RATING REPORT

Attock Cement Pakistan Limited (ACPL)

REPORT DATE:
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RATING ANALYSTS:
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RATING DETAILS

	Latest Rating	
Rating Category	**Long-term**	**Short-term**
Entity	A+	A-1
Rating Date	*Mar 31, '16*	
Rating Outlook	Stable	
Outlook Date	*Mar 31, '16*	

COMPANY INFORMATION

Incorporated in 1981	**External auditors:** M/s A.F. Ferguson & Co., Chartered Accountants
	Cost Auditors: Naveed Zafar Ashfaq Jaffery & Co., Chartered Accountants
Public Limited Company	**Chairman of the Board:** Dr. Ghaith R. Pharaon
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Babar Bashir Nawaz
Pharaon Investment Group Limited, Holding S.A.L Beirut, Lebanon – 84.06%	
Institutions – 5.89%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporates (October 2003)*
http://www.jcrvis.com.pk/images/IndustrialCorp.pdf

Attock Cement Pakistan Limited

OVERVIEW OF THE INSTITUTION

Attock Cement Pakistan Limited (ACPL) is a subsidiary of Pharaon Investment Group Limited Holding S.A.L. (PIGL), having diversified interest in multiple sectors. Locally, PIGL has a strong presence in the oil sector with investment in Pakistan Oilfields Limited, Attock Refinery Limited, National Refinery Limited and Attock Petroleum Limited.

ACPL started its commercial production in 1988. The company is listed on Pakistan Stock Exchange Limited (Formerly Karachi Stock Exchange Limited) and the total employee strength of the company is 801. External auditors of the company is A.F. Ferguson & Co., Chartered Accountants, whereas, the internal audit has been outsourced to E&Y Ford Rhodes Sidat Hyder & Co.

RATING RATIONALE

Attock Cement Pakistan Limited (ACPL) is one of the leading cement manufacturers in the South region having a market share of 23% in total dispatches during FY15. Market share in dispatches on Pan-Pakistan basis stood at over 5% during FY15. Net sales of the company have grown at a CAGR of 11.3% over the last five years primarily on account of higher retention prices. While export sales have on average represented around one-third of total dispatches over the last four years, growth in local dispatches in the ongoing year (1HFY16) and diversification into new export markets have compensated for decline in exports due to anti-dumping duty imposed on exports to South Africa.

ACPL is currently operating with Line 1 and Line 2 and is in the process of adding Line 3. Total rated capacity of Line 1 and Line 2 is 1.83m Tonnes per annum. With the addition of Line 3, rated capacity for cement production is expected to reach 3m Tonnes per annum. Apart from maintaining market share, Line 3 expansion of the company will facilitate in improved profitability given the higher efficiency of Line 3 vis-a-vis existing lines. Project cost of Line 3 expansion is estimated at $130m, of which, $65m will be financed through internal cash generation and liquidation of existing investments on balance sheet whereas the remaining will be financed through debt. Capacity utilization of ACPL has remained over 100% during the last five years vis-à-vis 75% in the North region and 87% in the South region. Ability to tap export market has allowed the company to achieve over 100% capacity utilization which results in improved efficiencies.

Key Rating Drivers

- **Strong Sponsor Profile:** PIGL has a strong financial profile and diversified business interest globally as well as strong presence in the local oil sector. JCR-VIS anticipates support from sponsors for ACPL if needed.
- **Industry Dynamics:** As per research conducted by CEMTEC, Pakistan is amongst the three Cement Hotspots in the world where demand is expected to grow at its fastest. Higher local demand along with decline in input prices has resulted in healthy increase in profitability of cement manufacturers during FY15 and 1HFY16. Going forward, growth in local demand is expected to be driven by initiation of infrastructure projects under China Pakistan Economic Corridor and private sector housing schemes. Given the favorable demand outlook, four cement manufacturers (including ACPL) have announced expansion with additional capacities coming online representing roughly 16% of existing capacity. Industry players anticipate growth in domestic demand to cater to additional capacities coming online.
- **Market Position:** Ratings are underpinned by company's brand strength & market position as the second largest player in the South market having almost one-fourth market share in terms of dispatches. ACPL's brand 'Falcon' commands premium pricing in the local market.
- **Healthy Financial Profile:** The Company's strong financial profile is supported by diversified sales mix, improving profitability & cash flows**,** favorable working capital cycle, limited trade debts, healthy capitalization and no borrowings outstanding at end-December, 2015. Going forward, profitability metrics of ACPL for FY16 are expected to improve in view of change in sales mix towards local sales (higher net retention) and further decline in input prices (lower coal prices and decline in KE tariff). Even after accounting for additional debt being acquired to fund expansion, cash flows remain adequate and gearing remains below 1(x). Moreover, Debt Servicing Coverage Ratio is expected to remain over 1(x) even after sensitizing for lower than projected gross margins.
- **Corporate Governance:** Ratings also incorporate adequate corporate governance infrastructure as evident from satisfactory board oversight, stable & professional management team and adequate IT and controls. While remaining in line with regulatory requirements, inclusion of additional independent directors on Board alongwith Chairman of Board Audit Committee being an independent director will enhance board composition in line with best practices.

