RATING REPORT

Frontier Ceramics Limited

REPORT DATE:
Aug 19, 2022

RATING ANALYSTS:

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RATING DETAILS		
	Initial Rating	
Rating Category	Long-term	Short-term
Entity	BBB	A-3
Rating Outlook	*Stable*	
Rating Action	Initial	
Rating Date	*Aug 19, 2022*	
Rating Action	*Initial*	

COMPANY INFORMATION	
Incorporated in 1982	**External auditors:** BDO Ebrahim & Co.
Public Limited Company	**CEO:** Mr. Nadeem Khalid
Key Shareholders (with stake 5% or more):	
Mr. Nadeem Khalid – 18.5%	
Ms. Sanah Khalid – 17.8%	
Ms. Namrah Khalid – 17.8%	
Ms. Amera Khalid – 17.8%	
Mr. Omer Khalid – 17.8%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

*DISCLAIMER

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Frontier Ceramics Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Frontier Ceramics Limited was incorporated in July 1982 as a public limited company under the Companies Act 1913 (now the Companies Act, 2017). Shares of the company are listed on Pakistan Stock Exchange Limited. The principal activities are manufacturing of ceramic tiles, sanitary wares and related ceramic products.

Financial Snapshot

Tier-1 Equity: *end-HY22- Rs. 631.4m; end-FY21: Rs. 403.2m; end-FY20: Rs. 286.3m; end-FY19: Rs. 228.1m.*

Assets: *end-HY22: Rs. 3.8b; end-FY21: Rs. 3.1b; end-FY20: Rs. 2.0b; end-FY19: Rs. 1.9b.*

Profit After Tax: *HY22: Rs. 239.7m; FY21: Rs. 100.7m; FY20: Rs. 43.9m; FY19: Rs. (88.5) m.*

The ratings assigned to Frontier Ceramics Limited (FCL) take into account the company's association with Khalid & Khalid Holdings (KKH) with business interests in construction, automobiles and industrial equipment. The ratings incorporate moderate business risk profile underpinned by operating dynamics of the industry involving mitigation of foreign exchange and price volatility risks in imported raw material procurement coupled with indirect exposure to regulatory risk on account of frequent changes in regulatory framework of related sectors, primarily construction. On the other hand, heavy custom duties are imposed on import of tiles to safeguard the interests of the local producers by creating higher price differential. The current prospects of construction & allied sectors are optimistic in line with extension of the amnesty scheme launched under the prime minister's package for construction industry under which the projects registered must be completed by end-Sep'23.

Stemming from favorable business environment in the medium-term, the financial risk profile of the company exhibited sizable improvement marked by positive momentum in revenues, enhanced margins, healthy profitability indicators and augmentation of equity base. Gross margins improved notably during the ongoing year on account of economies of scale leading to better absorption of fixed cost components and higher average rates of end products. The ratings factor in sound liquidity position of the company on account of sufficient cash flow generation in terms of outstanding liabilities coupled with unique business model involving persistently negative cash conversion cycle indicating that working capital requirements of the company are being financed by the suppliers. As a result, FCL has zero reliance on short-term borrowings which in turn assists in limiting financial expense borne by the company. Further, the ratings reflect nominal dependence of the company on commercial borrowings as almost the entire long-term funding is procured from related parties. However, the recent restructuring of related-party loans remains a key rating concern for VIS. The ratings take comfort from improvement in gearing on a timeline basis; however, debt leverage continues to remain high in line with increase in quantum of trade payables. The recent expansion in the scale of operations by set-up of new tile manufacturing plant which will almost double the operational capacity is expected to bode well with positive outlook of the sector. The ratings remain sensitive to the possibility of increases in raw material and energy costs, in the wake of the coming of Ukraine crisis, which could be detrimental to the bottom line.

