TRIS
TRIS RATING

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I.C.C. International Public Company Limited

Company Rating:	AA
Rating Outlook:	Stable

Rating History:	**Company Rating**	**Issue Rating**	
		Secured	**Unsecured**
23 Mar 2005	AA	-	-
11 Jul 2002	AA-	-	-

Rating Rationale

TRIS Rating affirms the company rating of I.C.C. International PLC (ICC) at "AA". The rating continues to reflect the company's debt-free status, the proven capability and experience of the management team, a diverse range of products and brands, and its position as Thailand's leading distributor of lingerie, men's apparel, and cosmetics. ICC has a current strategy to gradually develop its own specialty stores while keeping good relationship with both traditional and modern trade distribution channels. TRIS Rating expects this strategy will help the company sustain its strong market position. The rating also takes into consideration the low profitability typically associated with trading companies, the slowdown in private consumption, and the complex shareholding structure of the Saha Group.

ICC is one of Thailand's largest wholesalers and distributors, distributing and marketing consumer products, particularly lingerie, apparel, and cosmetics. The company offers more than 100 brands, both foreign and own-brands, such as Wacoal, Arrow, Lacoste, Guy Laroche, ELLE, and Itokin, most of which are well-accepted by Thai consumers.

The competence and experience of ICC's management team, together with support from suppliers within the Saha Group, have made the company a leading distributor in Thailand and allowed it to maintain its market-leading positions.

ICC is the clear leader in the middle- to high-end lingerie market, with a combined market share of over 67%. Wacoal products are a major contributor, with a market share of more than 58%. The success of Lacoste and Arrow products has sustained growth in men's apparel sales since 1998. Men's apparel now makes up a large portion of total sales, rising from 20% in 2002 to 25% in 2006. Financial policies remain very conservative, as ICC has been debt-free since 2002. ICC has gradually reduced guarantees to related companies from Bt1,023 million in 1999 to Bt333 million at the end of March 2007.

An uncertain economic environment has slowed private consumption, which negatively impacted ICC's financial performance. Sales during the first quarter of 2007 declined by 9.9% to Bt2,899 million in 2007, from Bt3,219 million in the first quarter of 2006. However, the financial profile remains very strong. Net cash flows from operations totaled around Bt82 million in the first quarter of 2007.

Rating Outlook

The "stable" outlook reflects TRIS Rating's expectation that ICC will maintain solid market shares across its product lines, despite intense competition. A conservative financial policy will strongly support the company's rating.

Key Rating Considerations

Strengths/Opportunities

- Debt-free, with a strong financial profile
- Proven and experienced management team
- Diverse range of products and brands
- Thailand's leading distributor in major products

Weaknesses/Threats

- Low profitability
- Potential to support related companies during downturns

Corporate Overview

The Chokwatana family established ICC in 1964 to distribute cosmetics under the Japanese brand "PIAS". Over the past four decades, the company added many brands, and has been the leading distributor and wholesaler of fashion products in Thailand. The company is the major distributor for the Saha Group, which is one of Thailand's largest business groups. ICC was listed on the Stock Exchange of Thailand (SET) in 1978. More than 50% of ICC's shares are held by the Chokwatana family and various companies in the Saha Group, including ICC suppliers, such as Thai Wacoal PLC, Thanulux PLC, People's Garment PLC, International Laboratories Corp., and Lion Corporation (Thailand) Ltd.

ICC's products can be classified into several broad groups: cosmetics, men's apparel, lingerie or women's innerwear, women's outerwear, children's apparel, leather goods and accessories, sporting goods and household products. Lingerie, men's apparel and cosmetics have traditionally been the largest revenue contributors, accounting for around 36%-26%, 20%-25% and 12%-11% of ICC's total sales during 2002-2006, respectively. In addition to major international brands such as Wacoal, Arrow, Guy Laroche, ELLE and Lacoste, ICC also has introduced both its own brands and Saha Group brands, such as Enfant, Essence, St. Andrews and BSC. Since 2002, ICC's and Saha Group's own brands have contributed 28%-32% of the company's total sales.

Recent Development

To partially mitigate the increasing pressure from the existing trade channels (e.g. department stores and discount stores), ICC plans to add its own specialty stores, under the His & Her, Lacoste and Arrow names. This project will require investment of Bt100-Bt200 million per year, financed by operating cash flows. Annual funds from operations were in the range of Bt600-Bt800 million over the past five years. Trading via its own channels, the company can have more freedom to implement its own policies. However, to avoid channel conflict with the typical channels, some differentiation will be needed, i.e. the rough product mix, shop display or target customer groups. The target groups are likely be the younger generation.

