RATING REPORT

Power Cement Limited

REPORT DATE:

December 23, 2024

RATING ANALYSTS:
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RATING DETAILS				
	Latest Ratings		Previous Ratings	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	A-	A2	A-	A2
Rating Date	December 23, 2024		December 27, 2023	
Rating Action	Reaffirmed		Reaffirmed	
Rating Outlook/ Watch	Stable		Stable	

COMPANY INFORMATION	
Incorporated in 1981	**External auditors:** A.F. Ferguson & Co., Chartered Accountants (*member firm of the PwC*)
Public Limited Company	**Chairman:** Mr. Muhammad Arif Habib
Key Shareholders (with stake 5% or more):	**CEO:** Mr. Muhammad Kashif
Mr. Muhammad Arif Habib ~24.96%	
Arif Habib Equity (Private) Limited ~5.53%	
Arif Habib Corporation Limited ~20.92%	
Mr. Syed Salman Rashid ~4.44%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Power Cement Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Power Cement Limited (PCL) was incorporated in 1981 as a private limited company and was later converted into a public limited company in 1987. Previously, the Company was known as Al-Abbas Cement Limited and was acquired by Arif Habib Group in 2010. PCL is listed on Pakistan Stock Exchange Limited with the head office situated in Karachi, and factory located in Deh KaloKohar, Nooriabad Industrial Estate, District Jamshoro (Sindh).

Corporate Profile

Power Cement Limited ("PCL" or "Power" or "the Company") was incorporated in 1981 as a private limited company and was later converted into a public limited company in 1987. Previously, the Company was known as Al-Abbas Cement Limited and was acquired by Arif Habib Group in 2010. PCL is listed on Pakistan Stock Exchange Limited with the head office situated in Karachi, and factory located at Nooriabad in District Jamshoro, Sindh. The Company is engaged in manufacturing, selling and marketing of mainly Portland cement though it also produces other varieties of cement.

Sponsor profile

PCL is part of the Arif Habib Group, a leading industrial and financial conglomerate in Pakistan. The Group holds interests in the securities brokerage, investment and financial advisory, private equity, investment management, fertilizer manufacturing, cement, steel, real estate, energy and textile mills.

Operational Profile

Production and Capacity (In metric Tons)	FY22	FY23	FY24
Production Capacity- Clinker	3,210,000	3,210,000	3,210,000
Actual Production- Clinker	1,863,323	2,297,890	2,285,325
Capacity Utilization- Clinker	58%	71.6%	71.2%
Production Capacity- Cement	3,370,500	3,370,500	3,370,500
Actual Production- Cement	1,593,324	1,924,996	1,691,795
Capacity Utilization- Cement	47.3%	57.1%	50.2%

In FY24, the production of cement and clinkers declined to 1.69m metric tons and 2.29m metric tons, respectively (FY23: 1.92m MT and 2.3m MT). This decline was driven by lower local demand, subdued economic and construction activities on account of decreased government spending on Public Sector Development Projects, and high interest rates during the period. Resultantly, capacity utilization of cement and clinkers declined to 50.2% and 71.2% respectively.

Key Rating Drivers

Business Risk Profile

Sector Risk; High to Medium.

VIS assess the business risk profile of Pakistan's cement sector as high to medium, with support from medium competition and a stable regulatory framework. However, certain factors present notable risks to the industry's stability. These include its high cyclicality, closely tied to the fluctuations in the construction sector, as well as its inherently capital-intensive nature. Moreover, the sector's exposure to energy price volatility further compounds these risks. The cement sector in Pakistan operates within an oligopolistic market structure, comprising 16 major players. The sector's performance is closely linked to the country's economic conditions and government policies, particularly the allocations under the Public Sector Development Program (PSDP). Production capacity and dispatch levels are influenced by domestic demand, which has remained subdued due to slow economic growth, resulting in lower capacity utilization. The sector is also exposed to external risk factors, including fluctuations in exchange rates, volatility in coal and fuel prices, and changes in import regulations, due to its reliance on imported coal as a key production input.

