RATING REPORT

Thatta Cement Company Limited (TCCL)

REPORT DATE:
May 14, 2024

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Latest Rating**	
	Long-term	**Short-term**
Entity	A-	A-2
Rating Date	*14th May, 2024*	
Rating Outlook	Stable	
Rating Action	Initial	

COMPANY INFORMATION	
Incorporated in 1980	**External Auditors:** M/s BDO Ibrahim & Co, Chartered Accountants
Public Listed Company	**Chairman of the Board:** Mr. Khawaja Muhammad Salman Younus
Key Shareholders (with stake 10% or more):	**Chief Executive Officer:** Mr. Kamran Munir Ansari
Sky Pak Holding (Private) Limited – 21.2%	
Al Miftah Holding (Private) Limited – 14.9%	

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

APPLICABLE METHODOLOGY
VIS Entity Rating Criteria: Corporates
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Thatta Cement Company Limited was incorporated in Pakistan in 1980 as a public limited company under the repealed Companies Act, 1913 (now the Companies Act, 2017) and is listed on PSX in 2008. The Company's main business activity is manufacturing and marketing of clinker and cement.

Chairman Profile: Mr. Khawaja Muhammad Salman Younis holds 37 years of extensive experience in the banking industry, encompassing a wide array of roles from information technology to corporate finance. He notably spearheaded the rapid establishment of operations for a leading Islamic bank in Malaysia, achieving recognition as the Best Islamic Bank in the World in 2006. With a tenure at Citi Group spanning from 1981 to 2001, he demonstrated proficiency in managing complex credits and structuring innovative deals across various sectors, contributing significantly to the evolution of Islamic finance globally.

Corporate Profile

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Background

TCCL was incorporated in 1980 as a public limited company. It was a wholly owned subsidiary of the State Cement Corporation of Pakistan (Pvt.) Limited. The manufacturing facility was commissioned in 1982. The plant is based on dry process technology, had a total installed capacity of 1,000 tons per day of clinker, subsequently increased to 2,000 TPD. The plant was supplied by M/s. Mitsubishi Corporation, Japan. In the year 2004, Government of Pakistan (GoP) divested its shareholding from the company through Privatization Commission.

The Company obtained listing on the Karachi Stock Exchange Limited (Currently "Pakistan Stock Exchange Limited PSX") as public limited company in the year 2008. Share of Thatta Cement Company Limited are quoted on PSX.

Sky Pak Holding (Pvt) Ltd. (SPHL) and Al-Miftah Holding (Pvt.) Ltd. (AMHL) bought majority of shareholding consisting of 21.2% and 14.9%, respectively from Arif Habib Group.

The Company owns 62.43% shareholding of Thatta Power (Private) Limited (TPL) (the Subsidiary Company). TPL has only class of shares and all shares have equal voting rights. The principal business of the subsidiary Company is generation and supply of electric power. In addition, TPL also supplies electricity to Hyderabad Electric Supply Company (HESCO).

<u>Operational Performance:</u>

Production Capacity and Utilization	FY21A	FY22A	FY23A	6MFY24A
Installed Capacity - Clinker (Tons)	548,400.00	660,000.00	660,000.00	330,000.00
Actual Production - Clinker (Tons)	349,638.00	415,810.00	444,087.00	147,345.00
Utilization	63.76%	63.00%	67.29%	44.65%

<u>Key Rating Drivers</u>

Medium business risk profile characterized by moderate to low competitive intensity and regulatory frameworks

VIS assess the business risk profile of Pakistan's cement sector as moderate, with support from a medium to low level of competition and a stable regulatory framework. However, certain factors present notable risks to the industry's stability. These include its high cyclicality, closely tied to the fluctuations in the construction sector, as well as its inherently capital-intensive nature. Moreover, the sector's exposure to energy price volatility further compounds these risks.

The cement sector in Pakistan, characterized by its oligopolistic structure with 16 major players, is intricately linked to the nation's economic landscape and government policies, particularly the Public Sector Development Program (PSDP) allocations. The industry's performance is heavily contingent upon the state of the economy, influencing production capacity and dispatch in accordance with demand levels. However, the sluggish growth of Pakistan's economy poses challenges, leading to subdued domestic market demand and lower capacity utilization rates. Moreover, the sector is vulnerable to external factors such as fluctuations in currency exchange rates, imported coal prices, fuel costs, and import regulations, given its reliance on imported coal for a significant portion of production.

