



I.C.C. INTERNATIONAL PLC

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Company Rating: AA

Outlook: Stable

New Issue Rating:
Rating History:
Date Company Issue
(Secured/Unsecured)

23/03/05 AA/Sta 12/07/04 AA-/Sta -

AA-

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Rating Rationale

TRIS Rating affirms the company rating of I.C.C. International PLC (ICC) at "AA". The rating reflects the company's position as Thailand's leading distributor of lingerie; men's apparel; and cosmetics, a diverse portfolio of products and brands, capable management team, and its solid relations with department stores and discount stores. The rating also takes into consideration the stability of the company's operations and its debt free position under the conservative financial policy. However, the rating is constrained by the low level of profitability typically associated with trading companies, and the complex shareholding structure of the Saha Group.

ICC is one of Thailand's largest wholesalers and distributors of consumer products, particularly lingerie, apparel, and cosmetics. The company offers more than 80 brands, covering international licensed brands and its own brands. The international brands under the ICC umbrella, such as *Wacoal, Arrow, Lacoste, Daks, Guy Laroche,* and *ELLE*, are well-known by Thai consumers. ICC's products are available in department stores, discount stores, and shops in more than 3,600 locations nationwide. The competence and experience of ICC's management team, together with the support provided by suppliers within the Saha Group, have allowed the company to maintain its market-leading positions.

In 2011, ICC's revenue grew by 14% year-on-year (y-o-y) to Bt12,825 million. Impact from severe flood in the fourth quarter of 2011 was considered minimal as ICC's revenue in this period of time rose by 9.3% y-o-y. The revenue continued to grow in the first three months of 2012, rising by 7.5% compared with the same period in 2011. The increase came from all product categories, reflecting its well-diversified products and market coverage, supported by solid relations with its suppliers and distribution channels. In addition, the jump in sales was due in part to the management stimulus strategy to push for an aggressive growth.

The three major contributors to ICC's top line are the lingerie, men's apparel, and cosmetics product lines. During the last three years and the first quarter of 2012, the lingerie and men's apparel lines each generated 25%-28% of ICC's total revenue, while the cosmetics line contributed 12%-13%. In the lingerie market, ICC has dominated the middle- to high-end lingerie segment, with a combined market share over 60% in 2011, as measured by sales of all brands through department stores. Wacoal has remained the leading lingerie brand for over a decade, with 56% market share in 2011. Although Wacoal's market share has gradually declined due to aggressive competition and competition from new brands, it is more than four times beyond the share of the second-largest competitor. The Wacoal product line alone has generated 20%-22% of ICC's total sales every year since 2008. The strength of ICC's men apparel segment is derived from the Lacoste and Arrow brands which contributed 10% and 9% of ICC's total sales, respectively. BSC Cosmetology, ICC's own brand, is the core product brand in the cosmetics segment. Annual sales were Bt750-Bt850 million per annum during the past three years.

The severe flood in late 2011 slightly affected ICC's operating performance and its margins. In 2011, the ICC's operating income before depreciation as a percentage of sales lowered to 5.5%, compared with 5.9% in 2010. The operating profit margin improved to 8.1% for the first three months of 2012. As the nature of trading companies, ICC's profitability is fairly thin. Affiliated companies in the Saha Group constitute much of ICC's supply chain and help support ICC's product





development efforts. However, ICC has to allocate some profit margin to those suppliers, making it hard to adjust. ICC needs to continuously launch promotional campaigns and other marketing activities to raise demand and strengthen brand awareness. As a result, ICC's selling expenditures rose by 32% y-o-y in 2011 and 15% y-o-y for the first quarter of 2012. Going forward, the ongoing efficiency of the supply chain under the Saha Group, cost control initiatives, and new product introductions will remain the key points of focus for ICC.

