RATING REPORT

Power Cement Limited (PCL)

REPORT DATE:
August 10, 2017

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A-	A-2
Outlook	Stable	
Facility	A	
Rating Date	*July 10, '17*	

COMPANY INFORMATION

Incorporated in 1981	**External auditors:** KPMG Taseer Hadi & Co., Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Nasim Beg
Key Shareholders (with stake 5% or more): Muhammad Arif Habib- 29.5% International Complex Projects Limited- 21.67% JS Bank Limited-6.32% Syed Salman Rashid- 6.21%	**Chief Executive Officer:** Mr. Muhammad Kashif Habib

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporates (May 2016)*
http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf

Power Cement Limited (PCL)

OVERVIEW OF THE INSTITUTION

Power Cement Limited (PCL) was incorporated on December 1st 1981 as a private limited company and was later converted into a public limited company on July 9, 1987. PCL is listed on Pakistan Stock Exchange Limited (formerly Karachi and Lahore Stock Exchanges) with the head office situated in Karachi and factory located in DehKaloKohar, Nooriabad Industrial Estate, District Jamshoro (Sindh). The company is engaged in manufacturing, selling and marketing of cement.

PCL is a subsidiary of Arif Habib Corporation Limited (AHCL) which is the holding company of Arif Habib Group. AHCL is majorly involved in making strategic investments in a diversified portfolio of subsidiary companies and associates with exposure in sectors like Fertilizer, Financial Services, Real estate, Construction Materials, Energy and others.

RATING RATIONALE

Power Cement Limited (PCL) has a 12% market share in terms of installed capacity in the South Zone. Net sales of the company have grown at a CAGR of 9% over the last four years (2012-2016) primarily due to increase in retention prices over the period. Sales mix of the company is dominated by local sales with proportion of local dispatches in total sales having increased given the higher demand and favorable retention prices.

PCL is currently operating with Line 1 and Line 2 and is in the process of adding Line 3. Total rated capacity of Line 1 and Line 2 is 0.9m Tonnes per annum. Efficiency indicators of existing lines compare less favorably vis-à-vis peers with capacity utilization ranging between 51% and 64% over the last four years; lower production is a function of various bottlenecks in existing lines. With the planned addition of Line 3 (7,700 Tonnes per day), rated capacity for cement production is expected to reach around 3.4m Tonnes per annum. Rationale for Line 3 expansion includes catering to increasing demand, enhancing market share and improved profitability & cash flows given the higher efficiency of Line 3 vis-à-vis existing plants.

Facility Structure: Investment cost of Line 3 is estimated at Rs. 25b; around two-thirds of which is being financed through debt (Rs. 16.197b) while the rest of the funding is being raised via equity. Total term of the loan will be 8.5 years (inclusive of grace period of 2.5 years). The expansion is expected to go live in June-2019 with repayment of principal commencing from June-2020. Structural features of the Project Finance debt facility include:

- **Project Cost Overrun Support:** Corporate and Personal guarantees of key sponsors for funding cost overruns during construction, upon first demand from lenders. The project cost overrun support shall be uncapped.
- **Debt Payment Shortfall Support:** Available for the first 2 years of expanded plant's operations, for the local currency portion (three-fourths of the facility amount) of the total facility. The remaining foreign currency portion (25%) of the facility will be guaranteed for the entire debt tenor.
- **Devaluation & Contingency Buffer** to the tune of Rs. 1.9b is incorporated in the project cost.
- Formation of a **Debt Payment Account (DPA)** such that the balance in the DPA will be equal to the total semi-annual debt installment seven days prior to each due date. Moreover, sponsors will have the option to provide an SBLC, as an alternate risk mitigating item for the Lenders, if required.

Key Rating Drivers

- **Strong Sponsor Profile & Facility Structure:** The assigned rating to PCL is underpinned by financial profile and demonstrated support of parent entity and sponsor family. The support is reflected in interest-free loan provided by sponsors in the past and project cost overrun support and debt payment shortfall support provided for line 3 expansion. JCR-VIS anticipates support from sponsors for PCL if needed, as has already been demonstrated in the past. Rating also incorporates structural features of the debt facility which are expected to mitigate time & cost overrun and devaluation risk.
- **Industry Dynamics:** Local dispatches have witnessed healthy growth over the last two years. Higher growth in local industry dispatches has been partly offset by decline in exports resulting in lower than anticipated industry growth during 11MFY17. The growing cement demand in Pakistan is expected to gain momentum with the advent of China Pakistan Economic Corridor and its corollary projects. Accordingly, planned capacity expansion in the South zone is expected to double its existing capacity, going forward. Additional capacities may pose a risk but industry players anticipate growth in domestic demand to largely absorb additional capacities over time.
- **Market Position:** Ratings are underpinned by company's existing market position (lower market share, efficiency and gross margins) and brand strength which currently compares less favorably to peers. However, the same is expected to improve with completion of planned expansion. Ability of existing operations for even partly supporting planned expansion is limited.
- **Improving Financial Profile:** Financial profile of the company has witnessed improvement as evident from improving cash flows and declining leverage indicators (increase in equity base and lower debt levels).
- **Debt Servicing Coverage:** With the completion of line 3, dispatches and gross margins are projected to increase significantly. Debt servicing is projected to remain adequate under realistic stress test scenarios. Key risk to timely debt servicing includes lower than projected growth in demand resulting in greater than anticipated competition leading to lower margins in the industry.

