RATING REPORT

Maple Leaf Cement Factory Limited

REPORT DATE:
September 20, 2023

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	Stable		Positive	
Rating Date	*Sep 20, 2023*		*Aug 10, 2022*	

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: Corporates (MAY 2023) **https://docs.vis.com.pk/docs/CorporateMethodology.pdf** VIS Rating Scale **https://docs.vis.com.pk/docs/ratingscale.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. 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

The ratings assigned to Maple Leaf Cement Factory Limited (MLCF) take into account elevated business risk profile of the cement industry given decline in sales volumes due to reduced overall dispatches stemming from dampened local market demand amid weak macroeconomic indicators. On the other hand, financial risk profile remained intact and is considered sound on the back of growth in margins, sound coverages and manageable leverage indicators. The ratings are underpinned by successful completion of expansion initiatives particularly Line-IV.

MLCF's core business revolves around the production and sale of cement. Its production facility is located in Iskanderabad, District Mianwali. The company operates as a subsidiary of Kohinoor Textile Mills Limited, the Holding Company. MLCF is part of the Kohinoor Maple Leaf Group, which has a presence in various industries, including cement, textiles, power, and capital markets. Additionally, Maple Leaf Power Limited is a wholly-owned subsidiary of MLCF, established to operate a 40MW coal-fired power generation plant.

Sector Update:

Introduction

- The cement sector in Pakistan is heavily dependent upon the nature and state of the economy of the nation where production capacity and ultimate dispatch is pegged towards demand and current Planning, Development & Special Initiatives (PSDP) allocation by the government.
- The local cement industry has high barriers to entry and is considered oligopolistic with 16 players in the country.
- Lucky Cement is the biggest producer, followed by Bestway Cement and DG Khan Cement.
- The cost of sales mainly consists of Fuel & Power which constitutes around 60-65% to cost of goods manufactured.
- The sector is susceptible to fluctuations induced by alterations in currency exchange rates, imported coal prices, fuel costs and import regulations, given that a considerable portion of the industry's production rely on imported coal.

Update

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- Factors that contributed to the notable dip in sales volume include:
    - Slowdown in construction
    - Reduction in private sector demand owing to multiple price hikes and increased interest rates,
    - Rupee depreciation,
    - Lower public sector spending amid fiscal uncertainty and political chaos
- The above-mentioned factors along with low-capacity utilization due to recent capacity additions and lower demand would raise concerns over sector pricing discipline during FY24.
- Domestic average cement prices in north/south region increased by 40%/33% Y/Y in FY23.

- However, decline in coal prices consistently in the 2HFY23 to USD111/Ton will provide some respite to producers while the latest decline in freight charges also allows higher exports from south players.
- Going forward, the sector's profitability is forecasted to stay under pressure amid high finance cost in line with increased interest rates, rupee depreciation, price uncertainty as new capacities are achieving COD coupled with other inflationary pressures in the current macro-economic scenario.
- However, the demand will stay weaker in near term on account of consumer purchasing power depletion, overall economic slowdown and uncertainty in regulatory framework including monetary policy, taxation and amendments in real estate sector policies. The industry statistics of offtake are presented in the table below:

R. in billion	***FY20***	***FY21***	***FY22***	***FY23***
Local	39.97	48.13	47.63	40.01
Export	7.85	9.31	5.25	4.57
Total	**47.81**	**57.44**	**52.88**	**44.58**

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. After a dip in the market share in terms of dispatches during FY21, the same exhibited upward trajectory on a timeline during the rating review period. As per management, the addition of Line 4 has not only increased plant capacity but also has improved efficiency, therefore, an increase in market share is projected in the medium to long-term. The snapshot of dispatches in comparison to industry is presented in table below:

	Installed Capacity (MT)			**Dispatches (MT)**		
Year	**MLCF**	**Industry**	**Market share**	**MLCF**	**Industry**	**Market share**
FY23	8,190,000	83,179,469	9.85%	4,285,997	44,579,000	9.61%
FY22	5,700,000	66,155,551	8.62%	4,761,51	52,891,730	9.00%
FY21	5,585,342	65,940,237	8.47%	5,023,444	57,432,774	8.75%
FY20	5,550,000	60,602,988	9.16%	5,201,820	47,812,142	10.88%

Operational Update

MLCF is the largest single cement production site in Pakistan. The Company has separate plants for grey and white cement with dedicated production lines within the same facility which ensures a continuous supply of cement throughout the year. Currently, the Company operates via three production lines for the production of grey cement and one line for white cement in which it owns more than 90% market share. MLCF has a diversified portfolio which includes Ordinary Portland Cement, Sulphate Resistant Cement, Low Alkali Cement, White Cement and Wall Coat.