ICC's financial profile and liquidity remain strong, underpinned by its debt-free position and stable operating cash flows. ICC has continued its conservative financial policy, as the company has had no major capital investments planned, and has remained debt-free since 2002. ICC has made some guarantees to related companies to strengthen its supply chain. The total amount of outstanding guarantees has gradually reduced, and remained at Bt152 million from 2009 through the end of March 2012. Funds from operations (FFOs) improved from Bt863 million in 2010 to Bt914 million in 2011, and stood at Bt188 million for the first three months of 2012. As there is no financing burden, ICC retains all cash flows for working capital needs and continues its minimal dividend payout.

In the near future, ICC plans to enter the property development business by utilizing its existing non-performing assets (NPAs). In TRIS Rating's view, the company will be exposed to a higher risk as the property development industry is intensely competitive and more sensitive to cyclical economy. TRIS Rating expects that any future investments should be prudently considered so as to maintain ICC's financial strength and ample liquidity at all times.

ICC and other Saha Group companies have complex cross-holding structures. TRIS Rating expects that all transactions between ICC and companies in the group should conform to the regulations of the Stock Exchange of Thailand (SET) and the Securities and Exchange Commission (SEC).

Rating Outlook

The "stable" outlook reflects TRIS Rating's expectation that ICC will continue to maintain its strong completive positions in its key product lines, in spite of intense competition. A diverse product portfolio and a conservative financial policy help support the company's credit quality.

I.C.C. International PLC (ICC)

Company Rating: AA
Rating Outlook: Stable

KEY RATING CONSIDERATIONS

Strengths/Opportunities

- Thailand's leading distributor in major product categories
- Diverse range of products and brands
- Extensive distribution channels
- Experienced management team
- Debt-free position with a strong financial profile

Weaknesses/Threats

- Low profitability
- Intense competition
- Potential to provide support to related companies during financial downturns

CORPORATE OVERVIEW

ICC was established by the Chokwatana family in 1964 initially to distribute imported cosmetic products. The company is the major distributor of consumer products for the Saha Group, one of the largest conglomerates in Thailand.

ICC has continuously extended its product portfolio so that it now covers over 80 brands, mainly lingerie, apparel, cosmetics, and fashion products. ICC was listed on the SET in 1978. Approximately 56% of ICC's shares are held by the Chokwatana family and various companies in the Saha Group, including its suppliers, such as Thai Wacoal PLC, Thanulux PLC, People's Garment PLC, and International Laboratories Corp.

ICC's product portfolio spans into several product lines: cosmetics, men's apparel, lingerie, women's wear, children's apparel, leather goods and accessories, sporting goods, and household products. The lingerie, men's apparel, and cosmetic product lines have been the largest revenue contributors during the past five years. The major international licensed brands sold by ICC such as *Wacoal*, *Arrow*, *Daks*, *Lacoste*, *Guy Laroche*, and *ELLE* are famous among Thai customers. In addition to the international brands, ICC has its own brands, such as *BSC*, *Enfant*, *St. Andrews*, and *Essence*. Currently, its own brands contribute about 34% of total sales.





Table 1: ICC's Revenue Contribution by Major Product Line

Unit: %				
Product Line	2009	2010	2011	Jan-Mar 2012
Cosmetics	13.0	13.0	12.6	12.4
Lingerie	27.9	26.3	26.2	25.6
Men's wear	26.3	27.1	26.9	28.4
Women's apparel	4.0	3.9	4.4	4.4
Household products	10.6	10.8	9.8	9.2
Children's apparel	4.1	4.1	4.4	4.2
Leather goods & accessories	7.9	8.0	8.7	8.8
Sporting goods & toys	4.7	4.7	4.3	5.2
Others	1.5	2.3	2.7	1.7
Total	100.0	100.0	100.0	100.0

Source: ICC

RECENT DEVELOPMENTS

The challenge of an aggressive growth target

In 2011, the ICC management team set an ambitious challenge to make revenue grow strongly. The initiative is expected to urge the entire organization to rethink its business practices and be more dynamic. The goal is to revamp the long-established culture to fit a new generation, matching a vibrant economic environment. As a result of the challenge, sales rose by 13.5% y-o-y in 2011 and grew by 7.5% y-o-y for the first three months of 2012.