During FY24, demand for cement remained subdued due to elevated interest rates and increased taxation. Notably, subsequent to the year under review the increase in Federal Excise Duty (FED) from Rs. 2000 to Rs. 4000 per MT has led to a rise in cement prices, further straining financial resources for ongoing and upcoming construction projects. However, recent reductions in interest rates are anticipated to support a recovery in the construction sector, potentially leading to improved cement demand. Lower interest rates are also expected to alleviate the financial burden for the cement sector, which remains highly leveraged by reducing finance costs compared to the previous period.

Strong Sponsor Support

The ratings derive comfort from the sponsor's strong support to the Company. PCL is part of the Arif Habib Group, a leading industrial and financial conglomerate in Pakistan. The sponsors and associated undertakings have reasserted their continuous commitment by injecting an additional contribution of Rs. 4.7 billion during the FY24 and have put in a further amount of Rs. 4.95 billion in FY25, bringing their total contribution to Rs. 16.6 billion into the Company.

Financial Risk Profile

Profitability Profile

In FY24, PCL's revenue grew by 7.39%, reaching Rs 31.08b (FY23: Rs 28.94b). This growth was primarily driven by a 40.3% increase in export revenue, which rose to Rs 12.53b (FY23: Rs 8.93b) supported by a 121% increase in clinker export volumes though the cement export volumes declined by 12%. Notably, export revenue to Africa saw a surge of 200%, climbing to Rs 11.45b (FY23: Rs 3.82b). Contrary to export performance, the revenue from the local market declined by 7.30% to Rs. 18.55b (FY23: Rs. 20.01b) as cement and clinker sales volumes declined by 15.77% due to low PSDP allocations and subdued private sector construction activities resulting from interest rates, political instability and unstable macroeconomic conditions.

In FY24, the gross profit decreased by 2% to Rs. 6.79b (FY23: Rs. 6.93b), whilst the gross margins slightly declined by 2.1% to 21.85% (FY23: 23.95%) given improvement in plant efficiency and cost savings accruing from alternative fuel utilization. Fuel and power remain key cost components, making up 70% of the cost of sales. To reduce such costs, the Company is in the process of adding a 9.6 MW wind power project, complementing already installed 11.5 MW Waste Heat Recovery and 7 MW Solar Power projects.

The gross margins compare favorably with cement plants operating in the South Zone; however, the net margins were impacted by elevated finance costs amid higher interest rates resulting in a net loss of Rs. 2.70b (FY23: net profit of Rs. 169m), translating into net margin of -8.70% (FY23: 0.58%). Going forward, net profitability is expected to improve with PCL's cost efficiency measures coming into effect and a recent downward trend in interest rates.

Capitalization Profile

The Company's capitalization metrics have improved, with the leverage ratio declining to 1.46x (FY23: 1.76x) and the gearing ratio reducing to 1.16x (FY23: 1.36x), both better than the five-year averages of 2.5x and 1.91x, respectively. These changes reflect an increase in equity to Rs. 19.42b (FY23: Rs. 17.57b), supported by Rs. 4.7b contribution by the sponsors and associated undertakings, and a reduction in long-term debt to Rs. 16.27b (FY23: Rs. 18.86b). The sponsors have put in a further amount of Rs. 3.35bn into the Company in 1QFY25. Going forward, continued improvement in capitalization metrics will remain important from the ratings perspective.

Liquidity and Coverage Profiles

As of FY24, the Company's liquidity position has demonstrated gradual improvement with a reduction in balance sheet mismatches over time, supported by sponsor contributions in the form of loans classified as equity. Despite this, the liquidity profile remains constrained, with a current ratio of 0.79x (FY23: 0.76x) in FY24 and short-term debt coverage of 0.93x (FY23: 0.90x) in FY24. Moreover, profitability challenges during the period resulted in a debt service coverage ratio of 0.56x (FY23: 1.06x), though the sponsor support mitigates the associated coverage pressures. However, as profitability pressures subside with cost efficiency measures and easing of interest rates, going forward, coverage metrics are expected to normalize.