INDUSTRY ANALYSIS

- ***Growth slows in private consumption***

The consumer products industry currently faces a slowdown in consumer spending. Thailand's private consumption growth continued its downward trend in the first quarter of 2007, expanding by 1.3% compared with 3.1% in 2006, 4.3% in 2005 and 6.2% in 2004. The diminishing growth in private consumption was due to political uncertainty, rising oil prices, unrest in the southern provinces, and the overall economic slowdown. GDP growth in 2006 was 5.0%, slightly higher than the 4.5% recorded in 2005 because of strong export performance. The Office of the National Economic and Social Development Board's projection for growth in 2007 is in the range of 4.0%-4.5% after 4.3% growth in the first quarter growth of 2007. Moreover, the consumer confidence index (CCI) reported by the Center for Economic and Business Forecasting (CEBF) confirms the slowdown in consumer spending. The CCI was 76.9 in May 2007, the 34th consecutive month below 100 and the lowest level since March 2002.

Table 1: Growth Rates of GDP and Private Consumption

Unit: %

	2005	2006	2006				2007
	Full Year		Q1	Q2	Q3	Q4	Q1
GDP	4.5	5.0	6.1	5.0	4.7	4.3	4.3
Private Consumption	4.3	3.1	3.9	3.3	2.8	2.5	1.3

Source: Office of the National Economic and Social Development Board

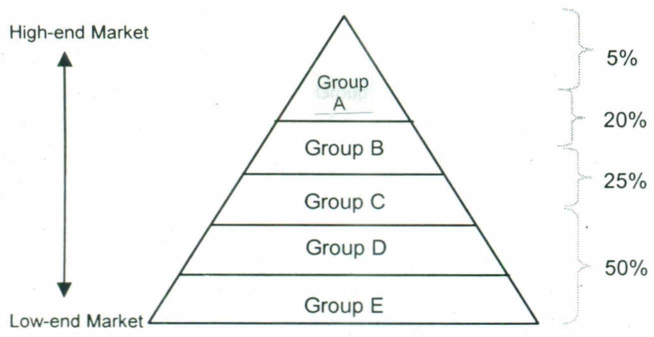
Lingerie:

- ***Lingerie market slows***

Demand for lingerie is determined by demographic factors, such as age and gender, and economic factors, including disposable income and unemployment. In 2006, branded lingerie sold in department stores in Thailand totalled approximately Bt4,000 million, or 1.3% of the entire apparel market, which was about

Bt300,000 million. In 2006, the population in Thailand included more than 30 million women, a figure that increased by more than 200,000 during 2005-2006. Demand for lingerie tends to grow with increasing population and per capita income. Moreover, introductions of fashion-styled lingerie will contribute to sales growth. Since lingerie is generally a necessity product, demand is more consistent than that of fashion and luxury clothing.

Chart 1: Lingerie Market Structure in Thailand



Source: ICC

The lingerie market in Thailand can be divided into five groups, based on price and image. In terms of value share, products in Group A, the high-end market, account for around 5% of total market sales. The products are either imported or made locally under license from international brands. Major brands in this segment are La Perla, Maidenform, Women's Secret, Marks & Spencer and Lily of France. Lingerie in Group B and C account for 20% and 25%, respectively, of total sales. The leader in these segments is Wacoal, followed by Triumph, Sabina, and BSC. Group D and E account for the remaining 50% of sales, with prominent brands such as POP Line, Jintana and Kullastri, as well as low-price products distributed through street vendors. These last two segments are believed to account for almost 70% of total lingerie units sold in Thailand.

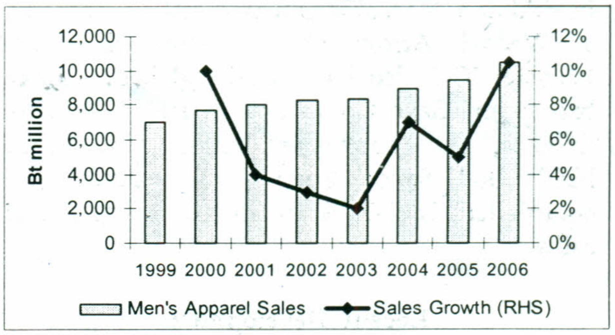
Competition has intensified in recent years as new international brands enter the high-end market, whereas low-price products, especially from China, target customers with low purchasing power. Among the various brands of lingerie sold in department stores and hypermarkets, Wacoal dominated the market with 2006 market share of around 58%, followed by Triumph at 14% and Sabina at 8%. Young customers are mostly attracted by the desire to follow the latest fashion trends, and manufacturers continuously introduce new collections. For working women, a target group with higher brand loyalty than the young customer, fit and suitable sizes are the major factors influencing the purchase decision. A certain degree of brand loyalty does exist, particularly in the high-end segment. At the low end of the market, where there are a number of small players, price is the strongest influence on consumer purchases. Though domestic producers face higher competition from imported products, domestically-produced lingerie has an advantage over imported goods because it is designed to fit the shapes of Thai women.