Key Rating Drivers

Group Profile KKH was awarded approval under greenfield investment by EDB (Engineering Development Board) of Pakistan for the manufacturing of SHACMAN Prime movers and Trucks in October, 2018. In addition, approval for manufacturing of Sunlong, (luxury and non-luxury buses), trailers, oil tankers etc. is also in process with EDB. Currently, the range includes prime movers, rigid trucks and dump trucks, with variety of engine horse-power from 270 to 420 in 4x2 & 6x4 categories. Other companies' part of KKH group include Rawal Industrial Equipment (Pvt.) Limited (RIEL), Toyota Rawal Motors (Pvt.) Limited (TRML), Rawal Ready Mix, UAE (RRM) and Qingdao Kalide Trading Company Limited, China.

RIEL was established in 2015 and started commercial operations in 2016 with the vision to provide Chinese high-quality products with proper after sales services and parts to its customers. The company is selling, leasing and renting earth moving / construction machinery, industrial equipment, dumper & mining trucks, concrete mixers, semi-trailers, tankers, wheel loaders, excavators, rollers, graders, fork lifts and generators. RIEL is the exclusive authorized dealer of:

- Shaanxi Heavy Duty Automobile Import & Export Co. Ltd
- Guangxi Liugong Machinery Co. Ltd

- Shanghai Shenlong Bus Co. Ltd
- Wuhu CIMC Ruijiang Automobile Co. Ltd

TRML is the authorized Toyota dealership of Indus Motors Ltd; the company was established in 1993. Further, RRM was established in 2006 at Jebel Ali Industrial Area Dubai UAE. The company deals in sophisticated and modernized concrete ready-mix plant that was erected in Dubai. The plant has the following characteristics.

- Two Batching Plants with production capacity of 100 cubic meter/hr. each
- Two Concrete cooling plant with capacity of 100 cubic meter/hr at 21C each
- 14 Cement Bulkers
- 1 Ice Cooling Plant
- 2 Aggregate Washing Plants

Production, capex and power requirements: FCL, taken over by the group in 2006, is engaged in the manufacturing of tiles with brand name "FORTE" which has strong brand loyalty and recognition in the local market for ceramic tiles. The company has dealership network across Pakistan with more than 60 authorized dealers and is listed on the stock exchange. FCL has a current production capacity of 16,000 square meter/day. During FY21, the tile production capacity attained was 4.4m square meters (FY20: 1.9m square meters) against annual manufacturing capacity of 5.8 square meters (FY20: 5.8m square meters) translating into a notably improved capacity utilization of 76% (FY20: 33%) for FY21. The increase in sale of local products was observed as there were restrictions imposed on imported items due to pandemic situation. As per management, around 70% of the local demand is met though local production and the rest through imports. The government has imposed heavy regulatory duties of upto 55% on the import of tiles in order to protect the local industry. Meanwhile, the regulatory duty on the import of related raw material is only 0-2%.

In addition, installation of the new imported tile plant has been completed; the same is now operational well in advance before the scheduled time frame. As a result, capital work in progress amounting to Rs. 756.9m at end-HY22 will be transferred to property, plant and equipment; the entire capex was incurred on set up of the new tile manufacturing unit. The commercial production was initiate by end-May'22. The incremental annual capacity added is estimated around 5.4m square meters, as a result the total production capacity will increase to 11.2m square meters per annum. The capacity expansion will increase the current production of tiles gradually by 4000 to 15000 square meters per day; the same will further improve the bottom-line profitability mainly depending upon the market demand of the product. With the initiation of commercial operations of new plant, the management plans to venture into production of floor tiles in order to add diversification to its product portfolio.

The plant has a total power requirement of 3.5 MW while operating at full capacity for which the company has a sanctioned load of 4.0 MW from the national grid. At current capacity utilization, the company requires power of 2.0 MW. As a backup arrangement, the company has in place four gas-based generators having a total capacity 5 MW.

