# RATING REPORT

# Maple Leaf Cement Factory Limited

**REPORT DATE:**
May 28, 2021

**RATING ANALYST:**

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| Rating Category | Latest Rating | | Previous Rating | |
|---|---|---|---|---|
| | **Long-term** | **Short-term** | **Long-term** | **Short-term** |
| **Entity** | A | A-1 | A | A-1 |
| **Rating Outlook** | Positive | | Stable | |
| ***Rating Date*** | *May 28 2021* | | *March 17 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 |
| | |

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

## Maple Leaf Cement Factory Limited

### 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. The Company's Financial Statements are audited by KPMG Taseer Hadi & Co. Chartered Accountants

**Profile of Chairman**

Mr. Tariq Sayeed Saigol is the Chairmen of MLCFL, KTML and MLPL. He is a leading and experienced industrialist with exposure to multiple sectors

**Profile of CEO**

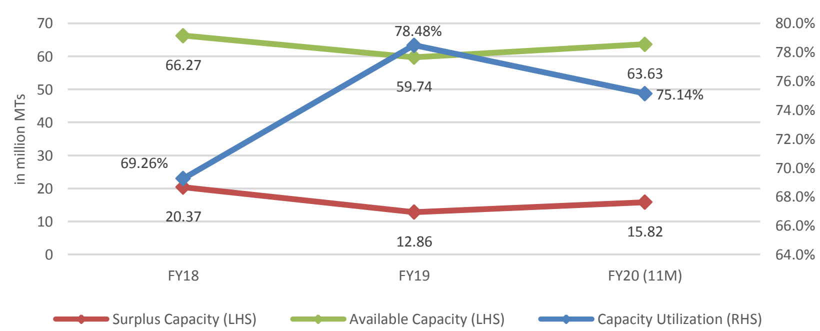
Mr. Sayeed Tariq Saigol is the Chief Executive of MLCFL and MLPL and Directors in KTML and MLCL. Prior to MLCF, Mr. Saigol has several years of experience in the textile sector. He is a graduate of the McGill University with a degree in management

### RATING RATIONALE

Maple Leaf Cement Factory Limited (MLCF) is principally engaged in production and sale of cement. Production facility of MLCF is situated in Iskanderabad Distt: Mianwali. The company is a subsidiary of Kohinoor Textile Mills Limited ('the Holding Company'). 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. During FY19-May2019, MLCF has added another production plant of 1.95mn. MTs, resulting in the total clinker production capacity to 5.55mn MTs per annum.

**Sector Update:**

- During FY20, the cement industry offtake recorded marginal uptick of 2% to 47.812 m MT p.a., on the back of strong growth (~20%) in export dispatches.
- The industry capacity utilization depicted improvement in FY19, when available industry capacity had dropped; however, as some capacity enhancement projects came online in FY20, in addition to the pandemic-induced slowdown, the capacity utilization was affected, as reflected in the figure below.




| *in million MTs* | *FY18* | *FY19* | *FY20* | *H1'FY20* | *H1'FY21* |
|---|---|---|---|---|---|
| *Local dispatches* | 41.147 | 40.235 | 39.965 | 20.373 | 23.615 |
| *Export dispatches* | 4.746 | 6.522 | 7.847 | 4.377 | 5.022 |
| *Total* | **45.893** | **46.757** | **47.812** | **24.750** | **28.637** |

- With domestic dispatches remaining stagnant in FY20 (YoY), the 2% growth in aggregate dispatches entirely emanated from the growth in export dispatches. Export dispatches, subsequent to posting strong growth of 38% in FY19, continued with the momentum, with growth coming in at 20% for FY20. The growth in export dispatches entirely emanated from exports sales to Afghanistan.
- Subsequent to year-end FY20, the LSM index posted growth of 37% in H1'FY21. Both local and export cement dispatches displayed an increase of 15.9% and 14.7%, respectively, vis-à-vis SPLY. Resultantly, overall volume increased by 15.7%, vis-à-vis SPLY.
- Resumption in economic activities after Covid-19 lockdown, better macroeconomic indicators and construction package announced by the GoP contributed in the uptick of local cement demand during H1'FY21.
- The industry's future outlook is positive, in view of the infrastructure projects in the pipeline. Downside risk to profitability of cement industry participants is likely to emanate from the hike in interest rates and protracted elongation of the pandemic.