Men's Apparel:

- ***High market growth in 2006, expected to slow in 2007***

As being the case with other segments of the apparel market, demand for men's apparel is mainly determined by economic factors. In 2006, though an uncertain economic situation and lower consumer confidence dampened apparel purchases, the popularity of yellow shirts throughout the whole year boosted the growth rate for this market. Sales in the upper and middle segments of the men's apparel market increased by 10.5% in 2006, higher than the 5% growth recorded in 2005, to approximately Bt10,500 million. Though men tend to be less price sensitive than women, there is some brand loyalty in this market. Because of the unfavourable economic environment, sales growth in 2007 will be lower than in 2006.

Chart 2: Sales of Men's Apparel in the Upper and Middle Segments



Source: ICC

With approximately 84 men's apparel brands in Thailand, the market is segmented by price and brand image. The market is not as concentrated as the lingerie market given that the market shares of leading brands are less than 25%. The high-end market comprises imported brands, such as Versace and Armani, and international brands, such as Lacoste, ELLE Homme, Guy Laroche, Excellency and Daks, which are manufactured locally under exclusive licenses. The major distribution channels are department stores and brand outlets. The middle segment of the market consists of Arrow, GQ, John Henry and Getaway brands, which are also primarily distributed through department stores.

Competition in the men's apparel industry remains intense. After the textile and clothing industry was liberalized in 2005 following implementation of the World Trade Organization (WTO) agreement, competition from imported products has become more intense. While brand image is a major criterion for the upper end of the market, retailers will, from time to time, use price reduction campaigns to boost sales and clear stock. Manufacturers in the upper and middle segments of the market strive to increase market share by continuously introducing new products to meet changes in demand and lifestyle. To maintain market share and avoid price competition, they always conduct product research and development in order to attract customers with better quality products. Hypermarkets have increased competition in the lower-end segments by introducing private brands and pressuring manufacturers to improve production and distribution efficiency. In addition, free trade agreements (FTA) established between Thailand and other countries have increased competition in the Thai apparel industry, especially in the low-end market segment.

Cosmetics:

- ***Market expanded by 10% in 2006 amid more competition***

Thailand's cosmetics market generated sales of approximately Bt29,090 million in 2006, which was 10% higher than in 2005. Demand for cosmetics is mainly affected by seasons and social factors, such as fashion trends and lifestyles. The cosmetics market can be classified by distribution channel: counter sales, self-selection and direct sales.

The counter sales segment of the cosmetics market features large and attractive displays in department stores and trained "beauty advisors" who assist customers with services. Promotional activities, such as premiums, are the preferred competitive strategy, and price cuts are avoided as they are seen as damaging to brand image. The self-selection segment of the market reaches customers through displays in supermarkets, hypermarkets, specialty stores, and convenience stores. This segment uses advertising and pricing to motivate consumers to make purchases. The main feature in the self-selection segment is convenience, which is becoming more important for consumers. The third segment of the cosmetics market, direct sales, needs a large number of sales persons to communicate with consumers. The major strategies used to boost sales in this segment are advertising and providing attractive returns to sales agents.

Cosmetics can also be divided into makeup and skin care products. Demand for skin care products has continuously increased because consumers are more and more health-conscious. Manufacturers are increasingly using medical research to develop and introduce new products. Competition in the market is intense as domestic manufacturers must compete with imported brands. It is expected that the government's FTA policy will lower entry barriers for imported brands, boost sales of imported brands, and intensify competition in the domestic market.

BUSINESS ANALYSIS

The above-average business profile of ICC reflects the competence of its experienced management team and its proven capability as a leading distributor of lingerie, men's apparel, and cosmetics. ICC's management team faces a challenge in 2007 to implement strategies to counter the slowdown in consumer consumption. ICC reported a 10% drop in sales during the first quarter of 2007 compared with the first quarter of 2006. Expansion of its own channels and more advertising are expected to drive sale growth during the next 2-3 years.

