RATING REPORT

Maple Leaf Cement Factory Limited

REPORT DATE:
April 02, 2020

RATING ANALYST:

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Rating Category	Latest Rating	
	Long-term	Short-term
Entity	A	A-1
Rating Outlook	Stable	
Rating Date	*April 02, 2020*	

COMPANY INFORMATION	
Incorporated in 1960	**External auditors:** KPMG Taseer Hadi & Co. Chartered Accountants
Public Limited Company	**Chairman:** Mr. Tariq Sayeed Saigol
Key Shareholders (with stake 5% or more):	**CEO:** Mr. Sayeed Tariq Saigol
Kohinoor Textile Mills Limited – 55.22%	
Local General Public – 16.81%	
Aberdeen Standard Investments -12.23%	
Foreign General Public – 5.67%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria *(April 2019)*
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

OVERVIEW OF THE INSTITUTION

Maple Leaf Cement Factory Limited (MLCF) was incorporated in 1960 as a public company limited by shares. The company is listed on Pakistan Stock Exchange Limited. Head office of the company is based in Lahore, whereas representation offices are present in six different cities.

Profile of Chairman

Mr. Tariq Sayeed Saigol is the Chairman of Kohinoor Maple Leaf Group. He is a leading and experienced industrialist with exposure to multiple sectors.

Profile of CEO

Mr. Sayeed Tariq Saigol is the Chief Executive of MLCFL and Maple Leaf Power Ltd and a Director in Kohinoor Textile Mills Limited. Prior to MLCF, Mr. Saigol has several years of experience in the textile sector. He is a graduate of the McGill University with a degree in management.

RATING RATIONALE

Maple Leaf Cement Factory Limited (MLCF) is principally engaged in production and sale of cement. Production factory of the MLCF is situated in Iskanderabad Distt: Mianwali. The Company is a subsidiary of Kohinoor Textile Mills Limited ('the Holding Company').

Geographical Presence	
Plant	Iskanderabad Distt: Mianwali
Head Office	Lahore
Regional Sales Office	Rawalpindi
Regional Sales Office	Peshawar
Regional Sales Office	Faisalabad
Regional Sales Office	Multan
Regional Sales Office	Sargodha
Regional Sales Office	Karachi

The company is part of Kohinoor Maple Leaf Group which has presence in cement, textile, power and capital markets. Maple Leaf Power Limited is 100% owned subsidiary of MLCF, established to operate 40MW coal fired power generation plant. Overall the group has healthy financial profile with the parent generating strong cash flows with Maple Leaf Capital having ample liquidity on balance sheet which can be drawn upon in case of debt servicing requirements.

Kohinoor Maple Leaf Group
Maple Leaf Cement Factory Limited
Kohinoor Textile Mills Limited
Kohinoor Capital Limited
Maple Leaf Power Limited
Maple Leaf Capital Limited

Operating Performance

Capacity and Production (Clinker)				
	FY17	FY18	FY19	HY20
	Metric Ton			
Capacity	3,360,000.0	3,360,000.0	3,600,000.0	2,835,000.0
Actual Production	3,299,047.0	3,529,876.0	3,541,743.0	2,848,551.0
Capacity Utilization	98.2%	105.1%	98.4%	100.4%
Cement Production	3,341,970.0	3,760,120.0	3,638,313.0	2,853,260.0
* The capacity of plant has been determined on the basis of 300 days. New Line III became operation on 21 May 19 and accordingly the capacity for the period from 21 May 2019 to 30 June 2019 has been increased.				

The company operates through three production lines for grey cement coupled with one separate line for white cement. MLCF has an operational capacity of 5.7m MT on the basis of 300 days. The company's Line 3 became operational in May 2019. MLCF has historically maintained high capacity utilization levels while the Company is amongst one of the most efficient players in the cement sector. Efficiency in operations stems from lower power cost (which is a major chink of manufacturing cost) given reliance on 40 MW coal fired power plant coupled with 10MW Waste Heat Recovery Plant. Moreover, utilization of PET Coke given higher energy content alongwith inland transportation of coal through Pakistan Railways is also a cost advantage for MLCF.