**Operational Update**

| *Capacity & Production* | *FY19* | *FY20* | *9M'FY21* |
|---|---|---|---|
| *Capacity (Clinker)* | 3,600,000 | 5,550,000 | 4,162,500 |
| *Production (Clinker)* | 3,541,743 | 4,963,675 | 3,661,623 |
| *Utilization* | 98.4% | 89.4% | 88.0% |
| *Production (Cement)* | 3,638,313 | 5,196,304 | 3,809,296 |

- The company operates through three production lines for grey cement coupled with one separate line for white cement.
- MLCF now has an operational cement production capacity of 5.55mn MTs per annum. The company's Line 3 became operational in May 2019.
- The company is planning to add Line 4 with an additional capacity of 2.20mn MTs. This will take the total cement production capacity of MLCF to 7.75mn MTs. The estimated timeline for the completion of this project is 18 months. Assuming no other significant expansion, MLCF's planned expansion should allow the company to maintain market share in the 10-11% range, in terms of production capacity.
- 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.
- MLCF products are sold all over Pakistan; however, the company has dominant presence in North and Central regions.

| *in million MTs* | *FY18* | *FY19* | *FY20* | *H1'FY20* | *H1'FY21* |
|---|---|---|---|---|---|
| *Local dispatches* | 3.487 | 3.339 | 5.020 | 2.717 | 2.373 |
| *Export dispatches* | 0.276 | 0.335 | 0.181 | 0.129 | 0.148 |
| *Total* | **3.764** | **3.673** | **5.202** | **2.846** | **2.520** |

- Net sales grew by 12% during the year FY20 in line with the increase in dispatches due to capacity enhancement.
- During H1'FY21, local dispatches of the company has declined and did not follow the industry uptick, which in result, restricted the topline growth of MLCF. (Sales: H1'FY21: Rs. 16.6bn; H1'FY20: Rs. 16.2bn). However, in the most recent quarter, i.e. Q3'FY21, the company achieved sales uptick of 37% vis-à-vis SPLY, growing its topline for the period from Rs. 6.9b to Rs. 9.5b. This was largely achieved on the back of an increase in pricing; however, the significant growth number is partly on account of an unusually slow quarter during SPLY, attributable to advent of the pandemic.

| | *FY19* | *FY20* | *9M'FY20* | *9M'FY21* |
|---|---|---|---|---|
| *Net Sales* | **26,005.9** | **29,117.7** | **23,096.8** | **26,098.0** |
| *Gross Profit* | **4,917.1** | **(727.5)** | **(299.0)** | **5,421.0** |
| *Gross Margin (%)* | **18.9%** | **(2.5%)** | **(1.3%)** | **20.8%** |
| *Operating Profit* | **2,836.7** | **(2,287.3)** | **(1,458.7)** | **7,462.0** |
| *Operating Margin (%)* | **10.9%** | **(7.9%)** | **(6.3%)** | **28.6%** |
| *Profit After Tax* | **1,465.3** | **(4,843.3)** | **(3,733.6)** | **5,521.2** |
| *Net Margin (%)* | **5.6%** | **-16.6%** | **-16.2%** | **21.2%** |

- Amid shaky macro-economic conditions and significant influx of new capacities in the cement industry during FY20, cement players witnessed a price war, which restricted the growth in revenue of the company in FY20. As a result, margins of the company continued to decline in FY18, FY19 and FY20.
- Increase in costs offset the growth in sales mainly because of a marked increase in the costs of Fuel and Power, further exacerbated by high inflation that led to increase in overall expenses and costs. Resultantly, the company's earnings slid into negative territory.
- Moreover, higher finance cost during the year further restricted the profitability of the company in FY20.
- During 9MFY21, MLCF managed to improve its margins compared to SPLY, in line with the

industry, and mainly on the back of higher pricing, albeit offtake was higher during Q3'FY21.