Growth in topline with notable improvement in profit margins: The company's topline witnessed more than double-growth to 2.8b (FY20: Rs. 1.1b) during FY21 as a combined impact of increase in volumetric sale coupled with higher retail prices of final products. The sizable increase in quantum of the final products sold to 4.3m square meters (FY20: 2.0 square meters) accounted for the largest chunk of revenue growth while the remaining was driven by price escalation. The company was also able to reap higher average prices of its major products, classic 10x20 tile and 10x20 classic dark amounting to Rs. 663/square meter (FY20: Rs. 589/square meter) and Rs. 708/square meter (FY20: Rs. 662/square meter) respectively which reflected positively in the revenues. On the other hand, FCL's margins declined by 50 basis points to 9.6% (FY20: 10.1%) on account of Gas Infrastructure Development Cess (GIDC) expense amounting to Rs. 119.1m incurred during FY21 after the Supreme Court of Pakistan dismissed all petitions filed against the GIDC levy and ruled in favor of the federal government in August, 2020. On the other hand, with discontinuation of some larger sized tiles entailing higher margins in line with change in customer preferences also resulted in slight margin erosion. Otherwise, there was no notable increase in the prices of raw material consumed, both local and imported, that could have contributed to decline in margins.

Further, the distribution cost also increased to Rs. 40.8m (FY20: Rs. 12.3m) during FY21 in line with higher freight charges of Rs. 29.1m (FY20: nil) booked owing to provision against discount offered to 496 customers based on sales made to them for three months to maintain business performance despite slowed down economic activity. The administrative expenses were also recorded slightly higher at Rs. 35.7m during FY21 vis-à-vis Rs. 28.5 in FY20 on account of increase in employee related cost in line with annual salary increments coupled with higher average headcount of 653 (FY20: 416) during the outgoing year; however, the increase in operating expenses is in sync with higher business volumes. In addition, other operating expenses stood higher at Rs. 17.8m (FY20: Rs. 4.1m) as a result of increased contribution made to workers participation fund during FY21. During the year, with effect from 1st January'21, FCL has opted provident fund for staff retirement benefits covering all permanent and regular employees as per registered provident fund rules and regulations. However, no provision for the past years has been accounted for staff retirement benefits with respect to gratuity till end-Dec'20 which approximately amounts to Rs. 55.0m since take over date of the company. The same has resulted in for basis of 'Qualified Opinion' by the external auditors during FY21 and can impact liquidity position during the rating horizon. On the other hand, other income was reported slightly higher at Rs. 3.9m (FY20: Rs. 2.9m) in line with liabilities written back mainly representing markup in respect of musharika finance facility from Innovative Investment Bank that was waived off at end-FY21. Moreover, despite slight increase in borrowings the finance cost was recorded lower due to sharp dip in benchmark interest rates during the period under review. As a result of positive trajectory of revenues and curtailment of interest expense, FCL reported sizable profit after tax of Rs. 100.7m (FY20: 43.9m) during FY21.

Significant growth was manifested in 1HFY22 with FCL's net sales recorded at Rs. 1.8b on account of growth in quantum sales to 2.6 square meter; the increase in volumetric sales in HY22 were higher than full year sales of FY20. The sizable growth in volumes is a function of exogenous factors involving amnesty scheme, which had been offered till Dec'20 and later extended for another six months to facilitate those intending to invest their untaxed money in construction projects along with construction package introduced by the Prime Minister in April'19. As per the management, the increase in average price of the entire product range to Rs. 683.8/square meter (FY21: Rs. 638.2/square meter) also contributed to the increase in revenues. Furthermore, with increase in prices of end products and no significant change in input cost coupled with significant jump in production volumes leading to better absorption of fixed cost components of cost of sales, FCL's gross margins improved significantly to 20.4% during HY22. With operating and financial expense kept in check, the company recorded sizable profit after tax amounting to Rs. 239.7m in line with growth in revenues and margins during HY22. The management had projected to close FY22 at Rs. 3.7b; the same is considered realistic and achievable given the current performance of the company along with projected expansion of operations.