INDUSTRY ANALYSIS

Private consumption was temporarily affected by flooding, but is expected to grow moderately in 2012

In the last quarter of 2011, the consumer product industry faced a sharp drop in private sector spending. Badly affected by the severe flooding in many parts of the country, private consumption in Thailand contracted by 2.8% y-o-y in the fourth quarter of 2011. This performance was in sharp contrast with growth of 2.8% y-o-y in the first nine months in 2011. Gross domestic product (GDP) showed the same pattern, dropping by 8.9% y-o-y in the fourth quarter of 2011, versus a rise of 3.2% in the first nine months of the year, bringing the growth rate of GDP to 0.1% for the full year.

Consumer confidence recovered strongly after the flood. The latest consumer confidence index (CCI), reported by the Center for Economic and Business Forecasting (CEBF) of the University of the Thai Chamber of Commerce, showed a slightly positive outlook. The CCI rose to 78.6 in June 2012, from 73.1 in December 2011. However, because the index remains below 100, consumers have concerns over the rising cost of living, domestic political uncertainty, and global economic problems.

Table 2: Growth Rates (Y-O-Y) of GDP and Private Consumption Unit: %

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	2010	2011	2011			2012	2012p	
			Q1	Q2	Q3	Q4	Q1	
GDP	7.8	0.1	3.2	2.7	3.7	-8.9	0.3	5.5-6.5
Private consump- tion	4.8	1.3	3.3	2.7	2.4	-2.8	2.7	4.5

p = Projection

Source: Office of the National Economic and Social Development Board (NESDB)

Private sector spending is expected to grow moderately in 2012, due to the government's economic stimulus policies and Thailand's economic recovery. In the first quarter of 2012, GDP grew by 0.3% y-o-y. Private consumption also increased, rising by 2.7% y-o-y. The Office of the National Economic and Social Development Board (NESDB) projected private consumption in 2012 will grow by 4.5%. The estimate of GDP growth for 2012 is 5.5%-6.5%. Rising inflation, domestic political uncertainty, and Europe's economic crisis will remain the major risk factors affecting the growth of private consumption and the overall economy for the remainder of 2012.

Lingerie:

Lingerie sales grew in 2011 amid increasing competition

Demand for lingerie is determined by demographic factors, such as age and gender, and economic factors, including disposable income and the level of unemployment. In addition, product accessibility is driving a new market opportunity as the existing market is close to maturity. The role of modern trade sales outlets has been increasing over the past decade in Thailand and many other developing nations. There are now more modern trade facilities in the provinces. In addition, lingerie sellers have increased the level of market penetration to service new customer groups including young and trendy customers. The rise of the modern trade channel and increasing market penetration are contributing factors pushing the growth of lingerie sales in Thailand. Over the past few years, sales of fashion lingerie for young customers have driven growth. Teenagers and young women, the main purchasers of fashion lingerie, typically have higher buying frequencies than working women or older adults.

In 2011, the value of major branded lingerie sold in department stores in Thailand totalled approximately Bt4,600 million, a rise of 12.4% from 2010, according to a survey conducted by ICC. In 2012, lingerie sales are expected to grow at moderate rate due to the economic recovery. Demand may also rise because the provincial market segment is expanding, companies are instigating



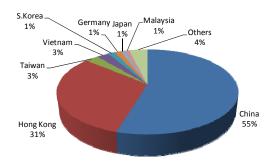


more marketing activities and campaigns, and firms are launching new innovative products.

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

Among the various brands of lingerie sold in department stores in 2011, Wacoal dominated the market with around 56% market share, followed by Sabina (13%) and Triumph (11%). Young customers are mostly attracted by the desire to follow the latest fashion trends, which in turn encourages manufacturers to continuously introduce new collections. For working women, a target group with higher brand loyalty than younger customers, fit and suitable sizes are the major factors influencing the purchase decision.

Chart 1: Thailand's Brassiere Imports by Country of Origin in 2011



Source: Customs Department

Competition in the lingerie market remains high. Producers now have to launch new designs and collections more often, offer price discounts, and conduct more marketing activities and campaigns to remain competitive. Domestic producers are expected to face higher competition from imported products from both China and the member nations of the ASEAN Free Trade Area (AFTA). In 2011, brassieres imported from China and Hong Kong comprised 86% of total brassiere imports into Thailand.