- Furthermore, the operating margin came in higher than gross margin, being supported by Rs. 3.5b of dividend income from its 100% owned subsidiary Maple Leaf Power Limited.
- Going-forward, margins are expected to sustain on the back of an improved demand outlook, while low interest rate is expected to keep debt servicing charges on the lower side.

**Key Rating Drivers**

**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.
- Market share of MLCF has increased to 10.9% during FY20.

| *Market Share* | *FY19* | *FY20* | *9M'FY21* |
|---|---|---|---|
| *Local* | 8.3% | 12.6% | 10.1% |
| *Export* | 5.1% | 2.3% | 2.9% |
| *Total* | 7.8% | 10.9% | 8.8% |

- As per management, the addition of Line 4 will further add to plant efficiency, thus allowing MLCF to become a leading cement produced in terms of plant efficiency.

**Liquidity**

- FFO continued to decline over the last 3 years, parallel to decline in profitability. Recently in9M'FY21, FFO clocked in at Rs. 4.8bn. Note that this excludes dividend income from subsidiary amounting to Rs. 3.5b.
- As a result of the improvement in FFO, cash flow coverage indicators have rebounded, as reflected in the table below.
- The cash flow coverage indicators have depicted improvement in the ongoing year. With additional planned debt, these are expected to come under pressure, albeit will remain adequate.

| | FY18 | FY19 | FY20 | 1HFY21 |
|---|---|---|---|---|
| *FFO (In millions PKR)* | 4,416.0 | 3,966.7 | (2,746.8) | 4,839.7 |
| *FFO to Debt* | 23.1% | 17.8% | -12.5% | 45.8* |
| *FFO to LT Debt* | 32.1% | 21.7% | -18.0% | 46.8%* |
| *DSCR (x)* | 5.5 | 2.9 | (0.0) | 5.5* |
| **Annualized* | | | | |

**Capitalization**

- Equity base of the company grew to Rs. 33.4 bn as at Mar'21. MLCF was able to limit the impact on its capital base of the sizable Rs. 4.8bn loss in FY20, on the back of equity issuance of Rs. 5.05bn.
- In the coming 2 years, the company's CAPEX requirement for financing the planned line 4 capacity enhancement is estimated at Rs. 18.5bn (as per management). The company is planning to raise Rs. 14bn through debt out of which 8-9bn is planned to be taken under LTFF & TERF, while the remaining will be financed through internal cash generation.
- Incorporating the additional debt, the company's gearing is likely to rise in the range of 0.9-1.0x in the rating horizon.

| | Jun'19 | Jun'20 | Mar'21 |
|---|---|---|---|
| *Equity* | 26,630.1 | 27,705.5 | 33,387.4 |
| - *Paid-up Capital* | *5,937.0* | *10,983.5* | *10,983.5* |
| *Total Debt* | 22,320.8 | 21,940.4 | 14,042.5 |
| - *Long Term Debt* | *18,305.4* | *15,298.1* | *13,780.5* |
| - *Short Term Debt* | *4,015.5* | *6,642.3* | *261.9* |
| *Gearing* | *0.84* | *0.79* | *0.42* |
| *Leverage* | *1.33* | *1.25* | *0.84* |