Sector Dynamics

Industry Dispatches (m MT)	FY17	FY18	FY19	8MFY20	8MFY19
North					
Local	29.14	33.97	32.36	23.19	20.01
Exports	3.15	3.08	2.52	1.76	1.85
Total North Dispatches	**32.29**	**37.05**	**34.89**	**24.95**	**21.86**
South					
Local	6.51	7.18	7.98	4.13	5.46
Exports	1.51	1.67	4.01	4.13	2.79
Total South Dispatches	**8.02**	**8.84**	**11.99**	**8.26**	**8.25**
Total Industry					
Local	35.65	41.15	40.35	27.32	25.47
Exports	4.66	4.75	6.54	5.89	4.67
Total Industry Dispatches	**40.32**	**45.89**	**46.88**	**33.22**	**30.11**

- Over the last one year, cement sector has entered competitive phase with increasing capacities exerting pressure on selling prices which has been compounded by rising cost of inputs. Demand patterns synchronizing with substantial supply side dynamics will be important for improvement in sector dynamics. In this regard, timely commencement of construction of dams and government's housing scheme is expected to support dispatches and sector outlook.

- Cyclical nature of the cement industry is a key business risk factor. The cement industry is going through an expansionary cycle whereby significant capacities have been added over the last 3 years. The expansion cycle is expected to be completed in the ongoing fiscal year with installed capacity expected to increase from 47m tons in 2017 to around 70m tons once the expansion cycle is completed.

- The industry witnessed a dip in local dispatches in the outgoing fiscal year on account of general slowdown in the economy (lower GDP growth and increasing interest rates along with government's policy of demand compression). Some pickup in dispatches has been noted in the ongoing fiscal year primarily due to higher PSDP spending resulting in resumption in construction activities. Continuity of the same is considered important although is considered challenging given the recent coronavirus outbreak.

Market Position

Assigned ratings incorporate MLCF's position as one of the leading players in the cement sector. The company is the 4th largest player in terms of installed capacity and dispatches and recorded a market share of 8% during FY19.

Market Share	FY17	FY18	FY19
Local Sales	8.2%	8.5%	8.3%
Export Sales	9.3%	5.8%	5.1%
Grand Total	8.3%	8.2%	7.9%

Sales

Net Sales of the company have grown at a Compound Annual Growth Rate of 5.8% from FY16-FY19. Topline of the company during HY20 was reported at Rs. 16.2b (FY19: Rs. 26.0b; FY18: Rs. 25.7b). The company has a diversified portfolio which includes Ordinary Portland Cement, Sulphate Resistant Cement, Low Alkali Cement, White Cement and Wall Coat. The company's white cement is categorized as a premium product which contributes around one-fifth of the topline and has 90% market share in the segment. During HY20, cement dispatches recorded significant growth; however growth in net sales was not commensurate with increase in dispatches due to lower retention prices during the period.

Sales in MT	FY18		FY19		HY20	
Domestic	3,487,492.0	92.7%	3,338,606.0	90.9%	2,716,993.0	95.5%
Exports	276,343.0	7.3%	334,671.0	9.1%	129,456.0	4.5%
	3,763,835.0	**100.0%**	**3,673,277.0**	**100.0%**	**2,846,449.0**	**100.0%**

MLCF products are sold all over Pakistan; however the company has a dominant presence in North and Central region. A major proportion of company's portfolio is sold in the domestic market.

Profitability

In line with industry trend, gross profit margins of MLCF have depicted a declining trend over the past three years (FY19: 18.9%; FY18: 27.3%; FY17: 39.5%). Significant influx of new capacities in the cement industry alongwith rising cost of inputs has resulted in pressure on margins which have declined further during 1HFY20. Moreover, significant jump in finance cost due to higher borrowings also was a drag on profitability. Going forward, margins are expected to gradually improve on back off improvement in demand-supply dynamics and recent decline in input prices, primarily coal, while decline in interest rate in the latest monetary policy along with debt reduction is expected to facilitate in some reduction in finance cost.

Liquidity indicators

After declining trend over the past three years, FFO of the company was negative (FY19: 4.0b; FY18: Rs. 4.4b; FY17: Rs. 7.2b) during HY20. Overall liquidity profile of the company has weakened as evident from lower cash flow coverages and decline in debt servicing ability. However, comfort is drawn from MLCF's management decision of re-profiling its long term obligation through repayment of the current maturities extending till end FY21 through issuance of right shares worth Rs. 6.1b. Current ratio of the company was reported at 1.1x (FY19: 1.0x; FY18: 1.1x; FY17: 1.3x) at end-HY20. Stock in trade and trade debts provide adequate coverage for short term borrowings.