There has been a decline in cement production on a timeline owing to lower utilization of PSDP budget amid shift in government's focus to stabilize the economy during the rating review period. In line with trimmed production levels, capacity utilization has decreased; however, the management plans to mitigate risk of low utilization by only operating higher efficiency lines ensuring that idle capacity will not add to fixed cost. Foreseeing the resumption of CPEC, progress in dam projects coupled with projected increase demand in housing sector, existing production capacities are expected to be absorbed in the medium to long term. Nevertheless, even if the expected demand is not achieved MLCF will be able to benefit from the improved efficiency of line-IV.

MLCF markets and sells its products all over Pakistan with market presence mainly in North and Central regions. The company also exports cement to Afghanistan, Middle East and other African countries. Positive government actions and improved law and order situation are encouraging for the domestic political environment. Nevertheless, the recent political shift in neighboring Afghanistan could impact export prospects. Government policies, favorable tax reforms, economic stability, enhanced consumer purchasing power, and appealing export margins are crucial factors that will help absorb the potential supply pressure in the cement market due to capacity expansions.

Capacity & Production	**FY20**	**FY21**	**FY22**	**9MFY23**
Capacity (Clinker)	5,550,000	5,585,342	5,700,000	6,142,500
Production (Clinker)	4,963,675	4,881,669	4,528,651	3,003,433
Utilization	89.4%	87.4%	79.4%	48.9%
Production (Cement)	5,196,304	4,994,594	4,741,944	3,274,879

Capital expenditure carried out during the rating review period:

The Company's operational cement production capacity increased to 8.19m MT (FY22: 5.70m MT) per annum during FY23 in line with addition of line-IV with 7,000 tons/day incremental capacity. The aggregate annual capacity of Line-IV is recorded at 2.20m MT; the same became operational during Nov,2022. The total cost incurred on Line-IV was recorded at Rs. 22.0b which was financed by a mix of debt (Rs. 14.0b), majorly concessionary funding, and equity (Rs. 8.0b). The kiln at line -IV was also fired up during November, 2022. In addition, the capacity of Waste Heat Recovery Plant (WHRP) was expanded from 25MW to 37MW to cater to the increased requirement for line-IV, making the plant more energy efficient. The WHRP accounted for one-third of MLCF's power mix during 9MFY23. In addition, a solar power setup of 12.5MW has also been installed during the rating review period. Although, the full year impact of the undertaken capital expenditures on margins will be visible by end-FY24; however, some improvement in margins was already witnessed during 9MFY23. There are no further capital expenditure plans in the pipeline for MLCF except the usual balancing, modernization and replacement (BMR) program which costs around Rs. 400m annually on average.

Notable upward momentum in revenues, accompanied by a substantial improvement in margins

FY22 has been a turbulent period for the Pakistani economy owing to political uncertainty, Rupee devaluation and all-time high inflation; the same has resulted in stunted industrial growth and consumer demand for cement. In line with the aforementioned factors coupled with devastation caused by floods the PSDP allocations were cut down. Subsequently, volumetric sales took a hit during the review period as presented in the table below. However, the dip in sales volumes was fully offset by increase in cement retail prices as the revenue increased by 36.5% to Rs. 48.5b (FY21: Rs. 35.5b) during FY22. The higher revenue recorded was an outcome of increase in average price of local grey cement and local white cement to Rs. 733/bag (FY21: Rs. 547/bag) and Rs. 1,188 /bag (FY21: Rs. 1,122/bag) respectively during FY22. Sales during the outgoing year comprised 95.8% of grey cement and 4.2% of white cement.

Year	Local grey cement (Qty)	Export grey cement (Qty)	Local White cement (Qty)	Export White cement (Qty)	Grand Total
FY23	3,986,625	119,397	168,950	11,025	4,285,997
FY22	4,476,450	101,700	174,751	8,611	4,761,512
FY21	4,533,475	315,603	162,565	11,801	5,023,444
Total:	**12,996,550**	**536,700**	**506,266**	**31,437**	**14,070,953**

Furthermore, the positive trend observed since FY20, with a resurgence from negative gross margins, continued during FY22. Gross margins improved significantly, reaching 25.3% (FY21: 20.83%; FY20: -2.5%) on account of multiple factors, including rise in average prices of the final product, cost reductions in packing materials and inventory gains achieved through efficient coal procurement. The company avoided the impact of rising WAPDA power tariffs by shifting its reliance from the national grid to self-generation. Moreover, the partial shift in the power mix to Afghan and local Darra Adam Khel coal, also had a positive impact on the gross margins. MLCF has the ability to operate its plant with a higher Sulphur content compared to its competitors allowing it to utilize a greater quantity of the cheaper Darra Adam Khel coal in its overall mix.