Going forward, rating sensitivities include maintaining adequate cash cushion to meet debt obligations, timely completion of Line 3, benefits of expansion accrue in terms of improved margins & cash flows and continuation of marketing arrangement.

PROFILE OF DIRECTORS Appendix I

Name of Directors	Profile
Dr. Ghaith R. Pharaon	Dr. Ghaith is an international investor and industrialist who has financial and trading interests in Pakistan and other parts of the world in various sectors like petroleum, power generation, chemical, real estate and cement etc. He holds an MBA degree from Harvard University and Masters in Petroleum Engineering from University of Colorado and Stanford University. He is also the chairman of Attock Oil Company Limited, National Refinery Limited, Attock Refinery Limited and Director on the Board of various Companies in the Group.
Mr. Laith G. Pharaon	Mr. Laith is a businessman and an international investor who has financial and trading interests in Pakistan and other parts of the world in various sectors like petroleum, power generation, chemical, real estate and cement etc. He holds a graduate degree from the University of Southern California. He also serves as a Director on the Board of various Companies in the Group.
Mr. Wael G. Pharaon	Mr. Wael is a businessman and an international investor who has financial and trading interests in Pakistan and other parts of the world in various sectors like petroleum, power generation, chemical, real estate and cement etc. he holds a graduate degree. He is also Director on the Board of various Companies of the Group.
Mr. Shuaib A. Malik	Mr. Shuaib A. Malik has been associated with Attock Group Companies for around 35 years. He started his career as an Executive Officer in the Attock Oil Company Limited in July, 1977 and served in different companies in the group at various times with the responsibility to supervise and oversee the operations and affairs of these companies. He has exhaustive experience related to various aspects of upstream, midstream and downstream petroleum business. He obtained his bachelor's degree from Punjab University and has attended many international management programs, workshops and conferences including two such programs at British Institute of Management, UK and Harvard Business School, USA. Presently, he is holding the position of Group Regional Chief Executive of the Attock Group of Companies besides being the Director on the Board of all the Companies in the Group.
Mr. Abdus Sattar	Mr. Abdus Sattar has over 35 years of Financial Management experience at key positions in various Government organizations/ministries, commercial organizations with the main objective of controlling costs of various commodities, to watch consumer interest, minimize government subsidies, improve government revenues, eliminate wasteful expenses/leakages, fixation of gas and POL prices. After serving as Financial Advisor to Ministry of Petroleum & Natural Resources, Government of Pakistan, he also remained Financial Advisor for Mari Gas Company Limited for around 8 years including 6 years as its Director on the Board. While working as Financial Advisor in Ministry of Petroleum he also served as Director on a number of boards like OGDCL, PPL, SNGPL, SSGCL, PSO, PARCO, ARL, POL, NRL, PMDC etc. as a nominee of Government of Pakistan for about seven years. He is a fellow member of Institute of Cost and Management Accountant of Pakistan (ICMAP) and was also nominated as council member of ICMAP for the three years (Jan, 2000 to Dec, 2002) by the Government of Pakistan. He has attended many advance financial management courses, programs and trainings in institutions of international repute in Pakistan and abroad. Presently, he is on the Board of Attock Refinery Limited, Pakistan Oilfields Limited, Attock Cement Pakistan Limited and National Refinery Limited and a visiting faculty member of a number of reputed universities and professional institutions.
Agha Sher Shah	Agha Sher Shah is currently Chairman and Chief Executive of Bandhi Sugar Mills. Prior to his current role, he was Senior Portfolio Manager of a multi-billion dollar portfolio in Abu Dhabi Investment Authority (ADIA), one of the largest sovereign wealth funds in the world. Mr. Shah started his career as an investment analyst covering consumer, energy and finance sectors of the S&P 500 in the US equity market. In his investment career of 24 years at ADIA he has held senior portfolio management positions in US and Global equities. He has a Bachelor of Science in Engineering from Rice University and holds a Master of Business Administration from Cornell University.
Mr. Babar Bashir Nawaz	Mr. Babar Bashir Nawaz has over 30 years of experience with the Attock Group. During this period he has held various positions in Finance, Personnel, Marketing & General Management before being appointed as the Chief Executive of Attock Cement Pakistan Limited in 2002. Mr. Bashir holds a Master's degree in Business Administration from the Quaid-e-Azam University in Islamabad and at present is also a Director on the Board of all the listed companies of the Group in Pakistan. He has attended various courses, workshops and seminars in Pakistan and abroad on the business management and has substantial knowledge of the cement industry in Pakistan. Currently he is also a member of the Management Committee of the Overseas Investors Chamber of Commerce and Industry and the All Pakistan Cement Manufacturer Association.

