RATING REPORT

Attock Cement Pakistan Limited (ACPL)

REPORT DATE:
April 18, 2017

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating Long-term	Latest Rating Short-term	Previous Rating Long-term	Previous Rating Short-term
Entity	A+	A-1	A+	A-1
Rating Outlook	Stable		Stable	
Rating Date	*April 13, 2017*		*March 31, 2016*	

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:** Mr. Sajid Nawaz
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

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). External auditor 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 the one of the leading cement manufacturers in the South region having a market share of 21% in terms of installed capacity. Market share in dispatches in South zone and on Pan-Pakistan basis stood at 25% and 5% during FY16. Net sales of the company have grown at a CAGR of 10.2% 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, local dispatches have witnessed growth in FY16 and in the ongoing year due to increasing local demand and higher retention prices vis-à-vis exports. Subsequent to imposition of anti-dumping duty on exports to South Africa, ACPL has managed to mitigate decline in export dispatches by diversifying to other export markets.

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 and is expected to reach over 3m Tonnes per annum with completion of Line 3. Significant progress (90% plant & machinery has arrived at project site on account of which exchange rate risk has been mitigated) while over 50% civil works have been completed) has been noted with regards to Line 3 expansion and the Project is expected to be complete in the last quarter of 2017. 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. Progress has also been noted with regards to ACPL's plan to operate a cement grinding plant in Iraq. In this regard, Letter of Credit has been established while project is expected to be completed by June'2018.

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; although need for sponsor support has historically remained limited.
- **Industry Dynamics:** Demand outlook for the sector remains healthy driven by initiation of infrastructure projects under China Pakistan Economic Corridor and private sector housing schemes. However, expansion announcement by major players is expected to result in significant increase in capacities representing 100% and 50% of existing capacity for South and North Zone respectively. Resultantly, capacity utilization levels are expected to dip particularly in the South Zone. Management expects current industry structure to continue due to capital commitment of major players, projected closure of inefficient lines and growth in domestic demand. Significant increase in fuel prices may also impact margins of industry players.
- **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. The company's brand strength is also a source of competitive advantage in key overseas markets.
- **Operations**: Capacity utilization of ACPL stood at 107% (FY15: 105%) during FY16 and has remained over 100% during the last five years vis-à-vis 74% in the North region and 93% in the South region. Increase in capacity utilization was on the back of highest ever kiln working days resulting in improved efficiencies. Addition of line 3 will result in further improvement in plant efficiencies and gross margins.
- **Healthy Financial Profile:** The Company's strong financial profile is supported by diversified sales mix, improving profitability & cash flows**,** favorable working capital cycle and healthy capitalization indicators. Improvement in cash flows has resulted in projected borrowing requirement for expansion reducing to half of initially envisaged. Resultantly, gearing will remain below 0.5(x) while debt servicing coverage ratios are expected to remain at comfortable levels. Going forward, profitability and cash flows will be supported by commencement of line 3 operations and completion of Iraq expansion project.
- **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.

Attock Cement Pakistan Limited **Appendix I**

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	Dec 31, 2016	Jun 30, 2016	Jun 30, 2015	Jun 30, 2014
Fixed Assets	12,764	7,141	6,000	6,126
Short Term Investments	-	4,273.36	3,104.91	3,165.43
Stock-in-Trade	444.88	599.75	763.72	523.40
Trade Debts	247.09	211.11	124.41	262.06
Cash & Bank Balances	325.67	581.32	858.70	467.84
Total Assets	15,631.57	14,426.4	12,234.54	11,926.00
Trade and Other Payables	3,322.04	2,680.06	1,772.10	2,022.79
Long Term Debt *(*incl. current maturity)*	5.992	7.956	11.88	15.81
Short Term Debt	708.16	-	-	-
Total Equity	10,393.34	10,446.84	8,935.13	8,446.05
INCOME STATEMENT	Dec 31, 2016	Jun 30, 2016	Jun 30, 2015	Jun 30, 2014
Net Sales	7,228.73	13,918.34	13,086.12	12,547.25
Gross Profit	2,844.65	5586.5	4,396.18	3,703.96
Operating Profit	2,060.77	4257.02	3,246.65	2,664.86
Profit After Tax	1,378.03	2,890.02	2,205.65	2,014.07
RATIO ANALYSIS	Dec 31, 2016	Jun 30, 2016	Jun 30, 2015	Jun 30, 2014
Gross Margin (%)	39.35	40.14	33.59	29.52
FFO to Total Debt	3.94	328.86	191.84	145.20
Debt Leverage	0.5	0.38	0.37	0.41
ROAA (%)	18.34	20.95	18.26	17.80
ROAE (%)	26.44	28.82	25.38	24.57

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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 III**
Name of Rated Entity	Attock Cement Pakistan Limited
Sector	Cement and Construction
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see below
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				
April 13, '17	A+	A-1	Stable	Reaffirmed
Mar 31, '16	A+	A-1	Stable	Initial

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