Liquidity position exhibited improvement stemming from enhanced scale of operations & improved margins: Liquidity position of the company has improved during the rating review period on account of adequate cash flows in relation to long-term outstanding obligations and sound debt service capacity. In line with increased scale of operations and improved margins, Funds from Operations (FFO) exhibited considerable improvement on a timeline basis to Rs. 325.2 (FY21: Rs. 163.5m, FY20: Rs. 145.5m) during HY22. With time there has been considerable improvement in the liquidity position; the extent can be assessed from the fact that the FFO for HY22 is higher than the FFO of all prior full year numbers since inception. Although, there has been a slight increase in total borrowings during the period under review, FFO in terms of outstanding obligations was sizable and showcased an improving trend. FFO to total debt was recorded significantly higher at 1.90x (FY21: 0.55x; FY20: 0.58x) at end-1QFY22. Given the company has no outstanding short-term borrowings, the FFO to total debt is equivalent to FFO to long-term debt. Similarly, debt service coverage was also sound at 2.91 (FY21:2.68x; FY20: 1.50x) at end-HY22. Going forward, according to the management, cash flows are expected to improve on account of increase in sales supported by improvement in sector dynamics, capacity enhancement with commercial operations of new tile unit and higher contribution margin expected in floor tiles.

Further, stock in trade increased by end-HY22; the same primarily includes raw material for meeting production orders received and finished goods. The import lead time for the company ranges between 60-90 days therefore the company keeps inventory at hand for three months to avoid production lags. The company uses both local and imported raw material; the proportion of imported raw material purchases constituted around 87% of the company's total purchases during FY21. Going forward, the raw material mix is largely expected to remain unchanged. FCL is producing standardized tiles in bulk with no customization therefore the orders are serviced within 2-3 days. The company has a peculiar business model where the suppliers and customers are furnishing the working capital requirements; therefore, the trade receivables were recorded negligible at Rs. 8.8m (FY21: Rs. 6.9m; FY20: Rs. 2.5m) at end-HY22. FCL has extended unsecured short-term loan amounting to Rs. 7.6m to the holding company, KKH; the advance is repayable by end-FY22. In addition, short-term advances increased to Rs. 133.8m (FY21: Rs. 140.9m; FY20: Rs. 94.8m) at end-HY22 on a timeline basis, majorly including increase in advances extended to suppliers and against LCs for procurement; the same is in line with increase in scale of operations. The liquidity of the company is slightly impacted due to tax refund amounting to 58.7m (FY21: Rs. 64.0m; FY20: Rs. 64.0m) due from government at end-HY22; the company is unable to rectify the situation given it is an exogenous factor and inherent in the local cement industry.

Furthermore, apart from short-term advances the company has extended long-term loan amounting to Rs. 485.6m (FY21: Rs. 310.2m) at end-HY22 to a related party, Mr. Nadeem Khalid (CEO), for acquiring 1,031 kanals of land off CPEC highway near Mianwali at payment terms over the period of five years. Keeping in view conducive business environment, directors are off the opinion that if everything remains stable then in the next ten years, FCL will establish a large cement factory at the proposed location.

On the other hand, trade and other payables increased sizably to Rs. 1.1b (FY21: Rs. 646.5m; FY20: 321.9m) by end-HY22; the same largely pertained to trade creditors, advances from customers and accrued liabilities. Accrued liabilities majorly comprised gas bill and GIDC payable, salaries and wages payable, commission and social security payable. With increase in trade payables and no corresponding increase in stock in trade or receivables, current ratio of the company dropped to 0.52x (FY21: 0.79x; FY20: 1.01x) on a timeline basis by end-HY22. FCL's cash conversation cycle has remained negative for the last four financial periods implying that the suppliers are financing the company's day to day operations.