Power Cement Limited

Appendix I

FINANCIAL SUMMARY					(Amounts in PKR Millions)
BALANCE SHEET	**31-Mar-2017**	**30-Jun-2016**	**30-Jun-2015**	**30-Jun-2014**	**30-Jun-2013**
Fixed Assets	5,053	4,445	4,423	4,403	4,314
Short Term Investments	-	-	-	-	-
Stock-in-Trade	170	165	285	177	325
Trade Debts	345	271	259	143	138
Cash and Bank Balances	33	15	47	5	4
Total Assets	7,125	6,243	5,988	5,785	5,619
Trade and Other Payables	602	723	608	935	857
Long Term Debt(Including current maturity & Deferred Accrued Markup)	832	1,018	1,400	2,335	1,966
Total Equity	3,684	2,348	1,862	1,428	1,495
INCOME STATEMENT	**31-Mar-2017**	**30-Jun-2016**	**30-Jun-2015**	**30-Jun-2014**	**30-Jun-2013**
Net Sales	3,327	4,144	3,831	3,496	3,511
Gross Profit	682	947	971	344	722
Operating Profit	621	713	667	6	817
Profit After Tax	323	486	433	(74)	367
RATIO ANALYSIS	**31-Mar-2017**	**30-Jun-2016**	**30-Jun-2015**	**30-Jun-2014**	**30-Jun-2013**
Gross Margin (%)	20.5	22.8	25.3	9.9	20.6
Manufacturing Margin (%)	22.5	22.7	24.9	10.1	20.0
FFO	254	376	673	3.3	389.8
FFO to Total Debt	0.29	0.24	0.44	0.0	0.1
Debt Leverage (x)	0.93	1.66	2.22	3.05	2.76
Gearing (x)	0.32	0.67	0.83	1.52	2.09
ROAA (%)	6	8	7	(1)	6
ROAE (%)	13	21	26	(5)	28

Power Cement Limited (PCL) **Appendix II**

SENIOR MANAGEMENT TEAM		
NAME	**DESIGNATION**	**PROFILE**
Mr. Muhammad Kashif Habib	Chief Executive Officer	Mr. Habib holds vast experience of working with clients belonging to sectors including Finance and Manufacturing at A.F. Ferguson & Co. He has been serving AHCL's board since 2010 and has four years' experience as an Executive Director in cement and fertilizer companies of the group.
Mr. Tahir Iqbal	Chief Financial Officer & Company Secretary	Mr. Iqbal is an Associate Member of ICMAP, having ten years of experience in finance, accounting, taxation, corporate affairs, risk management, audit/assurance coupled with general management experience. Currently, he is also the CFO and Company Secretary of Aisha Steel Mills Limited.
Mr. S.N. Jaffri	Director Co-ordination	Mr. Jaffri holds a Bachelor's degree both in Science and Business Administration as well as a Master's Degree in Business Administration. He has over 40 years of experience in marketing of consumer products, industrial equipment and consumer durables. Mr. Jaffri is responsible for the overall supervision of the marketing and sales functions of the company. He also supervises functions including human resource, administration, supply chain management and information technology.
Syed Muhammad Imran	Director Project	Mr. Imran holds a B.E (Chemical) degree and holds experience of more than 39 years in operations, maintenance, fabrication, erecting, installation and commissioning of cement plants. He also holds a Project Management Certification from UK. He is actively involved in planning, organizing, directing and controlling the

		technical functions at the plant.
Mr. Ijaz A. Minhas	Senior General Manager, Operations	Mr. Minhas is a Professional Graduate Chemical Engineer from University of Engineering & Technology Lahore and has trained from Japan. He has 34 years of cross-functional operational experience of manufacturing plants. He has worked in Operation Management, Production Management, Maintenance Management, Utilities Management, Stores & Inventory Management, Projects Management with Safety (HSE) standards Management at National Level reputed companies.
Muhammad Zakir Khan	General Manager, Plant	Mr. Zakir holds a B.E (Chemical) degree and has an experience of over 31 years in operations and maintenance of cement plants. He is actively involved in production process and technical functions at the plant.
Abdul Rahim Butt	Director, Strategy & Projects	Mr. Butt is a seasoned international project financier and business strategy head – with coverage experience of South Asia, Africa, Asia-Pacific & Middle East. He has cumulative conventional & Islamic deals volume of more than US$ 20 billion over the past 20 years. He is responsible for origination and negotiation of debt financing and equity investment, from local & international sources.

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.

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	Power Cement Limited
Sector	Cement and Construction
Type of Relationship	Solicited
Purpose of Rating	Entity & Facility Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: FACILITY				
July 10, '17	A			Preliminary

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
July 10, '17	A-	A-2	Stable	Initial

Facility Structure

Debt Facility of Rs. 16.197b with total term of the loan of 8.5 years (inclusive of 6 years repayment period and 2.5 years grace period). Structural features of the Project Finance debt facility include:

- **Project Cost Overrun Support:** Corporate guarantee and Personal guarantees of key sponsors for funding cost overruns during construction, upon first demand from lenders. The project cost overrun support shall be uncapped.
- **Debt Payment Shortfall Support:** Available for the first 2 years of expanded plant's operations, for the local currency portion (three-fourths of the facility amount) of the total facility. The remaining, foreign currency portion (25%) of the facility will be guaranteed for the entire debt tenor.
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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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