The remaining portion was imported from Taiwan, Vietnam, Korea, Germany, and Japan.

Men's Apparel:

Sales increased further in 2011, but more intense competition is expected

As with other segments of the apparel market, demand for men's apparel is mainly determined by economic factor. The market recorded strong growth in 2011, after rebounding in 2010. The market had contracted steadily between 2007 and 2009, owing to weak economic conditions, prolonged political unrest, and low consumer confidence. According to a survey made by ICC, sales in the upper and middle segments of the men's apparel market in 2011 rose to Bt10,800 million, or 8.0% higher than in 2010. The opportunity to boost the sales of men's apparel relies on population growth and the offers of new materials and styles. The expansion of modern trade outlets into provincial areas should raise sales.

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



Source: ICC

With approximately 86 men's apparel brands in department stores in Thailand, the market is segmented by price and brand image. The market is not as concentrated as the lingerie market because none of the leading men's apparel brands holds more than 25% market share by value. The high-end segment 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 the Arrow, GQ, John Henry, and Getaway brands, which are also primarily distributed through department stores.

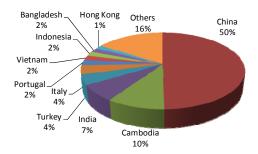
Competition in the men's apparel industry is expected to become more intense. After international trade liberalization in 2005, following Thailand's implementation according to the World Trade Organization (WTO) agreement, competition from imported products has increased. In addition, several bilateral free trade





agreements (FTA) between Thailand and other countries have increased competition in the Thai apparel industry, especially in the low-end market segment. Due to relatively low production costs, China held the biggest portion of imported men's and boy's shirts in 2011.

Chart 3: Thailand's Imported Men's and Boy's Shirts by Country of Origin in 2011



Source: Customs Department

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 selling to the upper and middle segments of the market will also strive to increase market share by continuously and quickly introducing new products to meet changes in demand and lifestyles. To maintain market share and avoid price competition, producers conduct research and development to create better quality products in order to attract customers. In addition to innovation, firms also use production and distribution efficiencies, plus marketing activities and events as the key factors to compete with rivals.

Cosmetics:

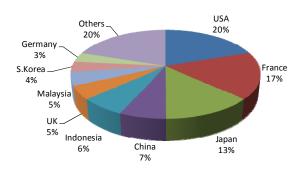
Growth continues, driven by new products and marketing activities

Demand for cosmetics is mainly affected by seasonal and social factors, such as fashion trends, climates and lifestyles. In 2011, sales in the cosmetic market rose to approximately Bt40,200 million, up by 7.4% from 2010. The rise in sales was partly due to promotional campaigns and the introduction of new products. For 2012, sales are expected to continue to rise due to higher consumer purchasing power supported by economic growth and government's policies to raise minimum wages nationwide. Competition in the cosmetic market can boost growth. In addition, new distribution channels, product innovations, and the high potential in the provincial market will drive growth.

Competition in the cosmetic market remains high, especially in the middle and economy segments, which are relatively more price sensitive than the luxury cosmetic

segment. Market shares in the luxury segment are more stable because of brand loyalty. The cosmetic market can also be classified by distribution channel: counter sales, self-selection, and direct sales. The counter sales segment features large and attractive displays in department stores and trained "beauty advisors" who assist customers. The self-selection segment reaches customers through displays in supermarkets, hypermarkets, specialty stores, and convenience stores. The third segment of the cosmetic market, direct sales, needs a large number of sales persons to communicate with consumers.

