

## RATING REPORT

## Maple Leaf Cement Factory Limited

**REPORT DATE:**

October 11, 2024

**RATING ANALYSTS:**

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## RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-1	A	A-1
Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Maintained	
Rating Date	October 11, 2024		September 20, 2023	

## COMPANY INFORMATION

Incorporated in 1960	External auditors: A.F. Ferguson & Co PwC
Public Limited Company	Chairman: Mr. Tariq Sayeed Saigol
Key Shareholders (with stake 5% or more):	CEO: Mr. Sayeed Tariq Saigol

## APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: 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>

**OVERVIEW  
OF THE  
INSTITUTION**

**RATING RATIONALE**

**Maple Leaf Cement Factory Limited** was incorporated in Pakistan on April 13, 1960 under the Companies Act, 1913 (now the Companies Act, 2017) as a public company limited by shares. The Company is listed on Pakistan Stock Exchange. The registered office of the Company is situated at 42-Lawrence Road, Lahore, Pakistan. The cement factory is located at Iskanderabad District Mianwali in the province of Punjab.

**Company Profile.**

Maple Leaf Cement Factory Limited (‘MLCF’ or ‘the Company’), a public limited company listed on the Pakistan Stock Exchange, is primarily involved in the production and sale of cement. The Company is a subsidiary of Kohinoor Textile Mills Limited (‘KTML’ or ‘the Ultimate Holding Company’) and has its registered office situated at 42-Lawrence Road, Lahore, Pakistan. The cement factory is located at Iskanderabad District Mianwali in the province of Punjab. MLCF has a wholly owned subsidiary, MLPL, engaged in generating, purchasing, transforming, distributing, and supplying electric power to MLCF.

**Group Profile:**

The Kohinoor Maple Leaf Group (‘KMLG’ or ‘the Group’) has presence in textile, cement, power generation and investment management. KTML’s subsidiaries include MLCF, Maple Leaf Power Limited (MLPL), Maple Leaf Capital Limited (MLCL) and Novacare Hospitals (Pvt) Limited (NHPL).

**Operational Performance:**

<b>Production Capacity and Utilization</b>	<b>FY22A</b>	<b>FY23A</b>	<b>FY24A</b>
Installed Capacity - Clinker (Tons)	5,700,000	7,100,000	7,800,000
Actual Production - Clinker (Tons)	4,528,651	3,928,830	3,625,857
<b>Utilization</b>	<b>79.45%</b>	<b>55.34%</b>	<b>46.49%</b>
Cement Production	4,741,944	4,253,451	4,051,726

The Company's installed clinker capacity increased by 25% to 7.1 million tons in FY23 (FY22: 5.7 million tons) a part of the expansion plans. However, clinker production declined by 13% to 3.93 million tons in FY23 (FY22: 4.53 million tons) due to reduced cement demand. Consequently, capacity utilization fell to 55.34% (FY22: 79.45%) in FY23.

Installation of Company’s grey cement line IV was completed in FY23, which resulted in a total installed capacity of 7,800,000 tons (FY23: 7,100,000 tons, FY22: 5,700,000 tons). The new line, designed to improve fuel and energy efficiency as well, began commercial operations in the third quarter of FY23. As of FY24, capacity utilization was 46.49%, reflecting the cumulative impact of increased capacity and subdued demand.

**Key Rating Divers:**

**Medium to high business risk profile characterized by high cyclicality, moderate competitive intensity, and regulatory frameworks.**

VIS assess the business risk profile of Pakistan's cement sector as moderate, with support from a medium of 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, including a higher Federal Excise Duty (FED) on cement bags. 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.

#### **Profitability propelled by rising cement prices despite low offtake**

Despite lower volumetric sales the Company's revenue increased by 28% in FY23, due to higher selling prices under the pretext of higher energy costs. Revenue in FY24 increased further to PKR 66,452.35 mln (FY23: PKR 62,075.26 mln; FY22: PKR 48,519.62 mln) for the same reason. The Company's margins were supported by its energy cost control measures. The Company began using biomass as a fuel in the kiln to reduce reliance on coal. Accordingly, the gross margins improved to 26.46% (FY22: 25.30%) in FY23. The gross margins further improved to 33.51% in FY24 with more reduction energy cost upon induction of new solar power capacity of (20 MW) and installation of another Waste Heat Recovery Plant (37 MW).

#### **Strong Liquidity Profile**

The Company has historically maintained adequate liquidity, reflected in a four-year average current ratio of 1.21x. In FY23, the current ratio improved to 1.37x (FY22: 1.25x) in FY23 with further improvement to 1.44x in FY24. This improvement was supported by improved internal cashflow generation, which fully met the Company's working capital requirement, eliminating the need for short-term borrowing.

#### **Conservative Capitalization profile**

The Company has maintained a conservative capitalization profile; with improvements in FY23 as gearing and leverage ratios reduced to 0.46x (FY22: 0.65x) and 1.04x (FY22: 1.09x), respectively. In FY24, gearing and leverage ratios further improved to 0.40x and 0.96x, respectively. This is attributed to timely redemption of long-term facilities and enhancement of the equity base with retention of profits. Moreover, the Company has reduced its reliance on short-term debt by managing its working capital mostly through internal cash generation.