Attock Cement Pakistan Limited — Appendix II

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	Dec 31, 2015	Jun 30, 2015	Jun 30, 2014	Jun 30, 2013
Fixed Assets	5,933	6,000	6,126	5,999
Short Term Investments	3,426.06	3,104.91	3,165.43	2,282.73
Stock-in-Trade	843.16	763.72	523.40	564.90
Trade Debts	214.42	124.41	262.06	349.28
Cash & Bank Balances	512.92	858.70	467.84	389.01
Total Assets	12,317.62	12,234.54	11,926.00	10,705.60
Trade and Other Payables	2,036.11	1,772.10	2,022.79	1,613.55
Long Term Debt *(*incl. current maturity)*	9.92	11.88	15.81	8.38
Total Equity	8,885.47	8,935.13	8,446.05	7,946.65

INCOME STATEMENT	Dec 31, 2015	Jun 30, 2015	Jun 30, 2014	Jun 30, 2013
Net Sales	6,396.59	13,086.12	12,547.25	11,507.71
Gross Profit	2,241.80	4,396.18	3,703.96	3,534.97
Operating Profit	1,592.23	3,246.65	2,664.86	2,693.24
Profit After Tax	1,152.82	2,205.65	2,014.07	2,136.09

RATIO ANALYSIS	Dec 31, 2015	Jun 30, 2015	Jun 30, 2014	Jun 30, 2013
Gross Margin (%)	35.05	33.59	29.52	30.73
FFO to Total Debt	111.62	191.84	145.20	289.33
Debt Leverage	0.39	0.37	0.41	0.35
ROAA (%)	9.73	18.26	17.80	21.79
ROAE (%)	13.40	25.38	24.57	29.31

Attock Cement Pakistan Limited — Appendix III

PROJECTED FINANCIAL SUMMARY *(amounts in PKR millions)*					
INCOME STATEMENT	**Jun 30, 2016 (Annualized)**	**Jun 30, 2017**	**Jun 30, 2018**	**Jun 30, 2019**	**Jun 30, 2020**
Net Sales	12,793.2	13,839.82	13,986.80	14,141.13	14,303.18
Gross Profit	4,483.6	3,781.19	3,928.17	4,082.50	4,244.55
Operating Profit	3,184.5	2,003.01	2,456.06	2,838.90	3,211.01
Profit Before Tax	3,161.0	1,862.80	2,284.14	2,640.18	2,986.24
Profit After Tax	2,305.6	1,812.78	2,237.07	2,263.41	2,200.61
CASHFLOWS	**Jun 30, 2016**	**Jun 30, 2017**	**Jun 30, 2018**	**Jun 30, 2019**	**Jun 30, 2020**
FFO	2,214.6	2,827.75	3,252.04	3,278.4	3215.59
Debt Payment	-	-	437.5	1,750	1,750
Dividend Payment	572.61	572.61	572.61	572.61	572.61
Total Capex	6,800	4,200	2,900	300	300
RATIO ANALYSIS	**Jun 30, 2016**	**Jun 30, 2017**	**Jun 30, 2018**	**Jun 30, 2019**	**Jun 30, 2020**
Gross Margin (%)	35	27.3	28.1	28.9	29.7
FFO to Total Debt (%)	31.63	40.40	49.55	68.12	105

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix IV

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: JCR-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.jcrvis.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.jcrvis.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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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 V

Name of Rated Entity	Attock Cement Pakistan Limited
Sector	Cement and Construction
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	
Instrument Structure	N/A
Statement by the Rating Team	JCR-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	JCR-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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
Mar 31, '16	A+	A-1	Stable	Initial