Chart 4: Thailand's Imported Cosmetics by Country of Origin in 2011



Source: Ministry of Commerce

Typically, skincare cosmetics provide more handsome returns to producers than makeup cosmetics. Demand for skincare cosmetics depends on various factors including the level of income, seasonal effects, health awareness, lifestyle, and gender. The products for men segment offer good growth potential as more men are using skincare products. Manufacturers are increasingly using medical research to develop and introduce new value-added products. Competition in the market is intense as domestic manufacturers must compete with an influx of imported brands. Import tariffs imposed on cosmetics originating in ASEAN nations have been waived according to the terms of AFTA. The tariff reduction has paved the way for more competitors from within this region. However, most imported cosmetics (by value) came from the US and Europe. According to the Ministry of Commerce, the value of cosmetics imported in 2011 increased by 17.8% to US\$546.3 million, 20.5% of which came from the US, 17.6% from France, and 13.6% from Japan.

BUSINESS ANALYSIS

ICC's business profile reflects its position as a leading distributor of lingerie, men's apparel, and cosmetics in Thailand. The company has benefited from its wide range of product categories, a broad portfolio of brands, and nationwide distribution channels. ICC's competitive edge





has been strengthened by product innovations and product development, supported by the supply chain within the Saha Group. However, its recent investments in property development may expose ICC to more risks. It remains to be seen if the company can manage the increasing operating risk and maximize returns on its property development investments.

Experienced management team with strong group support

ICC was established in 1964 and has been managed by the Chokwatana family. The company has long-established market positions with its international brands, such as Wacoal, Arrow, Lacoste, Daks, Guy Laroche, and ELLE, each of which has a strong presence in the Thai market. The management team has maintained good relations with these international brand licensors for a long time, an important factor contributing to the company's successful history. At the same time, ICC has continuously developed its own brands, such as BSC, Enfant, Essence, POP Line, Kullasatri, and St. Andrews.

As part of Saha Group, ICC has sourced most of its supplies through the companies in the Group. Companies in the Saha Group, including ICC, have complex cross shareholdings. Some of ICC's executives also hold management positions at supplier companies. The benefit of this structure is that it ensures good cooperation with suppliers. This facilitates development of new products and raw materials, which are key success factors in a fashion-driven business. A dedicated management team, and support from the Saha Group have allowed ICC to continuously launch new products and maintain its role as a leading distributor in Thailand.

The aggressive revenue growth challenge is expected to drive growth in the future. This strategy will also cause ICC to revamp its long-established culture to fit the new generation. The company's management team is in a transitional period. The succession plans for transferring the key management positions to the next generation will be closely monitored.

Broad range of products and diverse channels of distribution

ICC offers a broad range of product lines: cosmetics, men's apparel, lingerie, women's wear, children's apparel, leather goods and accessories, sporting goods, and household products. ICC's products are available in more than 3,600 locations nationwide. ICC has strong relationships and bargaining power within its key distribution channels. ICC's key distribution channels are department stores, modern trade stores, shops, and specialty stores. Department stores are ICC's major distribution channel, generating around half of ICC's total

sales. The department store channel offers premium brand products to capture medium- to high-income consumers, while the modern trade or discount store channel is suited for economy brands.

ICC has established *His&Her* specialty stores to capture customers outside the department store channel. *His&Her* shops provide a flexible setting for ICC to attractively present its products, to offer promotional packages, and to create brand loyalty through a membership program, *His&Her Plus Point*. ICC continues to add more *His&Her* outlets nationwide, especially in upcountry areas where there are fewer department stores. At the end of March 2012, ICC rolled out 117 *His&Her* outlets, which provided about 4% of total revenue. The company plans to add 20 more *His&Her* outlets by the end of 2012.

Dominant position in lingerie market

Sales of lingerie products constitute a large portion of revenue annually, comprising 25%-27% of ICC's total revenue during the past three years. ICC has dominated the lingerie market as a leader in the middle- to high-end segment. Measured by sales through department stores, ICC's lingerie brands, including *Wacoal, BSC, BSC Signature, ELLE, Variance,* and *Kullasatri* had a combined market share of about 63% in 2011.

