RATING REPORT

Attock Cement Pakistan Limited (ACPL)

REPORT DATE:
June 12, 2018

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
Rating Outlook	Stable		Stable	
Rating Date	*June 12, 2018*		*October 31, 2017*	

COMPANY INFORMATION

Incorporated in 1981	**External auditors:** M/s A.F. Ferguson & Co., Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Laith G. 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 (May 2016)*
http://jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf

Attock Cement Pakistan Limited

RATING RATIONALE

Attock Cement Pakistan Limited (ACPL) is the one of the leading cement manufacturers in the South region and operates through the Falcon brand. In terms of market share, ACPL holds a 21.6% share in the Southern Zone based on installed capacity as at end-May'2018. The Company is the second largest player with a market share of 25.9% in terms of dispatches in 2017. Key export markets for the Company include Africa, Srilanka and Middle East.

On the operational front, key focus area of the management is to maintain 100% utilization of its production lines. Capacity utilization of ACPL was maintained at 107% during FY17. Increase in capacity utilization was on the back of higher operating working days. Capacity utilization was reported at 106% during 9MFY18. ACPL is currently operating with 3 production lines. Line 3 started commercial operations effective January'2018 and has increased installed capacity to over 3m TPA (FY17: 1.83m TPA). The new production line has continued satisfactory operations for the last five months. Completion of the plant is expected to result in significant efficiency benefits given the lower kwh per ton of cement and kcal per kg of clinker consumption and will also allow the company to maintain its market position in the South Zone.

Progress has also been noted with regards to ACPL's plan to operate a cement grinding plant in Iraq. Major plant and machineries have arrived at Site with significant progress made with regards to installation work. The plant is expected to commence operations during 1QFY19. The expansion in Iraq is being undertaken through ACPL's subsidiary Saqr Al Keetan. ACPL has a 60% stake in the subsidiary with the grinding unit having a capacity of 0.9m TPA (phase 1 and phase 2). Given the robust demand outlook and strategic location of the plant, management plans to reinvest cash flows in Iraq operations in order to fund future growth. The second phase of the expansion in Iraq will commence based on market dynamics and involves setting up of another cement grinding unit or installation of a cement roller press. Land for expansion is already available within the existing plant.

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.

Challenging Industry Dynamics; margins to remain under pressure amid significant supply additions
As per JCR-VIS, the cement sector is now projected to enter competitive phase with pressure expected on selling prices and rising cost of inputs. Demand outlook for the sector is expected to post a stable growth on the back of ongoing infrastructure projects under China Pakistan Economic Corridor and demand for housing and commercial space. However, delay in infrastructure projects due to political uncertainty (in an election year) and increase in interest rates may slightly impact projected demand growth. After witnessing significant decline during FY18, JCR-VIS expects industry margins to remain under pressure in FY19 on account of higher coal prices, rupee depreciation and expected increase in competition, particularly in the South region. Expansion projects of three players (Lucky Cement in Dec'2017, ACPL in Jan'2018 and DGKC in May'2018) representing around two-third of existing capacity have come online over the last 6 months. While the marketing arrangement has largely operated smoothly post expansion by Lucky and ACPL, JCR-VIS expects prices to come under pressure given that DGKC's plant comprises a single line and is more efficient. However, DGKC's limited presence in export markets and brand strength in the South zone compares less favorably to other two established players.

Existing Market Position and brand strength to provide competitive edge in challenging times
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 and is also a source of competitive advantage in key overseas markets.

OVERVIEW OF THE INSTITUTION

Attock Cement Pakistan Limited (ACPL) is a subsidiary of Pharaon Investment Group Limited Holding S.A.L. (PIGL). PIGL has interest in diversified sectors. ACPL was incorporated in 1981 as a public limited company under the Companies Ordinance 1984. Main business of ACPL is manufacturing and sale of cement. The company is listed on Pakistan Stock Exchange Limited (formerly Karachi Stock Exchange Limited) with the head office located in Karachi while the factory is situated at Hub Chowki, Lasbella and Balochistan.

Profile of CEO:

Mr. Babar Bashir Nawaz is a seasoned professional with experience spanning over 30 years with Attock Group. Before his appointment as CEO in 2002, Mr. Babar held various positions in Finance, Personnel, Marketing and General Management. He holds a Master's degree in Business Administration from the Quaid-e-Azam University in Islamabad. Mr. Babar also serves as a Director on the Board of all the listed companies of the Group in Pakistan.

