# RATING REPORT

# Linde Pakistan Limited

**REPORT DATE:**
October 17, 2016

**RATING ANALYSTS:**
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## RATING DETAILS

| Rating Category | Latest Rating Long-term | Latest Rating Short-term | Previous Rating Long-term | Previous Rating Short-term |
|---|---|---|---|---|
| **Entity** | A | A-2 | A | A-2 |
| ***Rating Date*** | *October 14, 2016* | | *September 8, 2015* | |
| **Rating Outlook** | Stable | | Stable | |
| ***Outlook Date*** | *October 14, 2016* | | *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 – 18.9% | |
| Foreign Companies – 7.2% | |
| Public Sector Companies – 6.7% | |

## 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 as a private limited in 1949, Linde Pakistan Limited (LPL) was subsequently converted to a public limited company 1958. The company is primarily engaged in manufacturing and selling of industrial & medical gases and welding electrodes.*

## RATING RATIONALE

LPL is a subsidiary of The BOC Group Limited (BOC), which possesses 60% stake in the organization. LPL manufactures a wide range of industrial and welding gases along with welding products. The company operates three air separation units (ASUs), two carbon dioxide plants, two hydrogen and dissolved acetylene plants, one nitrous oxide plant, one dry ice plant and a specialty gas laboratory, along with several compression and cylinder fitting sites across Pakistan. Customer base of the company is diversified with end users pertaining to different industries. Total gas production capacity observed an increase to 215.6 million cubic meters ($m^3$) (2014: 206.1 million $m^3$) in 2015.

**Rating Drivers**

**Sponsor Support:** BOC is the primary stakeholder in LPL and is itself a wholly owned subsidiary of Linde AG, Germany. Linde AG is one of the largest suppliers of industrial, process and specialty gases in the world and possesses a sound credit rating of A+/A-1 by Standard & Poor's. The assigned rating to LPL incorporates strong profile of its parent. Sponsors have continued to demonstrate commitment towards the company, in the form of financial and technical support, since its establishment. JCR-VIS anticipates this support to prevail in future.

**Business Risk:** Gases industry is characterized by technological barriers to entry and complexity in the distribution function. Market dynamics signified by presence of excess capacity and declining product prices, also make the industry economically unattractive for potential new players. Majority of the business of LPL is in the form of take or pay contracts with price indexation clauses, which increases company's ability to pass on the increased input costs to end consumers. Furthermore, LPL continues to lead the market, hence, business risk is considered to be on the lower side.

**Profitability:** Net sales of the company were reported at Rs. 1b at end-1Q16. Presence of excess capacity in the market has led to increased competition and exerted downward pressure on prices. The assigned ratings take into account the volumetric growth and cost rationalization efforts which enabled the company to maintain turnover and improve profitability. During 2015, LPL expanded its welding product portfolio by introducing variants of electrodes. Going forward, considerable growth in the healthcare sector is also anticipated on the back of sizeable investments in upgrading health care installations, delivery fleet and distribution equipment across the country. Growth would also be supported by improvement in production efficiencies of Air Separation Units (ASUs) through major overhaul and portfolio expansion. During the outgoing year, the company initiated voluntary separation for employees along with organizational restructuring. Despite incurring one-time restructuring costs, the company managed to generate cost savings in the form of lower salaries, travelling and communication expenses. Coupled with reduction in fuel expenses, gross and net margin of the company improved to 21.2% (2014: 18.1 %) and 3.6% (2014: 3.2 %) during 2015.

**Capitalization & Funding:** Total debt of the company was lower in 2015 vis-à-vis 2014 due to repayment of short term borrowing. This led to an improvement in the leverage indicators. No significant change was witnessed in debt composition during 1Q16. However, in line with the historical trend the company maintained its high dividend payout policy. Since the final dividend pertaining to 2015 was paid in 1Q16, this translated into reduction in equity and increase in leverage indicators. Running finance facilities of the company carry parental guarantee, hence, risk on the same is considered to be low. At current debt levels, debt servicing coverage remains comfortable with the company projecting further improvement in the same.

**Liquidity:** Trade debts of the company depicted sizeable increase during the outgoing year on account of slow recoveries from government sector customers and relaxation in the credit terms offered to customers. However, aging profile of receivables indicates that majority of receivables are due within 6 months. Improvement was witnessed in funds generated from operations as a result of higher margins. In view of these factors, overall liquidity profile of the company is considered sound.

## Linde Pakistan Limited — Appendix II

| FINANCIAL SUMMARY *(amounts in PKR millions)* | | | |
|---|---|---|---|
| **BALANCE SHEET** | **DEC 31, 2015** | **DEC 31, 2014** | **DEC 31, 2013** |
| **Fixed Assets** | 3,193 | 3,214 | 3,077 |
| **Investments** | 0.001 | 0.001 | 0.001 |
| **Stock-in-Trade** | 299 | 277 | 226 |
| **Trade Debts** | 439 | 293 | 248 |
| **Cash & Bank Balances** | 94 | 308 | 290 |
| **Total Assets** | 4,657 | 4,598 | 4,189 |
| **Trade and Other Payables** | 1,081 | 1,089 | 945 |
| **Long Term Debt *(*incl. current maturity)*** | 1,310 | 995 | 1,095 |
| **Short Term Debt** | - | 343 | - |
| **Total Equity** | 1,720 | 1,691 | 1,703 |
| | | | |
| **INCOME STATEMENT** | **DEC 31, 2015** | **DEC 31, 2014** | **DEC 31, 2013** |
| **Net Sales** | 3,914 | 3,925 | 4,016 |
| **Gross Profit** | 829 | 710 | 764 |
| **Operating Profit** | 352 | 295 | 350 |
| **Profit After Tax** | 141 | 127 | 181 |
| | | | |
| **RATIO ANALYSIS** | **DEC 31, 2015** | **DEC 31, 2014** | **DEC 31, 2013** |
| **Gross Margin (%)** | 21.2 | 18.1 | 19.0 |
| **Net Working Capital*** | 289 | (356) | (122) |
| **FFO to Total Debt (x)** | 0.3 | 0.2 | 0.4 |
| **FFO to Long Term Debt (x)** | 0.3 | 0.3 | 0.4 |
| **Debt Servicing Coverage Ratio (x)** | 1.6 | 1.6 | 5.2 |
| **ROAA (%)** | 3.0 | 2.9 | 4.6 |
| **ROAE (%)** | 8.3 | 7.5 | 10.7 |

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

## ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix III

**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.

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**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

**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

**(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

**'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.

## REGULATORY DISCLOSURES — Appendix IV

| | |
|---|---|
| **Name of Rated Entity** | Linde Pakistan Limited |
| **Sector** | Industrial Gases |
| **Type of Relationship** | Solicited |
| **Purpose of Rating** | Entity Rating |
| **Rating History** | see table below |
| **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. |
| **Probability of Default** | JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default. |
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**Rating History**

| Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
|---|---|---|---|---|
| **RATING TYPE: ENTITY** | | | | |
| 17/10/2016 | A | A-2 | Stable | Reaffirmed |
| 08/08/2015 | A | A-2 | Stable | Initial |