Wacoal is a leading, well-known lingerie brand in the Thai women's lingerie market. Wacoal has a history in Thailand dating back over 40 years and has a strong market position in the working age segment. Products sold under the Wacoal brand contributed around 79% of ICC's lingerie sales, or 20%-22% of total revenues during the last three years. Although Wacoal's market share has gradually declined, Wacoal maintained its leading position in the middle- to high-end lingerie market with a market share of 56% in 2011. The decline was partly due to aggressive competition from rivals, particularly in the young customer segment, and cannibalization by ICC's other lingerie products, such as BSC and ELLE. ICC faces challenges to increase its market share and to have more frequent marketing activities and more rapid launches of fashionstyled lingerie to approach consumers in the young customer segment.

Lacoste and Arrow, the strength of the men's apparel segment

The men's apparel segment has generated 26%-28% of ICC's revenues during the past three years. The *Lacoste* and *Arrow* brands, two core brands in ICC's men's apparel segment, have contributed of 34% and 29% of total segment sales, respectively.

Sales in ICC's men's apparel segment soared by 13% in 2011 and by 10% for the first three months of 2012,





compared with the same periods in the previous year. The strength of the ICC's men apparel segment comes from the *Lacoste* and *Arrow* brands' sound performances and their strong market positions. *Arrow* brand products continued to show high growth rates, with sales rising by 5% y-o-y in 2011 and 12% y-o-y for the first three months of 2012. At the same time, sales of *Lacoste* brand products grew by 7% each during the same two periods. *Arrow*'s market share was 20% while *Lacoste* had 11% market share during the past two years.

ICC's men wear brands continue to expand their respective customer bases to the young consumer segment and respond customer needs more rapidly. *DAKS* has continued to report impressive growth, with sales rising by more than 40% y-o-y in 2011. *Arrow* launched *Arrow University*, its new product collection, to capture modern-style young customers. The growth in the men's wear segment was also driven in part by strong sales upcountry.

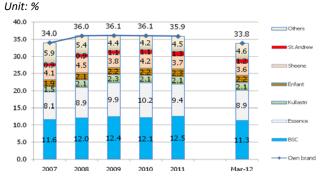
In response to customer needs, ICC has put more efforts into the introduction of different forms of new products, such as men's pants in both casual and business styles, and men's casual dress. In addition, ICC provides several kinds of promotional campaigns and marketing activities to build its brand awareness. The current, *Arrow Handsome 2012* campaign aims to present and promote *Arrow University*.

Portfolio of international brands, counterbalanced by ICC's own brands

Licensed products have been key contributors to ICC's total revenue. The company's flagship international brands, such as *Wacoal, Arrow, Daks, Lacoste, Guy Laroche,* and *ELLE,* have contributed about 60% of ICC's total sales during the past three years. ICC has continued to develop its own brands to balance the licensed brands and support its top product lines. ICC's own brands have generated about 36% of total revenue during each of the last three years. ICC's core own brands are the *BSC, Essence,* and *Sheene* brands, which contributed approximately 12%, 9%, and 4% of total revenue in 2011, respectively. Expanding its own brands would help ICC minimize its dependence on the license products and strengthen its business profile.

ICC has continued to promote, expand, and attempt to strengthen awareness of its own brands. ICC is attempting to reposition BSC as an international brand by using a popular international celebrity as the brand presenter. This will help build stronger brand recognition and a stronger brand image for *BSC* among Thai customers, and prepare for the expansion of the products into regional markets.

Chart 5: Contribution of ICC's Own Brands to Total Revenue



Source: ICC

New product launches strengthen brand recognition and competitive edge

Product development and new product launches are two of the key success factors needed to create product differentiation, retain customer attention, and strengthen brand recognition. ICC has continued to introduce new products across its all product categories. New products are offered in several patterns including new designs, improved product quality, more attractive value-added products, and product differentiation for new segments.

BSC Panadda (cosmetics with eye-related product as the primary focus) and BSC Jeans (cosmetics in jeans-style packaging) are good examples that show ICC's ability to create differentiated products. BSC Panadda and BSC Jeans received good responses from customers. Sales of BSC Panadda and BSC Jeans grew by over 10 times in 2010, compared with the levels of sales in 2009. As a result, these two collections were set as new sub-brands in ICC's cosmetics segment. Another example is Bewitch, new cosmetic brand which was spun off from the Sheene product line. The Bewitch concept is a kind of beauty with witch-like charm.