Opposing leverage indicators with gearing on the lower side while debt leverage remains high due to significantly high trade payables: The Tier-I of FCL augmented to Rs. 631.4m (FY21: Rs. 403.2m; FY20: Rs. 286.3m) at end-HY22 on account of internal capital generation. The company has zero reliance on short-term debt therefore debt profile of the company only comprises long-term borrowings. With payables financing inventory levels, short-term borrowings of the company were completely cleaned up by end-FY21. On the other hand, the company had no commercial long-term borrowings as the entire debt was obtained from related parties. However, the company obtained lease liability under diminishing musharika of Rs. 26.8m from a commercial bank at end-HY22; the facility carries markup at 3M-KOBOR plus 2.5% and is repayable in 36 monthly installments commencing from Dec'21 and ending in Nov'24. Mainly FCL has procured three loans from related parties amounting to Rs. 315.5m (FY21: Rs. 299.0m; FY20: Rs. 249.1m) at end-HY22. The long-term loan of Rs. 21.0 is received from CEO for working capital requirements; the same is an interest-bearing unsecured loan and accumulated markup thereon and carries mark up at the rate at KIBOR plus 2% per annum. The loan was restructured during FY21, as per the revised terms, the company will accrue interest over the years for a grace period of six years after which the payment of principle amount stands due. Moreover, markup will be payable after the settlement of the principal amount. In addition, the major chunk of financing pertains to interest free unsecured loans and accumulated markup thereon amounting to Rs. 294.4m (FY21: 279.0m; FY20: Rs. 156.4m) received from related parties, RIEPL and TRML for working capital requirements and acquisition of the equipment. The loans carrying markup rate at KIBOR plus 2% per annum were restructured during FY21. As per revised terms, the company will accrue interest over the years for a grace period of six years after which the payment of principle amount stands due. Moreover, markup will be payable after the settlement of the principal amount. Transactions involving related parties which mainly account for procurement of debt by FCL or extension of loan to associate concerns are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuation modes as admissible. Despite increase in borrowings, gearing trended downwards on a timeline basis to 0.54x (FY21: 0.74x; FY20: 0.87x) by end-HY22 in line with notable growth in equity base. Given, the management does not intend to mobilize any further long-term borrowing in the near future, gearing is projected to improve further in line with profit retention.

Apart from interest bearing liabilities, FCL has sizable liability amounting to Rs. 122.1m (FY21: Rs. 119.1m; FY20: nil) on account of Gas Infrastructure Development Cess (GIDC) payable at end-HY22. In Aug'20, the Supreme Court of Pakistan held that GIDC is validly levied and allowed the government to collect the amount in 24 equal installments. Further, in Nov' 20, the Supreme Court dismissed the review petition seeking review of its order. Supreme Court in its judgement on the review petitions noted that government is agreeing to recover the arrears for GIDC in 48 monthly installments instead of 24 months, as mentioned in Aug'20 order. The Federal Government has started the recovery of this fee and FCL has booked the liability amounting to Rs. 119.1m in this regard after receiving bill from the SNGPL at fair value in accordance with IFRS-9 by discounting the future cash payments required to be made in 48 installments, to settle the liability for GIDC. Further, with considerable trade payables carried on the books, debt leverage was recorded high at 3.03x (FY21: 3.50x; FY20: 3.0x) at end-HY22; however, the same reduced slightly during the ongoing in line with significant internal capital generation. The debt leverage is expected to remain around current levels as high payables are part of the business model to avoid procurement of short-term credit.

Adequate Corporate Governance Practices: The Board of Directors (BODs) comprise eight members including CEO comprising five non-executive directors, two executive directors and one independent directors. As per the revised code of corporate governance (CCG) 2017, the BODs should have at least two or one-third independent directors whichever is higher; FCL does not meet the best practices therefore there is room for improvement. In order to comply with the best practices of CCG, 2017, FCL has shortlisted two candidates for their appointment as independent directors. In this regard the process of due diligence of the independent directors had been completed and consent has already been received from those directors. In place of outgoing directors, Ms. Sana Khalid and Ms. Pervez Aslam, Mr. Muhammad Riaz Anjum and Ms. Shabina Anjum will be appointed as independent directors to fill the casual vacancies. In the past the company could not induct the independent director from PICG panel due to the company's CIB related issues. Ms. Shabina Anjum recently retired from effective duties as Executive Director in the national Oil and Gas Development Company Limited (OGDCL). During FY21, five BOD meetings were convened with all members attending every meeting.