- ***Proven capability of experienced management team***

ICC has been managed by the Chokwatana family since the company was established in 1964. The competence and extensive experience of ICC's management team, together with support from suppliers within the Saha Group, have made the company a leading distributor in Thailand and allowed it to successfully maintain leading positions in its target markets. The major segments in which ICC has very strong competitive positions and significant market shares are lingerie, men's apparel and, to a lesser extent, cosmetics. Wacoal is the dominant brand in the lingerie market, while Arrow and Lacoste control significant shares of the middle and upper income men's apparel markets. In the cosmetics business, after halting sales of the PIAS brand, ICC successfully launched its own BSC Cosmetology brand in 2006. Sales in the first year (2006) were Bt796 million, higher than sales of the PIAS brand, which averaged Bt648 million per annum during 2002-2004.

ICC uses department stores as its key distribution channel. However, the increasing influence of discount stores has prompted ICC to launch new brands, such as POP Line and St. Andrews, for distribution through this channel. Separate brands for different channels protect the premium brand images of products that are distributed through department stores. ICC maintains considerable bargaining power with its distribution channels due to its strong market position in a variety of products. However, there will be greater pressure from the channels because of increased competition for shelf space both from existing operators and from imported products due to lower imported duties. ICC started investing in specialty stores as a way to diversify its distribution channels.

- ***Extensive product diversification through strong relationships within the Saha Group***

ICC offers more than 100 long-established brands, including Wacoal, Arrow, Lacoste, Guy Laroche, ELLE, and Itokin, all of which have a strong presence in the Thai market. Although the company relies heavily on international brand names, ICC has continuously launched its own brands, such as Kullastri, Enfant, Essence, St. Andrews, POP Line and BSC. ICC plans to further develop BSC products to enable the brand to be a major contributor in the future.

ICC relies heavily on suppliers under the Saha Group umbrella. ICC has equity investments in its suppliers and some of ICC's executives also hold management positions at suppliers. At the same time, some suppliers are shareholders of ICC. The major benefit of this structure is that it ensures good cooperation with suppliers, which facilitates new product and raw material development. However, the complexity of the shareholding structure of ICC and the Saha Group may make it difficult for investors to evaluate the individual company.

- ***Continued leadership in lingerie***

ICC has maintained its dominant position in the lingerie market, which contributed an average of 30% of total sales during 2002-2006. ICC's lingerie brands have a combined market share of around 67% of the middle- to high-end markets in 2006, down from 71% in 2005. The drop came as Wacoal lost market share in the youth market. Product innovation is required to gain back the lost share.

Despite the loss in market share, Wacoal is still the clear leader in the middle- to high-end lingerie market, with a market share of over 58% in 2006, though down from a 61% share in 2005. Wacoal's market share peaked at 64% during 2001-2002, then slid to 58% in part due to its cannibalisation from other ICC lingerie products such as BSC and POP Line.

- ***Sustained growth for Arrow and Lacoste***

Men's apparel brands have gradually constituted a large portion of sales, rising from 20% in 2002 to 22% in 2003 and 25% in 2005 and 2006. ICC's most important brands in terms of sales contribution are Arrow and Lacoste. Both brands were able to achieve combined sales growth of 17% during 2006. The key success factors were the continuous development of new products, innovation and design, brand image, and strong support from the Lacoste brand owner.

- ***BSC Cosmetology successfully replaced PIAS***

Cosmetics have accounted for approximately 12% of ICC's sales since 2002. ICC launched BSC Cosmetology in October 2005 to replace PIAS. The new brand uses the well-established distribution channel of PIAS. With the utilization of the PIAS channel and heavy brand investment, the first year was considered a success with sales reaching Bt796 million in 2006, which was higher than the annual sales of PIAS during 2002-2005. As a result, the contribution from the company's own brands increased from 26%-29% in 2002-2005 to 32% in 2006 and 33% for the first quarter of 2007. In addition, the operating profit margin from cosmetics products recovered from 7.68% in 2004 to 12.29% in 2005 and 15.10% in 2006.

- ***Inventory management systems almost completely implemented***

Nationwide, the company's distribution network includes around 1,200 personal computers with approximately 7,000 sales counters that are staffed by full-time sales personnel, who report their sales and inventory to the head office on a daily basis. The company has also established 82 ICC centers that act as upcountry information centers. ICC's years of experience have enabled it to develop a proprietary system for tracking daily sales and inventory. The company has completely implemented an on-line computer system (Quick Response Marketing System – QRMS) that can process and link all real-time sales and inventory information between the company, suppliers, and its distribution network. This information system helps ICC place purchase orders with suppliers more efficiently and enables the company to respond more quickly to changing consumer preferences and demands.