In 2011, ICC launched a new product: drinking water under the *Mai* brand. The company plans to introduce other new products under the *Mai* brand, such as skin lotion and skincare products. In 2012, ICC continued to offer a variety of new innovative products, such as the aloe vera series for *BSC Pure Care*, *BSC Panadda Vortexproof*, *BSC Jean&Jean Sexy Rock* (make-up set), *BSC Expert White Whitening Vit-C Concentrate Serum*, *Sheene Choco* (chocolate fragrances in a make-up collection and skin care line), and new collections for lingerie, women apparel, and men's apparel.

The property development business may expose ICC to more risks

ICC has jointly invested in Issara United Co., Ltd., a property development company, with Charn Issara Group and Saha Pathanapibul PLC (SPC) in 2011. The project is on schedule. In the near future, ICC plans to invest in more





property development projects by utilizing its existing NPAs. In TRIS Rating's view, ICC will be exposed to higher risk, as the property development industry is intensely competitive and more sensitive to economic cycles than ICC's core business.

In addition, the property development business would require significant financing needs. Debt financing, if any in the future, could somewhat weaken ICC's financial strength.

FINANCIAL ANALYSIS

ICC's financial profile remains strong, supported by its debt-free position and stable operating cash flow. ICC's credit quality is enhanced by its strong liquidity. It remains to be seen if ICC can meet its sales targets following the management's initiative for aggressive growth.

Sales rose following the company's aggressive growth target initiative

In 2011, ICC's revenue grew by nearly 14% y-o-y to Bt12,825 million. The effects from the 2011 flood were minimal because the ICC's major assets, shops, and its supplier's plants were not damaged. ICC reported a 9.3% y-o-y increase in revenue for the fourth quarter of 2011. Revenue continued to grow in the first three months of 2012, rising by 7.5% y-o-y. The rise came from all product categories, reflecting its well-diversified product lines and market coverage, supported by solid relations with its suppliers and distribution channels. In addition, the jump in sales was due in part to the management strategy to push for aggressive growth.

The severe flood slightly affected ICC in terms of margins. Operating income before depreciation, as a percentage of sales, dropped from 5.9% in 2010 to 5.5% in 2011. The operating profit margin improved to 8.1% for the first three months of 2012, thanks to the cooperation of the supply chain inside the Saha Group.

Considering the low margin nature of a trading business, ICC has put its efforts in cost reduction. During the past three years, the company reduced its cost of goods sold from 65% in 2009 to 63% in 2011, and to 61% for the first quarter of 2012. As the nature of a trading company, ICC's profit margins are fairly thin. Affiliated companies in the Saha Group constitute much of ICC's supply chain and help support ICC's product development efforts. However, ICC has to allocate some profit margins to those suppliers, which are hardly adjusted. ICC also needs to continuously launch promotional campaigns and other marketing activities to raise demand and strengthen brand awareness. As a result, ICC's selling expenditures rose by 32% y-o-y in 2011 and 15% y-o-y for the first quarter of 2012. Moreover, ICC has adopted a minimum wage for all of its salespersons nationwide since May 2012.

Going forward, the ongoing efficiency of the supply chain under the Saha Group, cost control initiatives, and new product introductions will remain the key focal points by which ICC can improve profitability.

Growing equity base

ICC has continued to show healthy performance and profitability. The company has retained its profits while paying a moderate fixed dividend. The company has retained cash for internal use due to its debt-free position. As a result, its equity base has gradually climbed. The return on permanent capital ratio has remained low at 8% during the past three years. The ratio for the first three months of 2012 was 2.1% (non-annualized), a level close to the same period in 2011.

Leverage may rise

ICC has maintained a conservative financial policy. The company has been debt-free and had made no major investment since April 2002. However, to support its supply chain, ICC has extended financial support, such as equity injections, loans and/or loan guarantees, to some related supplier companies. The total amount of outstanding guarantees to related companies has gradually declined, and has held at Bt152 million since 2009 to present.