CEO Profile: Mr. Kamran Munir Ansari, a Chartered Accountant from A.F. Ferguson & Co., affiliated with the PWC network, brings a wealth of experience in capital markets, automobile assembly, and manufacturing sectors. Notably, he held key financial roles including Chief Financial Officer & Company Secretary at JS Global and KASB Securities, which was recently acquired by AKD Securities. Prior to this, he served as Vice President - Operations Finance at Pakistan Services Limited, highlighting his expertise in areas such as investment banking, risk management, and treasury operations.

Looking ahead, the profitability of the sector is anticipated to remain strained due to elevated finance costs driven by rising interest rates, depreciation of the rupee, and price volatility. The near-term demand is also expected to remain subdued due to a combination of factors including diminished consumer purchasing power, a broader economic deceleration, and uncertainty surrounding regulatory frameworks encompassing monetary policy, taxation, and potential amendments in real estate sector policies.

Stable profitability growth in FY23; however, 3QFY24 reported significant improvement

The Company exhibited a notable 21.2% increase in its topline during FY23, rising from PKR 4.3 bln in FY 2022 to PKR 5.4 bln. This growth, achieved despite lower dispatch volumes throughout the year, stemmed from an upsurge in the average selling price of cement (FY23: 900/bag FY22: 733/bag). However, the rise in revenue did not yield into a commensurate increase in gross profit, as elevated energy costs constrained the gross margin, which stood at 7.8% (FY22: 7.5%) in FY23. Furthermore, the Company experienced a slight decline in net margin, decreasing to 4.6% (FY22: 4.8%) in FY23, primarily attributable to a significant 52.4% surge in finance costs incurred during the period.

During the 9MFY24, TCCL demonstrated a significant enhancement in its profitability, evidenced by a sales figure of PKR 5.4 bln. This notable revenue escalation over a span of three quarters is attributed to both increased cement dispatches and price adjustment. In tandem with this revenue surge in 9MFY24, TCCL experienced notable improvements in both gross margin, reaching 27.8% propelled by the utilization of low-cost local coal., and net margin, climbing to 28.5%, respectively

Coverage profile on a strengthening trend

The coverage profile in FY23 demonstrated further improvement, with the debt service coverage ratio (DSCR) reaching to 9.6x (FY22: 8.0x). This improvement is driven by a surge in funds flow from operations (FFO), nil long-term debt, and company's less reliance on short-term debt. The increase in FFO from PKR 283.6 mln to PKR 442.7 mln is attributed to heightened profitability. Moreover, the 3QFY24 displayed growth in the coverage profile with a DSCR of 37.7x, propelled by a significant uptick in FFO resulting from increased profitability.

Strong capitalization metrics due to nearly debt free balance sheet

Throughout FY23, the Company sustained its practice of upholding a nearly debt-free balance sheet. Meanwhile, the gearing ratio persisted at a stable 0.1x, and leverage also showed a slight enhancement, decreasing to 0.6x (FY22: 0.7x), due to a reduction in the Company's current obligations. However, in the 3QFY24, there was a marginal downturn as leverage increased to 0.7x due to increase in higher trade payables, though the gearing ratio remained unchanged at 0.1x.

Adequate liquidity profile

The Company continues to demonstrate a strong liquidity profile, with a three-year average current ratio of 1.8x. Notably, in FY23, the current ratio further strengthened to 1.8x, (FY22:1.5x) driven by a reduction in current liabilities coupled with an increase in stock in trade. Moreover, the short-term debt (STD) coverage ratio also saw improvement in FY23, rising to 7.5x (FY22: 6.2x), attributed to higher inventory levels. However, there was a reduction observed in the 3QFY24, with both the current ratio and short-term debt coverage weakening to 1.7x and 3.8x, respectively, owing to a significant reduction in the Company's stocks.