#### **Coverage Profile**

The Company's coverage profile exhibited a decline in FY23, as the Debt Service Coverage Ratio (DSCR) decreased to 2.70x (FY22: 4.04x), primarily driven by increased finance costs accruing from loans secured for capacity expansion. In FY24, the DSCR further declined to 2.36x with resumption of short-term borrowing. Despite the reduction, the coverage metrics remain aligned with the current rating levels.

The debt composition is predominantly long-term, resulting in FFO to total debt and FFO to long-term debt remaining relatively aligned. Improvements in FFO to total debt and FFO to long-term debt ratios were observed to 62.88% (FY23: 59.93%, FY22: 44.19%) and 68.71% (FY23: 59.93%, FY22: 51.58%), respectively, as long-term obligations were paid in timely manner.

**Maple Leaf Cement Factory Limited**
**Appendix I**

<b>Financial Summary</b>				
<b>Balance Sheet (PKR Millions)</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23A</b>	<b>FY24A</b>
Property, plant and equipment	44,215.54	56,784.84	62,354.61	65,995.60
Long-term Investments	5,020.00	5,020.00	5,030.00	6,322.00
Stock-in-trade	2,150.18	2,695.62	3,874.60	3,256.56
Trade debts	1,679.70	2,066.21	2,600.99	4,188.75
Short-term Investments	149.15	198.35	3,689.56	4,220.26
Cash & Bank Balances	490.33	793.58	740.71	1,133.41
Other Assets	12,642.32	14,655.62	11,417.24	14,345.54
<b>Total Assets</b>	<b>66,239.27</b>	<b>82,214.21</b>	<b>89,707.71</b>	<b>99,365.70</b>
Creditors	2,828.34	3,651.55	3,390.29	4,116.39
Long-term Debt (incl. current portion)	14,341.36	21,367.67	19,874.40	17,742.07
Short-Term Borrowings	1,894.12	3,572.07	0.00	1,645.32
<b>Total Debt</b>	<b>16,235.48</b>	<b>24,939.74</b>	<b>19,874.40</b>	<b>19,387.39</b>
Other Liabilities	10,582.92	12,845.36	21,350.14	23,090.57
<b>Total Liabilities</b>	<b>28,696.74</b>	<b>41,655.20</b>	<b>44,794.60</b>	<b>46,749.79</b>
Paid up Capital	10,983.46	10,983.46	10,733.46	10,475.63
Capital Reserve	6,588.81	6,092.39	6,363.95	33,197.42
Unappropriated Profit	16,880.29	21,023.20	25,946.72	4,927.64
<b>Equity (excl. Revaluation Surplus)</b>	<b>34,452.56</b>	<b>38,099.05</b>	<b>43,044.13</b>	<b>48,600.69</b>
<b>Income Statement (PKR Millions)</b>				
Net Sales	35,640.18	48,519.62	62,075.26	66,452.35
Gross Profit	7,504.76	12,275.46	16,423.76	20,964.29
Operating Profit	8,783.53	8,924.53	12,001.42	13,069.73
Finance Costs	1,493.93	1,741.03	2,750.75	4,138.29
Profit Before Tax	7,289.60	7,183.51	9,250.67	8,931.45
Profit After Tax	6,254.11	3,626.34	4,491.67	5,272.53
<b>Ratio Analysis</b>				
Gross Margin (%)	21.06%	25.30%	26.46%	31.55%
Operating Margin (%)	24.65%	18.39%	19.33%	19.67%
Net Margin (%)	17.55%	7.47%	7.24%	7.93%
Funds from Operation (FFO) (PKR Millions)	6,542.98	11,021.78	11,910.18	12,189.92
FFO to Total Debt* (%)	40.30%	44.19%	59.93%	62.88%
FFO to Long Term Debt* (%)	45.62%	51.58%	59.93%	68.71%
Gearing (x)	0.47	0.65	0.46	0.40
Leverage (x)	0.83	1.09	1.04	0.96
Debt Servicing Coverage Ratio* (x)	4.45	4.04	2.70	2.36
Current Ratio (x)	1.48	1.25	1.37	1.44
(Stock in trade + trade debts) / STD (x)	7.16	4.93		11.99
Return on Average Assets* (%)	9.46%	4.89%	5.23%	5.58%
Return on Average Equity* (%)	20.12%	10.00%	11.07%	11.51%
Cash Conversion Cycle (days)	10.40	5.86	11.84	17.14

\*Annualized, if required

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES					Appendix II
<b>Name of Rated Entity</b>	Maple Leaf Cement Factory Limited				
<b>Sector</b>	Cement				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	11-Oct-24	A	A-1	Stable	Reaffirmed
	20-Sep-23	A	A-1	Stable	Maintained
	10-Aug-2022	A	A-1	Positive	Maintained
	28-May-2021	A	A-1	Positive	Maintained
	02-Apr-2020	A	A-1	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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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<b>Due Diligence Meetings</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>		
	Zeeshan Ahmed	GM Finance	1 <sup>st</sup> October 2024		