| Financial Summary (amounts in PKR millions) | | | | Appendix I |
|---|---|---|---|---|
| | **FY18** | **FY19** | **FY20** | **9M'FY21** |
| **BALANCE SHEET** | | | | |
| **Fixed Assets** | 40,894.0 | 46,640.7 | 44,297.9 | 43,149.0 |
| **Long term Investment** | 5,020.0 | 5,020.0 | 5,020.0 | 5,020.0 |
| **Stock-in-Trade** | 1,193.5 | 1,739.0 | 1,779.4 | 1,868.8 |
| **Trade Debts** | 1,131.8 | 2,683.8 | 3,052.1 | 1,792.0 |
| **Cash & Bank Balances** | 632.7 | 494.4 | 1,046.3 | 506.4 |
| **Total Assets** | 58,728.5 | 65,957.8 | 66,009.8 | 64,771.6 |
| **Trade and Other Payables** | 5,388.7 | 8,218.3 | 7,951.2 | 9,036.3 |
| **Long Term Debt (including current maturity)** | 13,752.7 | 18,305.4 | 15,298.1 | 13,780.5 |
| **Short Term Debt** | 5,360.4 | 4,015.5 | 6,642.3 | 261.9 |
| **Total Debt** | 19,113.1 | 22,320.8 | 21,940.4 | 14,042.5 |
| **Total Liabilities** | 28,817.4 | 35,443.2 | 34,688.9 | 27,942.1 |
| **Paid Up Capital** | 5,937.0 | 5,937.0 | 10,983.5 | 10,983.5 |
| **Total Equity (without surplus revaluation)** | 25,646.6 | 26,630.1 | 27,705.5 | 33,387.4 |
| | | | | |
| **INCOME STATEMENT** | **FY19** | **FY20** | **9M'FY20** | **9M'FY21** |
| **Net Sales** | 26,005.9 | 29,117.7 | 23,096.8 | 26,098.0 |
| **Gross Profit** | 4,917.1 | (727.5) | (299.0) | 5,421.0 |
| **Profit Before Tax** | 1,664.2 | (5,269.0) | (3,860.5) | 6,274.4 |
| **Profit After Tax** | 1,465.3 | (4,843.3) | (3,733.6) | 5,521.2 |
| | | | | |
| **RATIO ANALYSIS** | **FY18** | **FY19** | **FY20** | **9M'FY21** |
| **Gross Margin (%)** | 27.3% | 18.9% | -2.5% | 20.8% |
| **Net Profit Margin** | 14.1% | 5.6% | -16.6% | 21.2% |
| **Current Ratio** | 1.07 | 1.00 | 1.08 | 1.55 |
| **Net Working Capital** | 777.8 | 42.4 | 1,293.4 | 5,829.7 |
| **FFO** | 4,416.0 | 3,966.7 | (2,746.8) | 4,839.7 |
| **FFO to Total Debt (%)** | 23.1% | 17.8% | -12.5% | 45.8%* |
| **FFO to Long Term Debt (%)** | 32.1% | 21.7% | -18.0% | 46.8%* |
| **Debt Servicing Coverage Ratio (x)** | 5.5 | 2.9 | (0.0) | 5.5* |
| **ROAA (%)** | 7.4% | 2.4% | -7.3% | 11.2* |
| **ROAE (%)** | 16.1% | 5.6% | -17.8% | 24.0* |
| **Gearing (x)** | 0.75 | 0.84 | 0.79 | 0.42 |
| **Leverage (x)** | 1.12 | 1.333 | 1.25 | 0.84 |
| *** Annualized** | | | | |

## 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.

| REGULATORY DISCLOSURES | | | | | Appendix III |
|---|---|---|---|---|---|
| **Name of Rated Entity** | Maple Leaf Cement Factory Limited | | | | |
| **Sector** | Cement and Construction | | | | |
| **Type of Relationship** | Solicited | | | | |
| **Purpose of Rating** | Entity Rating | | | | |
| **Rating History** | **Rating Date** | **Medium to Long Term** | **Short Term** | **Rating Outlook** | **Rating Action** |
| | **RATING TYPE: ENTITY** | | | | |
| | May 28, 2021 | A | A-1 | Positive | Maintained |
| | April 2, 2020 | A | A-1 | Stable | Initial |
| **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. | | | | |
| **Probability of Default** | 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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| **Due Diligence Meetings Conducted** | **Name** | **Designation** | **Date** | | |
| | Mr. Mohsin Raza Naqvi | CFO | March 18, 2021 | | |