

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

## Century Paper & Board Mills Limited

Chairman: Mr. Iqbal Ali Lakhani; Chief Executive Officer: Mr. Aftab Ahmad

December 6, 2013

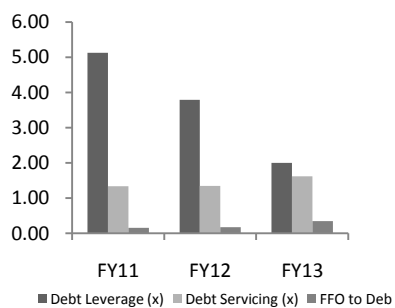
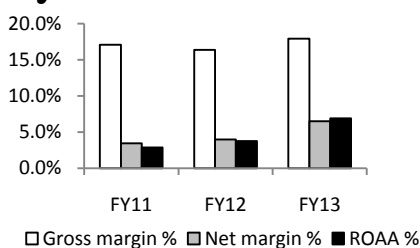
**Analysts:** Talha Iqbal  
Mohammad Aarsal Ayub

### Rating Rationale

Category	Latest	Previous
Entity	A+/A-1 Nov 20, '13	A/A-2 Dec 7, '12
Outlook	Stable Nov 20, '13	Stable Dec 7, '12

The ratings assigned to Century Paper & Board Mills Limited (CPBM) reflect company's stable position in the coated board segment, improving profitability that has translated into healthy cash flows and declining leverage indicators. Going forward, CPBM's ability to maintain healthy margins and achieve projected capacity utilization levels, in the backdrop of unfavorable movement in Rupee-Dollar parity and gas outage during the winter season, is considered important. The assigned ratings also derive strength from the demonstrated financial support of the Sponsors.

### Key Financial Trends



(Rs. million)	FY11	FY12	FY13
Net Sales	11,779	12,923	14,236
Net Profit	405	515	928
Gross Margin	17%	16%	18%
Tier-1 Equity	2,296	2,810	3,736
Total Equity*	5,300	5,814	5,838
Total Debt*	10,322	9,439	7,941
Long Term Debt	8,229	7,814	6,528
FFO	1,612	1,156	2,044
FFO/Total Debt	15.6%	12.2%	25.7%
ROAE	8.1	9.3	15.4
ROAA	2.93	3.78	6.9

Despite lower availability of gas during FY13, capacity utilization was higher at 77% (FY12: 73%); CPBM's investment in coal fired boiler facilitated in achieving the same. Net profit for the year was higher at Rs. 928m (FY12: Rs. 515m). Both gross and net margins showcased healthy improvement on account of favorable cost of inputs and reduced finance cost. CPBM's pricing mechanism incorporates exchange rate movements. Hence, an upward revision in prices has been made in FY13 and in 1QFY14. However gross margins are projected to adjust downwards in the on-going year given the expected increase in cost of inputs.

CPBM continued to lead the coated board segment with market share remaining constant at 39%. The Uncoated Board and Paper segment registered negative volumetric growth due to commercial and energy constraints. In the Paper segment, CPBM is facing declining gross margins on account of increase in wheat straw prices.

In line with improved profitability, cash flows from operations of the company showed notable improvement in the out-going year. Moreover, CPBM re-profiled its existing long term debts at more favorable terms. This has eased the debt servicing requirement considerably in the on-going year. Except in FY15 when the sponsors' loan of Rs. 1b is also due, debt servicing coverage remains very comfortable. Given the support demonstrated by the Sponsors in past, it is expected that retirement of sponsor's loan will be undertaken without placing any stress on the cash flow position of the Company.

Given the improvement in cash flows, retirement of preference shares is now being undertaken gradually with a view to improve capital structure and eliminate the high post-tax cost associated with the same. So far, almost 45% of the preference shares of Rs. 3b have been redeemed, while almost 25% of the issue amount now carries a conversion option into ordinary capital. Moreover, the rate on preference shares has now been linked to KIBOR.

Retained earnings along with rights issue have enhanced tier-1 equity to Rs. 3.7b by end FY13 (FY12: Rs. 2.8b). Accordingly, leverage indicators have trended downwards. In order to address the energy issue, CPBM plans to undertake capital expenditure of around Rs. 3b in a cogeneration plant using coal/bio-mass as fuel. The project will take around 2 years for completion. Given the anticipated benefits in terms of higher capacity utilization, the management expects the payback period to be short.

\*Includes Preference Shares

### Overview of the Institution

Century Paper and Board Mills Limited was established in 1984 by Lakson Group of Companies, with a holding of 62% and National Investment Trust holding 8% of its shares. Its shares are listed on Karachi and Lahore Stock Exchanges. Financial statements of FY13 have been audited by BDO Ebrahim & Co who have been re-appointed for FY14 JCR-VIS

## JCR-VIS Credit Rating Company Limited

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Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<b><u>RATING TYPE: Entity</u></b>				
20-Nov-13	A+	Stable	A-1	Upgrade
07-Dec-12	A	Stable	A-2	Initial