Capitalization

Equity base of the company has depicted a sizeable increase over the past 3 years owing to internal capital generation. Despite losses incurred during HY20, equity base was higher due to issuance of right shares to Rs. 30.0b (FY19: Rs. 26.7; FY18: Rs. 25.6b; FY17: Rs. 19.3b). Total debt of the company stood at Rs. 20.3b (FY19: Rs. 22.3b; FY18: Rs. 19.1b; FY17: Rs. 6.7b). Gearing and leverage ratios stood at 0.7x (FY19: 0.8x; FY18: 0.7x; FY17: 0.3x) and 1.1x (FY19: 1.3x; FY18: 1.1x; FY17: 0.8x). Going forward, capex initiatives are planned to be funded through a mix of concessionary rate borrowing and internal capital generation.

Financial Summary (amounts in PKR millions)				Appendix I
	FY17	**FY18**	**FY19**	**HY20**
BALANCE SHEET				
Fixed Assets	23,647.7	40,894.0	46,640.7	45,469.5
Long term Investment	4,670.0	5,020.0	5,020.0	5,020.0
Stock-in-Trade	1,301.2	1,193.5	1,739.0	2,305.4
Trade Debts	682.5	1,131.8	2,683.8	4,466.3
Cash & Bank Balances	414.0	632.7	494.4	883.8
Total Assets	38,816.8	58,728.5	65,957.8	67,974.9
Trade and Other Payables	3,579.1	5,388.7	8,218.3	8,782.3
Long Term Debt (including current maturity)	3,584.4	13,752.7	18,305.4	14,952.6
Short Term Debt	3,138.2	5,360.4	4,015.5	5,330.7
Total Debt	6,722.5	19,113.1	22,320.8	20,283.3
Total Liabilities	15,108.7	28,817.4	35,443.2	34,251.8
Paid Up Capital	5,277.3	5,937.0	5,937.0	5,937.0
Total Equity (without surplus revaluation)	19,384.2	25,646.6	26,630.1	30,046.6
INCOME STATEMENT				
Net Sales	23,992.1	25,699.1	26,005.9	16,182.3
Gross Profit	9,482.3	7,022.6	4,917.1	(66.7)
Profit Before Tax	6,870.4	4,395.2	1,664.2	(2,551.4)
Profit After Tax	4,777.1	3,632.2	1,465.3	(2,452.2)
RATIO ANALYSIS				
Gross Margin (%)	39.5%	27.3%	18.9%	-0.4%
Net Profit Margin	19.9%	14.1%	5.6%	-15.2%
Current Ratio	1.34	1.07	1.00	1.07
Net Working Capital	2,647.6	777.8	42.4	1,162.9
FFO (Annualised)	7,188.8	4,416.0	3,966.7	(2,275.5)
FFO to Total Debt (%)	106.9%	23.1%	17.8%	-11.2%
FFO to Long Term Debt (%)	200.6%	32.1%	21.7%	-15.2%
Debt Servicing Coverage Ratio (x)	17.6	5.5	2.9	0.1
ROAA (%)	13.5%	7.4%	2.4%	-14.6%
ROAE (%)	26.4%	16.1%	5.6%	-34.6%
Gearing (x)	0.3	0.7	0.8	0.7
Leverage (x)	0.8	1.1	1.3	1.1

ISSUE/ISSUER RATING SCALE &DEFINITIONS — Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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.

<table>
<tr><th>REGULATORY DISCLOSURES</th><th colspan="5">Appendix III</th></tr>
<tr><td>Name of Rated Entity</td><td colspan="5">Maple Leaf Cement Factory Limited</td></tr>
<tr><td>Sector</td><td colspan="5">Cement and Construction</td></tr>
<tr><td>Type of Relationship</td><td colspan="5">Solicited</td></tr>
<tr><td>Purpose of Rating</td><td colspan="5">Entity Rating</td></tr>
<tr><td rowspan="3">Rating History</td><td>Rating Date</td><td>Medium to Long Term</td><td>Short Term</td><td>Rating Outlook</td><td>Rating Action</td></tr>
<tr><td colspan="5">RATING TYPE: ENTITY</td></tr>
<tr><td>04/02/20</td><td>A</td><td>A-1</td><td>Stable</td><td>Initial</td></tr>
<tr><td>Instrument Structure</td><td colspan="5">N/A</td></tr>
<tr><td>Statement by the Rating Team</td><td colspan="5">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.</td></tr>
<tr><td>Probability of Default</td><td colspan="5">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.</td></tr>
<tr><td>Disclaimer</td><td colspan="5">Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.</td></tr>
<tr><td rowspan="2">Due Diligence Meetings Conducted</td><td></td><td colspan="2">Name</td><td>Designation</td><td>Date</td></tr>
<tr><td>1</td><td colspan="2">Mr. Mohsin Naqvi</td><td>Group Director Finance</td><td>03/03/20</td></tr>
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