The evaluation of Board's role of oversight and its effectiveness, in compliance with the requirement of the CCG and the Companies Act, 2017, is continual process, which is appraised by the Board itself. The core areas of focus include alignment of corporate goals and objectives with the vision and mission, strategy formulation for sustainable operation, Board's independence and evaluation of Board's Committees performance in relation to discharging their responsibilities set out in respective terms of reference. The annual evaluation questionnaire is developed in conformity with stipulated guidelines and is circulated to the Directors for performance evaluation. For FY21, the Board's overall performance and effectiveness has been assessed as 'Satisfactory'. For effective oversight, the Board has formed two committees including Board Audit Committee (BAC) and HR and Remuneration Committee. BAC is chaired by a non-executive director and each committee comprises three members.

Frontier Ceramics Limited — Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**HY22**
Non-Current Assets	997.1	1,538.5	2,529.8	3,177.2
Stores & Spares	53.4	72.0	119.4	171.7
Stock in Trade	173.7	169.2	173.4	205.1
Trade Receivables	0.5	2.5	6.9	8.8
Short-term Advances	51.5	94.8	140.9	133.8
Cash and Bank Balance	1.5	59.2	44.0	36.3
Total Assets	**1,934.6**	**2,027.9**	**3,091.7**	**3,799.2**
Trade & Other Payables	247.0	321.9	646.5	1,069.8
Short-Term Borrowings	63.5	80.6	-	-
Long-Term Borrowings *(Inc. current matur)*	215.8	168.5	299.0	342.3
Total Borrowings	279.3	249.1	299.0	342.3
Total Liabilities	807.5	857.0	1409.7	1,916.4
Tier-1 Equity	228.1	286.3	403.2	631.4
Total Equity	1,127.1	1,170.9	1,643.1	1,882.8
Paid-up Capital	378.7	378.7	378.8	378.8
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**HY22**
Net Revenue	781.8	1,115.2	2,829.0	1,806.3
Gross Profit	16.9	112.7	272.1	368.8
Finance Cost	42.6	36.8	32.3	20.6
Profit Before Tax	62.8	34.0	149.4	296.4
Profit After Tax	(88.5)	43.9	100.7	239.7
FFO	3.6	163.5	145.5	325.2
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**HY22**
Gross Margin (%)	2.2	10.1	9.6	20.4
Net Margin (%)	-11.3	3.9	3.6	13.3
Net Working Capital (in m)	(26.7)	4.4	(148.5)	(566.3)
Current Ratio (x)	0.93	1.01	0.79	0.52
FFO to Long-Term Debt (x)	0.02	0.97	0.49	1.90*
FFO to Total Debt (x)	0.01	0.66	0.49	1.90*
Debt Servicing Coverage Ratio (x)	0.16	1.60	2.39	2.91
Gearing (x)	1.22	0.87	0.74	0.54
Debt Leverage (x)	3.54	2.99	3.50	3.03
ROAA (%)	(5.6)	2.2	3.9	13.9*
ROAE (%)	(33.5)	17.1	29.2	92.7*
Cash Conversion Cycle (days)	-34.7	-54.8	-66.6	-108.9
Inventory + Receivables/Short-term Borrowings (x)	2.74	2.13	-	-

(*) Annualized

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure 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	Annexure IV
Name of Rated Entity	Frontier Ceramics Limited
Sector	Construction
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see table below
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 Meeting/s Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
19-Aug-22	BBB	A-3	Stable	Initial

Due Diligence Meeting/s Conducted

Name	Designation	Date
Mr. Khawaja Mushtaq	CFO	January 17, 2022