FINANCIAL ANALYSIS

Despite the relatively low profitability characteristic of the trading business, ICC's liquidity, capital structure, and financial flexibility all support its very strong financial profile.

Compared with the first quarter of 2006, sales in the first quarter of 2007 fell by 9.9% from Bt3,219 in 2006 to Bt2,899. Net income from operations fell by 8.4% from Bt226 in 2006 to Bt207 in 2007.

- ***Strong cash flow protection***

The company's cash flow protection is very strong because of a low level of contingent liabilities (such as guarantees to related companies). ICC is also debt-free. The company's ratio of adjusted funds from operations (FFO) to total debt (including guarantees to related parties) was 265.65% in 2006, a significant improvement from 118.38% in 2002. FFO was quite stable at around Bt600 million per year during 2002-2003, before increasing to around Bt800 million in 2004-2005 and almost Bt900 million in 2006. The company also has a high degree of financial flexibility, with Bt2,077 million in credit facilities available from various financial institutions at the end of March 2007.

Moreover, at the end of March 2007, the book value of ICC's investments was Bt4,711 million, which provides additional financial flexibility. The total investments comprise Bt376 million in bank deposits and bills of exchange and Bt4,335 million in long-term investments. ICC's long-term investments in listed companies had a combined market value of around Bt3,020 million as of 31 March 2007. TRIS Rating expects that, given the extremely low levels of debt, ICC will be able to maintain high cash flow protection.

- ***Conservative financial policy***

ICC has a conservative financial policy and management intends to maintain this policy in the future. Total debt has decreased continuously and the company has been debt-free since April 2002 when it repaid its outstanding debentures. The adjusted debt to capitalization ratio (including guarantees to related parties), remains as low as 3.05% at the end of March 2007. Over the past five years, ICC has continuously reduced the financial support given to related parties. Net loans to related companies ranged from Bt132-Bt83 million during 2002-2006 and was Bt92 million as of March 2007. Guarantees to related companies also decreased, from Bt528 million in 2002 to Bt333 million as of March 2007. During the first quarter of 2006, ICC acquired Bt385 million worth of land for expansion. Operating cash flow was more than sufficient to fund this investment. The company plans to expand its trade channels by investing Bt100-Bt200 million per annum during the next 2-3 years with its internal cash flow. TRIS Rating expects that ICC will continue its conservative financial policy and leverage will stay very low over the medium term.

- ***Low profit margin typical for a trading company, margin remains stable***

Cost of goods sold remained approximately 70%-72% of ICC's sales during 2002-2006. This stability reflects the company's strong relationships and negotiation power with its distribution channels and suppliers despite pressure from department stores, its major customers. Gross margins for the three major product types, lingerie, men's wear, and cosmetics and perfumes, have been stable during 2002-2006. Selling and administrative expenses have been approximately 23%-27% of total sales during 2002-2006. This ratio is expected to increase slightly in the future since ICC recently implemented performance-based incentives for its staff. The company also plans to increase marketing spending to offset slowing consumer consumption during the uncertain economic environment. In 2006, the company spent Bt493 million on marketing, which was around 3.8% of total sales. During the first quarter of 2007, marketing expenses as a percentage of total sales stayed at 3.4%, but this is expected to increase for the whole year in an effort to boost sales.

In addition, ICC's ability to negotiate higher gross margins with its suppliers and distributors will determine future operating margins. Operating income before depreciation and amortization as a percentage of sales was stable at around 6.1%-6.6% during 2002-2006 through the first quarter of 2007.

- ***Investments in related companies foster strong cooperation but low returns***

Return on permanent capital is traditionally low as ICC has made substantial investments in related companies. In 2006, the return was flat at 10.24%, compared with 10.42% in 2005. The total value of investments increased from Bt2,264 million in 2002 to Bt4,519 million as of December 2006 and Bt4,335 million as of March 2007, or 34% of total assets. These investments are considered necessary because most of the related companies support ICC's operations. Management plans to use any excess cash for additional investments in related companies.