Power Cement Limited — Appendix I

Financial Summary

Balance Sheet (PKR Millions)	FY23A	FY24A	3MFY25M
Property, plant and equipment	34,853.98	34,309.31	34,481.88
Right-of-use Assets	12.36	0.00	95.91
Stock-in-trade	2,593.22	2,019.89	3,043.02
Trade debts	276.09	294.90	386.91
Long-term Investments	26.87	28.27	28.65
Short-term Investments	26.40	31.10	31.10
Cash & Bank Balances	409.82	503.47	369.64
Other Assets	10,331.88	10,590.85	9,507.11
Total Assets	48,530.62	47,777.78	47,944.22
Creditors	1,522.92	1,695.49	1,644.563
Long-term Debt (incl. current portion)	18,858.67	16,267.33	15,271.93
Short-Term Borrowings	5,012.00	6,269.07	3,919.19
Total Debt	23,870.67	22,536.40	19,191.12
Other Liabilities	5,569.01	4,126.77	3,823.05
Total Liabilities	30,962.60	28,358.66	25,568.91
Paid up Capital	13,201.17	13,201.13	13,201.58
Reserve	4,366.86	6,217.99	9,173.75
Equity (excl. Revaluation Surplus)	17,568.03	19,419.12	22,375.33

Income Statement (PKR Millions)	FY23A	FY24A	3MFY25M
Net Sales	28,939.09	31,077.21	5,047.49
Gross Profit	6,932.21	6,790.40	1,238.36
Operating Profit	3,749.87	3,056.11	687.15
Finance Costs	3,830.78	4,975.03	1,116.06
Profit Before Tax	-80.91	-1,918.92	-428.91
Profit After Tax	168.99	-2,703.29	-492.15

Ratio Analysis	FY23A	FY24A	3MFY25M
Gross Margin (%)	23.95%	21.85%	24.53%
Operating Margin (%)	12.96%	9.83%	13.62%
Net Margin (%)	0.58%	-8.70%	-9.75%
Funds from Operation (FFO) (PKR Millions)	2,154.16	-1,125.98	-1,296.19
FFO to Total Debt* (%)	9.02%	N/A	N/A
FFO to Long Term Debt* (%)	11.42%	N/A	N/A
Gearing (x)	1.36	1.16	0.86
Leverage (x)	1.76	1.46	1.14
Debt Servicing Coverage Ratio* (x)	1.06	0.56	0.58
Current Ratio (x)	0.76	0.79	0.90
(Stock in trade + trade debts + stores) / STD (x)	0.90	0.93	1.57
Return on Average Assets* (%)	0.36%	N/A	N/A
Return on Average Equity* (%)	0.97%	N/A	N/A
Cash Conversion Cycle (days)	11.52	13.83	15.90

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Power Cement Limited
Sector	Cement Industry
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	(see table below)
Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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Due Diligence Meetings Conducted	(see table below)

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
RATING TYPE: ENTITY				
23/12/2024	A-	A2	Stable	Reaffirmed
27/12/2023	A-	A2	Stable	Reaffirmed
31/3/2023	A-	A2	Stable	Reaffirmed
30/12/2022	A-	A2	Stable	Reaffirmed
30/11/2021	A-	A2	Stable	Reaffirmed
09/11/2020	A-	A2	Stable	Maintained
25/10/2019	A-	A2	Negative	Maintained
02/10/2018	A-	A2	Stable	Reaffirmed
10/07/2017	A-	A2	Stable	Initial

Due Diligence Meetings Conducted

S.No.	Name	Designation	Date
01	Mr. Muhammad Taha Hamdani	CFO	05-Dec-2024
02	Mr. Faraz Ul Hassan Usmani	DGM Finance	
03	Mr. Muhammad Zeeshan Malik	DM Finance	