In accordance with ICC's policy, equity injections are used as long-term investments. At the end of March 2012, the book value of ICC's long-term investments was Bt6,833 million, or 39.5% of total assets. As these investments were mostly funded by operating cash flow, the adjusted debt to capitalization ratio (including guarantees to related parties) has been very low, standing at 1.1% at the end of March 2012.

In the near future, ICC plans to invest more in property development projects. Future investments may need additional financial support from ICC in terms of debt financing or the contribution of additional equity capital. TRIS Rating expects that any future investments should be prudently considered so as to maintain ICC's financial strength and ample liquidity at all times.

Ample liquidity

ICC's liquidity and cash flow protection remained ample, underpinned by its debt-free position and stable operating cash flow. In 2011, ICC generated Bt914 million in FFOs, growing from Bt863 million in 2010. The FFOs stood at Bt188 million for the first three months of 2012.

ICC has a high degree of financial flexibility, with Bt448 million in cash and cash-like assets. Moreover, the company had Bt2,607.8 million in credit facilities available from various financial institutions as of March 2012. The company generally has sound relationships with its banks.





Financial Statistics and Key Financial Ratios

Unit: Bt million

		Year Ended 31 December				
	Jan-Mar 2012	2011	2010	2009	2008	
Sales	3,337	12,825	11,294	10,649	10,947	
Gross interest expense	0.0	0.0	0.0	0.0	0.7	
Net income from operations	150	737	688	652	779	
Funds from operations (FFOs)	188	914	863	833	988	
Total capital expenditures	56	161	284	106	87	
Total assets	17,277	16,701	15,245	13,918	13,277	
Total debt	-	-	-	-	-	
Guarantees to related companies	152	152	152	152	326	
Shareholders' equity	14,192	13,758	12,963	11,803	11,129	
Operating income before depreciation and amortization as % of sales	8.1	5.5	5.9	4.9	7.1	
Pretax return on permanent capital (%)	2.1**	8.4	7.8	7.9	9.5	
Earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage (times)	n.m.	n.m.	n.m.	n.m.	n.m.	
FFOs/total debt * (%)	123.7 **	602.2	569.1	547.3	302.8	
Total debt/capitalization * (%)	1.1	1.1	1.2	1.3	2.8	

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:

- 71 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.
- 72 Issuer has secure market position, sound financial fundamentals and satisfactory ability to repay short-term obligations.
- 73 Issuer has acceptable capacity for meeting its short-term obligations.
- T4 Issuer has weak capacity for meeting its short-term obligations.
- D The rating for an issuer for which payment is in default.

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 differentiates a "structured finance product" from other debt instruments by attaching the "(sf)" identifier next to the original letter rating symbol. The "(sf)" identifier is assigned to all debt instruments that are deemed to meet the definition of a "structured finance product" defined by the Securities and Exchange Commission (SEC). The addition of this subscript to the rating symbol does not change the definition of the letter rating symbols mentioned above.

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 the fundamental creditworthiness of the company. The rating outlook will be announced in conjunction with the credit rating. In most cases, the outlook of each debt obligation is equal to the outlook assigned to the issuer or the obligor. The categories for "Rating Outlook" are as followed:

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.

TRIS Rating may announce a "CreditAlert" as a part of its monitoring process of a publicly announced credit rating when there is a significant event that TRIS Rating considers to potentially exerting a substantial impact on business or financial profiles of the rated entity. Due to an insufficient data or incomplete developments of the event, such as merger, new investment, capital restructuring, and etc., current credit rating remains unchanged. The announcement aims to forewarn investors to take a more cautious stance in investment decision against debt instruments of the rated entity. CreditAlert report consists of a "Rational" indicating warning reasons, a "CreditAlert Designation", and a current credit rating. Rating Outlook is withheld in the announcement.

CreditAlert Designation illustrates a short-term rating outlook indicative of the characteristics of impacts on the credit rating in one of the three directions (1) *Positive* (2) *Negative* and (3) *Developing*.

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