Thatta Cement Company Limited Appendix I

Financial Summary

Balance Sheet (PKR Mlns)	FY21A	FY22A	FY23A	9MFY24M	FY24P	FY25P	FY26P
Property, plant and equipment	1,951.7	1,920.1	1,838.8	2,003.3	1,915.1	3,438.9	3,251.0
Stock-in-trade	436.4	563.2	933.5	267.3	235.6	239.5	243.5
Trade debts	192.3	524.1	424.5	301.0	295.2	413.1	471.5
Cash & Bank Balances	317.4	228.2	667.1	2,068.5	3,339.3	3,483.1	5,603.7
Total Assets	3,695.1	4,633.0	4,743.0	6,125.7	6,559.8	8,489.6	10,518.0
Trade and Other Payables	539.4	1,297.4	1,236.4	1,572.0	1,516.3	1,787.5	1,842.3
Long-term Debt (incl. current portion)	0.0	42.2	0.0	0.0	0.0	0.0	0.0
Short-Term Borrowings	0.0	212.3	206.6	196.6	160.5	160.5	160.5
Total Debt	0.0	254.5	206.6	196.6	160.5	160.5	160.5
Total Liabilities	1,030.9	1,892.7	1,758.3	2,528.7	2,004.2	2,275.5	2,330.4
Paid up Capital	997.2	997.2	997.2	847.2	847.2	847.2	847.2
Equity (excl. Revaluation Surplus)	2,664.2	2,740.3	2,984.7	3,596.4	4,554.4	6,214.1	8,187.7
Income Statement (PKR Mlns)	**FY21A**	**FY22A**	**FY23A**	**9MFY24M**	**FY24P**	**FY25P**	**FY26P**
Net Sales	2,427.3	4,263.9	5,410.1	5,417.6	7,379.4	8,261.7	9,429.4
Gross Profit	384.7	320.6	420.5	1,505.2	2,246.7	2,680.3	3,397.2
Operating Profit	267.2	188.1	156.7	1,544.6	1,990.0	2,399.6	3,034.1
Finance Costs	17.1	33.4	50.9	41.5	43.6	44.3	46.1
Profit Before Tax	250.1	154.8	364.5	1,484.3	2,245.3	2,720.8	3,235.4
Profit After Tax	201.8	119.3	249.1	888.2	1,369.6	1,659.7	1,973.6
Ratio Analysis	**FY21A**	**FY22A**	**FY23A**	**9MFY24M**	**FY24P**	**FY25P**	**FY26P**
Gross Margin (%)	15.8%	7.5%	7.8%	27.8%	30.4%	32.4%	36.0%
Operating Margin (%)	11.0%	4.4%	2.9%	28.5%	27.0%	29.0%	32.2%
Net Margin (%)	8.3%	2.8%	4.6%	16.4%	18.6%	20.1%	20.9%
Funds from Operation (FFO) (PKR Mlns)	355.2	283.6	442.7	1,524.2	1,084.6	1,161.6	1,816.1
FFO to Total Debt* (%)		111.4%	214.3%	1033.6%	675.6%	723.5%	1131.2%
FFO to Long Term Debt* (%)		671.8%					
Gearing (x)	0.0	0.1	0.1	0.1	0.0	0.0	0.0
Leverage (x)	0.4	0.7	0.6	0.7	0.4	0.4	0.3
Debt Servicing Coverage Ratio* (x)	16.3	7.9	9.6	37.7	25.9	27.2	40.4
Current Ratio (x)	2.0	1.5	1.8	1.7	2.6	2.4	3.5
(Stock in trade + trade debts) / STD (x)		6.2	7.5	3.8	4.4	5.9	6.4
Return on Average Assets* (%)	5.5%	2.9%	5.3%	21.8%	21.6%	22.1%	20.8%
Return on Average Equity* (%)	7.6%	4.4%	8.7%	36.0%	33.6%	30.8%	27.4%
Cash Conversion Cycle (days)	27.0	-12.9	3.9	-55.4	-72.3	-77.7	-72.2

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Thatta Cement Company Limited
Sector	Cement
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
05/14/2024	A-	A-2	Stable	Initial

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.
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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Muhammad Abid Khan	Chief Financial Officer (CFO)	2nd May 2024