During FY22, operating expenses, including administrative and distribution cost, increased to Rs. 3.4b (FY21: Rs. 2.4b) attributable to annual salary adjustments and inflation; however, the increase aligns with the Company's higher scale of operations. Furthermore, the finance cost was also recorded higher at Rs. 1.7b (FY21: Rs. 1.5b) on account of increase in discount rates and additional funding procured to finance Line-IV capex. Despite upward trajectory of revenues and margins, the profit before taxation was recorded at same level as of previous year at Rs. 7.2b (FY21: Rs. 7.3b) for FY22 on account of exponentially high other operating income of Rs. 3.7b booked during FY21; the same pertained to dividend income earned from 100% owned subsidiary Maple Leaf Power Limited (MLPL). In addition, owing to sizable tax expense amounting to Rs. 3.6b (FY21: Rs. 1.0b) booked in line with imposition of super tax along with change in tax rate for local/export sales, the bottom line stood lower at Rs. 3.6b during FY22 as opposed to sizable at Rs. 6.3b in the preceding year. Resultantly, net margins, dropped to 7.47% (FY21: 17.60%) during FY22.

The positive momentum in revenues continued during the outgoing year also with net revenue recorded at Rs. 47.1b during 9MFY23 as compared to Rs. 34.1b in the corresponding period last year (CPLY) in line with higher prices in the local market. The increase in selling prices is primarily a function of strong inflationary impact on costs, particularly fuel and power. The average price of local grey cement and local white cement was recorded higher at Rs. 1,024/bag and Rs. 1,601 /bag respectively during 9MFY23. On the other hand, sales volume reduced by 8.17% to 3.3m tons in comparison to 3.6m tons sold during the same period last year. Domestic sales volume decreased by 8.51% owing to devastating floods ravaging the country, negatively impacting cement deliveries and construction sector growth. This along with slow implementation of large-scale projects, limited utilization of PSDP funds and lower demand in the housing industry due to high borrowing costs and low disposable income, adversely impacted the sector's growth. On the other hand, there was an increase of 5% in export sales. However, the overall export sales have remained limited since the American withdrawal from Afghanistan. Moreover, cement exports to the rest of the world were not possible due to high production costs in Pakistan in comparison to global markets, as well as increased shipping costs which hampered competitiveness in regional markets.

MLCF has been able to keep its fuel and power costs under control by using Afghan coal, Darra Adam Khel coal and alternate fuels such as bio mass. Further, MLCF is also benefitting by use of pet coke which is cost effective due to higher energy content coupled with earlier purchases of imported/local coal and pet coke at cheaper rates. As a result of the aforementioned cost rationalization techniques along with reduction in global coal prices and higher average price of local grey and white cement respectively, gross margins exhibited positive momentum, increasing to 27.3% during 9MFY23. Therefore, despite increase in financial and operating expenses, MLCF reported healthy profit of Rs. 5.0b during 9MFY23 in line with uptick in revenues and margins. The extent of improvement can be assessed from the fact that the bottom line of 9MFY23 has surpassed the full year profit of FY22.

During the rating review period, the liquidity profile has shown improvement and is deemed sufficient; the same is evident from robust cash flow coverages concerning outstanding obligations

The Company's liquidity profile is sound and has exhibited positive trajectory, aligning with improvements in profitability metrics. Funds from Operations (FFO) have increased significantly on a timeline to Rs. 9.4b (FY22: Rs. 10.8b; FY21: Rs. 6.5b) during 9MFY23, resulting in enhanced liquidity indicators. Specifically, FFO to total debt and FFO to long-term debt improved to 0.45x (FY22: 0.44x; FY21: 0.40x) and 0.45x (FY22: 0.51x; FY21: 0.45x) respectively by end-9MFY23. Despite significant long-term repayments made during the review period, the debt service coverage ratio was sizable, recorded at 3.01x (FY22: 4.05x; FY21:4.42x;) at end-9MFY23. The same exhibits that the Company is comfortably poised in meeting the debt obligations falling due in the next year. Additionally, the current ratio remains comfortable at 1.26x (FY22: 1.25x; FY21: 1.48x) at end-9MFY23. Furthermore, the aging of receivables is considered comfortable, with less than 2% of receivables overdue for more than a year. The expected credit loss on receivables also decreased to Rs. 50.0m (FY21: Rs. 293.4m) during FY22; the quantum of loss in terms of total receivables and sale revenue is immaterial. Moreover, the company intends to retain its strategic investment in the associate MLPL, amounting to Rs. 5.0b, during the rating horizon.