Financial Statistics and Key Financial Ratios

Unit: Bt million

		---------------- Year ended 31 December -------------				
	3/2007	2006	2005	2004	2003	2002
Sales	2,899	12,888	11,555	9,908	8,845	8,719
Gross interest expense	0.02	0.49	0.08	-	0.01	11
Net income from operations	207	733	686	675	409	624
Funds from operations (FFO)	217	885	822	792	677	625
Capital expenditures	29	586	101	136	156	293
Total assets	12,767	13,146	12,297	11,108	10,252	9,384
Total debt	-	-	-	-	-	-
Guarantees to related companies	333	333	392	439	476	528
Shareholders' equity	10,590	10,554	9,771	9,041	8,488	7,611
Operating income before depre. and amort. as % of sales	6.60	6.11	6.35	6.47	6.62	6.40
Pretax return on permanent capital (%)	2.72**	10.24	10.42	9.58	7.46	11.28
Earnings before interest, tax, depre. and amort. (EBITDA) interest coverage (times)	n.m.	n.m.	n.m.	n.m.	n.m.	84.12
FFO/total debt (%)*	65.23**	265.65	209.44	180.55	142.15	118.38
Total debt/capitalization (%)*	3.05	3.06	3.86	4.63	5.31	6.49

n.m. *Not materialized*
* *Including contingent liabilities of guarantees to related companies*
** *Non-annualized*

Rating Symbols and Definitions

TRIS Rating uses eight letter rating symbols for announcing medium- and long-term credit ratings. The ratings range from AAA, the highest rating, to D, the lowest rating. The medium- and long-term debt instrument covers the period of time from one year up. The definitions are:

AAA The highest rating, indicating a company or a debt instrument with smallest degree of credit risk. The company has extremely strong capacity to pay interest and repay principal on time, and is unlikely to be affected by adverse changes in business, economic or other external conditions.

AA The rating indicates a company or a debt instrument with a very low degree of credit risk. The company has very strong capacity to pay interest and repay principal on time, but is somewhat more susceptible to the adverse changes in business, economic, or other external conditions than AAA rating.

A The rating indicates a company or a debt instrument with a low credit risk. The company has strong capacity to pay interest and repay principal on time, but is more susceptible to adverse changes in business, economic or other external conditions than debt in higher-rated categories.

BBB The rating indicates a company or a debt instrument with moderate credit risk. The company has adequate capacity to pay interest and repay principal on time, but is more vulnerable to adverse changes in business, economic or other external conditions and is more likely to have a weakened capacity to pay interest and repay principal than debt in higher-rated categories.

BB The rating indicates a company or a debt instrument with a high credit risk. The company has less than moderate capacity to pay interest and repay principal on time, and can be significantly affected by adverse changes in business, economic or other external conditions, leading to inadequate capacity to pay interest and repay principal.

B The rating indicates a company or a debt instrument with a very high credit risk. The company has low capacity to pay interest and repay principal on time. Adverse changes in business, economic or other external conditions could lead to inability or unwillingness to pay interest and repay principal.

C The rating indicates a company or a debt instrument with the highest risk of default. The company has a significant inability to pay interest and repay principal on time, and is dependent upon favourable business, economic or other external conditions to meet its obligations.

D The rating for a company or a debt instrument for which payment is in default.

The ratings from AA to C may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within a rating category.

TRIS Rating's short-term ratings focus entirely on the likelihood of default and do not focus on recovery in the event of default. Each of TRIS Rating's short-term debt instrument covers the period of not more than one year.The symbols and definitions for short-term ratings are as follows:

T1 Issuer has strong market position, wide margin of financial protection, appropriate liquidity and other measures of superior investor protection. Issuer designated with a "+" has a higher degree of these protections.

T2 Issuer has secure market position, sound financial fundamentals and satisfactory ability to repay short-term obligations.

T3 Issuer has acceptable capacity for meeting its short-term obligations.

T4 Issuer has weak capacity for meeting its short-term obligations.

All ratings assigned by TRIS Rating are local currency ratings; they reflect the Thai issuers' ability to service their debt obligations, excluding the risk of convertibility of the Thai baht payments into foreign currencies.

TRIS Rating also assigns a *"Rating Outlook"* that reflects the potential direction of a credit rating over the medium to long term. In formulating the outlook, TRIS Rating will consider the prospects for the rated company's industry, as well as business conditions that might have an impact on its fundamental creditworthiness. The rating outlook will be announced in conjunction with the credit rating. In all cases, the outlook assigned to a company will apply to all debt obligations issued by the company. The categories for *"Rating Outlook"* are as follows:

Positive The rating may be raised.
Stable The rating is not likely to change.
Negative The rating may be lowered.
Developing The rating may be raised, lowered or remain unchanged.

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