand in the market, capacity utilization of the company remained at around 63%. In order to improve utilization levels, management is tweaking product specifications for different customer segments.

Net sales of the company amounted to Rs. 3.9b (FY13: Rs. 4.0b) in FY14; margins of the company are a function of output price and cost of fuel and power; the most important component in the production process after air. Given rising input costs and resultant reliance on expensive fuels, gross margins of the company declined to 18.1% (FY13: 19%) in FY14, though improving to 21.1% in 1Q15. Profit before tax has consistently declined from Rs. 402.7m in FY11 to Rs. 177.4m in FY14 on account of lower gross margins; management has projected improvement in the on-going year.

Debt profile of LPL comprises a mix of short and long-term debt, with the former acquired on a need basis for working capital financing. The company availed a long term financing facility for its CAPEX requirements, repayment of which is spread over 5 years. The company had outstanding debt of Rs. 1.0b, at end-1Q15. Debt leverage stood at 1.7x while gearing was reported at 0.6x at end-1Q15. Given that no major CAPEX is planned in the foreseeable horizon, leverage indicators are expected to improve. Management envisages meeting its future funding requirements through internal capital generation. FFO to total debt was reported at 0.2x (FY13: 0.4x) in FY14, while improving to 0.6x in 1Q15. At current debt levels, debt servicing coverage is expected to remain comfortable. While in absolute amounts dividend paid in the last two years has been lower than prior years, dividend payout ratio has trended upwards on account of lower earnings per share. In view of this, internal capital generation has not been significant.

**Linde Pakistan Limited****Appendix I**

<b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions)</i>			
<b><u>BALANCE SHEET</u></b>	<b>DEC 31, 2014</b>	<b>DEC 31, 2013</b>	<b>DEC 31, 2012</b>
Fixed Assets	3,214	3,077	2,631
Investments	0.001	0.001	0.001
Stock-in-Trade	277	226	209
Trade Debts	293	248	203
Cash & Bank Balances	308	290	354
Total Assets	4,598	4,189	3,638
Trade and Other Payables	1,089	945	864
Long Term Debt <i>(*incl. current maturity)</i>	995	1,095	750
Short Term Debt	343	-	-
Total Equity	1,691	1,703	1,679
<b><u>INCOME STATEMENT</u></b>	<b>DEC 31, 2014</b>	<b>DEC 31, 2013</b>	<b>DEC 31, 2012</b>
Net Sales	3,925	4,016	3,739
Gross Profit	710	764	954
Operating Profit	295	350	360
Profit After Tax	127	181	276
<b><u>RATIO ANALYSIS</u></b>	<b>DEC 31, 2014</b>	<b>DEC 31, 2013</b>	<b>DEC 31, 2012</b>
Gross Margin (%)	18.1	19.0	25.5
Net Working Capital*	(356)	(122)	(210)
FFO to Total Debt (x)	0.2	0.4	0.6
FFO to Long Term Debt (x)	0.3	0.4	0.6
Debt Servicing Coverage Ratio (x)	1.6	5.2	14.0
ROAA (%)	2.9	4.6	8.6
ROAE (%)	7.5	10.7	16.9

*\*(Current assets – Cash & Bank Balances) / (Current Liabilities – Current Maturity of Long Term Financing)*

## ISSUE/ISSUER RATING SCALE & DEFINITIONS

## Appendix II

### Medium to Long-Term

#### **AAA**

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

#### **AA+, AA, AA-**

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

#### **A+, A, A-**

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

#### **BBB+, BBB, BBB-**

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

#### **BB+, BB, BB-**

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

#### **B+, B, B-**

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

#### **CCC**

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

#### **CC**

A high default risk

#### **C**

A very high default risk

#### **D**

Defaulted obligations

### Short-Term

#### **A-1+**

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

#### **A-1**

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

#### **A-2**

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

#### **A-3**

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

#### **B**

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

#### **C**

Capacity for timely payment of obligations is doubtful.

**Rating Watch:** JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.com.pk/images/criteria_watch.pdf)

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.com.pk/images/criteria_outlook.pdf)

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. [www.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES				Appendix III	
Name of Rated Entity	Linde Pakistan Limited				
Sector	Industrial Gases				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	09/08/2015	A	A-2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
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