Capitalization

The Company's core equity showed significant growth augmenting to Rs. 43.4b (FY22: Rs. 38.1b; FY21: Rs. 34.5b) by end-9MFY23; the same was primarily driven by internal capital generation. Currently, the remaining long-term debt pertaining to first three production lines installed by MLCF is recorded at Rs. 6.0b. The new line-IV, which commenced operations in November 2022, was financed by concessionary funding worth Rs. 14b while the remaining Rs. 8b was met through internal sources. The short-term debt has substantially reduced to an almost negligible amount of Rs. 204.3m (FY22: Rs. 3.6b; FY21: Rs. 1.9b) by end-9MFY23. Subsequently, the short-term borrowing coverage by stock and receivables shot up sizably indicating that currently the working capital requirements are largely being met through payables; the same is evident from negative cash conversion cycle recorded at 63 days (FY22: (57)days; FY21: (51) days) at end-9MFY23.The gearing and leverage indicators trended upwards during FY22 owing to sizable procurement of long-term borrowings to fund capex on Line-IV; however, gearing scaled down to FY21's level in line with notable profit generation, no major dividend payout and timely servicing of long-term obligations.

	Going forward, with no new major capital expenditure planned, MLCF does not aim to obtain any additional debt. Subsequently, with uptick witnessed in profitability metrics, profit retention strategy adopted for the short-term coupled with successful periodic long-term repayments, the gearing and leverage indicators are expected to improve during the rating horizon. The projected improvement of gearing indicators is considered important from the ratings perspective.

FINANCIAL SUMMARY				(amounts in PKR millions)
BALANCE SHEET	**FY20**	**FY21**	**FY22**	**3QFY23**
Fixed Assets	44,298	44,216	56,785	63,431
Long term Investment	5,020	5,020	5,020	5,030
Stock-in-Trade	1,779	2,150	2,696	3,784
Trade Debts	3,052	1,680	2,066	2,890
Cash & Bank Balances	1046	490	794	904
Total Assets	**66,010**	**66,239**	**82,214**	**89,380**
Trade and Other Payables	7,951	7,512	9,117	12,843
Long Term Debt (including current maturity)	15,298	14,341	21,368	20,752
Short Term Debt	6,642	1,894	3,572	204
Total Debt	21,940	16,235	24,940	20,957
Total Liabilities	**34,689**	**28,697**	**41,655**	**43,900**
Paid Up Capital	10,983	10,983	10,983	10,733
Tier-1 Equity	**27,706**	**34,453**	**38,099**	**43,371**
INCOME STATEMENT	**FY20**	**FY21**	**FY22**	**3QFY23**
Net Sales	29,118	35,538	48,520	47,090
Gross Profit	-728	7,403	12,275	12,879
Operating Profit	-2,287	8,784	8,925	9,272
Profit Before Tax	-5,269	7,290	7,184	7,524
Profit After Tax	-4,843	6,254	3,626	5,056
FFO	-2,747	6,487	10,871	9,365
RATIO ANALYSIS	**FY20**	**FY21**	**FY22**	**3QFY23**
Gross Margin (%)	-2.50	20.83	25.30	27.35
Net Profit Margin (%)	-16.63	17.60	7.47	10.74
Short-Term Borrowing Coverage (x)	0.73	2.02	1.33	32.67
Current Ratio (x)	1.08	1.48	1.25	1.26
FFO to Total Debt (x)	-0.13	0.40	0.44	0.45
FFO to Long Term Debt (x)	-0.18	0.45	0.51	0.45
Debt Servicing Coverage Ratio (x)	0.06	4.42	4.05	3.01
ROAA (%)	-7.34	9.46	4.45	5.89
ROAE (%)	-17.83	20.12	12.41	9.48
Gearing (x)	0.79	0.47	0.65	0.48
Leverage (x)	1.25	0.83	1.09	1.01

REGULATORY DISCLOSURES					Appendix IV
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				
	Sept 20, 2023	A	A-1	Stable	Maintained
	Aug 10, 2022	A	A-1	Positive	Maintained
	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. Zeeshan Ahmed		GM Finance	July 21, 2023	