Double digit sales growth in 9MFY18; diversification in sales mix is a positive rating driver with healthy uptick expected in exports

The company observed highest ever dispatches of 2.08m metric tons during FY17. Growth in dispatches continued in the ongoing year with same increasing by 10.4% during 9MFY18; increase was a function of higher local dispatches while exports (including clinker sold) remained around prior year level. Going forward, exports are projected to depict healthy growth given that management has consciously maintained its presence in various export markets over the last few years and is now looking to aggressively penetrate the same in view of sizeable capacities coming online. In this regard, ACPL has secured a significant order for clinker exports which will be executed in the ongoing quarter. While growth in dispatches continued, net retention prices witnessed a slight decline during 9MFY18. In absolute terms, net sales increased by around 8% vis-à-vis corresponding period last year.

Pressure on margins to persist, going forward. Volumetric growth in sales alongwith higher efficiencies post expansion to support profitability

In line with industry trend, profitability of the company witnessed a decline during 9MFY18 vis-à-vis 9MFY17. Decline was primarily attributable to impact of persistently high coal prices and increase in manufacturing cost which the Company was not able to pass on as evident from a slight decline in retention prices. Going forward, margins are expected to witness further pressure on account of expected competitive pressure on cement prices; however, overall profitability will be supported by volumetric growth in sales (local and exports).

Conservative financial policy as reflected by low leveraged capital structure supports assessment of capitalization profile

Assessment of ACPL's capitalization profile incorporates the company's conservative financial policy as reflected in low leveraged capital structure. Equity base has grown at a CAGR of 12.3% over the last 3 years while dividend payout ratio has averaged 59.5% during this period. Total borrowings outstanding amounted to Rs. 5b at end-March'2018 and have been mobilized to fund expansion for line 3. Borrowings mobilized are lower than initially envisaged on account of healthy cash flows during FY16 and FY17. Repayment for loans commences from last quarter of the ongoing year with annual repayments of Rs. 1.25b over the next four years. Gearing ratio of the company stood at 0.4x (FY17: 0.3x; FY16: 0.0x) at end-9MFY18 and is projected to decline, going forward, with repayment of long-term debt.

Strong liquidity profile as evident from favorable working capital cycle, healthy cash flows in relation to outstanding obligations and strong debt servicing ability

Liquidity profile of the Company is strong as evident from favorable working capital, healthy cash flows in relation to outstanding obligations and strong debt servicing ability. FFO amounted to Rs. 2.7b (9MFY17: Rs. 2.5b) during 9MFY18 and represented 71% (9MFY17: 91%) of outstanding debt. Even after sensitizing for lower than projected cash flows due to weakening in margins, debt servicing ability of the Company is projected to remain at over 2(x) over the repayment period. While current ratio was reported at 0.65(x) at end-9MFY18, mismatch on balance sheet has reduced significantly with retirement of outstanding short-term borrowings.

Adequate Corporate Governance

Ratings also incorporate adequate corporate governance infrastructure as evident from satisfactory board oversight, stable & professional management team and adequate IT and controls.

Attock Cement Pakistan Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	March 30, 2018	Jun 30, 2017	Jun 30, 2016	Jun 30, 2015
Fixed Assets	18,745	16,660	7,141	6,000
Short Term Investments	130	-	4,273	3,104.9
Stock-in-Trade	733	457	600	763.7
Trade Debts	540	180	211	124.4
Cash & Bank Balances	344	122	581	858.7
Total Assets	24,941	20,709	14,426	12,234.5
Trade and Other Payables	5,724	3,824	2,680	1,772.1
Long Term Debt *(*incl. current maturity)*	5,002	1,501	8	11.8
Short Term Debt	-	2,084	-	-
Total Equity	12,228	11,947	10,447	8,935.1
INCOME STATEMENT	**March 30, 2018**	**Jun 30, 2017**	**Jun 30, 2016**	**Jun 30, 2015**
Net Sales	12,142	14,735	13,918	13,086
Gross Profit	3,980	5,892	5587	4,396
Operating Profit	2,759	4,472	4257	3,247
Profit After Tax	1,827	3,034	2,890	2,206
RATIO ANALYSIS	**March 30, 2018**	**Jun 30, 2017**	**Jun 30, 2016**	**Jun 30, 2015**
Gross Margin (%)	32.8	40.0	40.1	33.6
FFO to Total Debt	0.7	0.8	328.8	191.8
Gearing	0.41	0.3	0.0	0.0
ROAA (%)	10.6	17.3	21.7	18.2
ROAE (%)	20.1	27.1	29.8	25.4

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.

'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	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
			RATING TYPE: ENTITY		
	June 12,'18	A+	A-1	Stable	Reaffirmed
	Oct 31,'17	A+	A-1	Stable	Reaffirmed
	April 13, '17	A+	A-1	Stable	Reaffirmed
	Mar 31, '16	A+	A-1	Stable	Initial
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.				
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