

RATING REPORT

Thatta Cement Company Limited (TCCL)

REPORT DATE:

September 12, 2024

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-2	A-	A-2
Rating Date	September 12, 2024		14 th May, 2024	
Rating Outlook/Rating Watch	Stable		Stable	
Rating Action	Upgrade		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>

Thatta Cement Company Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE																				
<p>Thatta Cement Company Limited was incorporated in Pakistan in 1980 as a public limited company under the repealed Companies Act, 1913 (now the Companies Act, 2017) and is listed on PSX in 2008.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.</p>	<p>Corporate Profile</p> <p>Thatta Cement Company Limited ("TCCL" or "the Company") was incorporated in Pakistan in 1980 as a public limited company under the repealed Companies Act, 1913 (now the Companies Act, 2017) and is listed on PSX in 2008.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 sale of cement.</p>																				
	<p>Operational Performance:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #2c5e8c; color: white;">Production Capacity and Utilization</th> <th style="background-color: #2c5e8c; color: white;">FY21A</th> <th style="background-color: #2c5e8c; color: white;">FY22A</th> <th style="background-color: #2c5e8c; color: white;">FY23A</th> <th style="background-color: #2c5e8c; color: white;">FY24A</th> </tr> </thead> <tbody> <tr> <td>Installed Capacity - Clinker (Tons)</td> <td style="text-align: right;">548,400.00</td> <td style="text-align: right;">660,000.00</td> <td style="text-align: right;">660,000.00</td> <td style="text-align: right;">660,000.00</td> </tr> <tr> <td>Actual Production - Clinker (Tons)</td> <td style="text-align: right;">349,638.00</td> <td style="text-align: right;">415,810.00</td> <td style="text-align: right;">444,087.00</td> <td style="text-align: right;">423,491.00</td> </tr> <tr> <td style="color: red;">Utilization</td> <td style="text-align: right; color: red;">63.76%</td> <td style="text-align: right; color: red;">63.00%</td> <td style="text-align: right; color: red;">67.29%</td> <td style="text-align: right; color: red;">64.17%</td> </tr> </tbody> </table>	Production Capacity and Utilization	FY21A	FY22A	FY23A	FY24A	Installed Capacity - Clinker (Tons)	548,400.00	660,000.00	660,000.00	660,000.00	Actual Production - Clinker (Tons)	349,638.00	415,810.00	444,087.00	423,491.00	Utilization	63.76%	63.00%	67.29%	64.17%
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<p>Local cement dispatches increased by 21.68% compared to the previous year. Additionally, the Company achieved an overall clinker production capacity utilization of 64.16% (FY23: 67.29%), producing 423,491 tons of clinker (FY23: 444,087 tons).</p>																					
<p>Rationale for revision in ratings:</p> <p>VIS has upgraded the medium to long-term entity ratings of TCCL from 'A-' to 'A'. The rating upgrade is indicative of the improvement in TCCL's financial performance during FY24, primarily due to increased profitability and enhanced liquidity.</p> <p>In FY24, TCCL's financial performance demonstrated improvement compared to FY23, with revenue increasing by 39.0%, driven by higher cement retention prices and a 22.6% rise in local cement dispatches. The shift to cost-effective domestic coal from imported coal and commissioning of a 3.5 MW solar energy project contributed to a reduction in production costs. Consequently, the cost-to-sales ratio declined to 71.2% (FY23: 92.2%), resulting in an improved gross profit margin of 28.9% (FY23: 7.8%, FY22: 7.52%). Net profit margin also increased to 20.0% (FY23: 4.6%, FY22: 2.80%).</p> <p>TCCL's debt servicing capacity remains strong, with the Debt Servicing Coverage Ratio (DSCR) standing at 49.0x (FY23: 9.5x). The company's capitalization metrics are viewed as conservative, with no long-term debt and limited short-term borrowings. Liquidity remains sound, evidenced by a current ratio of 1.67x (FY23: 1.76x, FY22: 1.52x) and short-term debt coverage of 2.83x (FY23: 7.48x, FY22: 6.18x).</p>																					

Financial Summary				
Balance Sheet (PKR Millions)	FY21A	FY22A	FY23A	FY24A
Property, plant and equipment	1,887.63	1,920.06	1,838.81	2,219.82
Stock-in-trade	436.44	563.21	933.54	243.94
Trade debts	192.28	524.15	424.52	138.88
Cash & Bank Balances	317.41	228.18	667.07	2,953.62
Other Assets	861.31	1,397.38	879.06	2,070.34
Total Assets	3,695.07	4,632.98	4,743.00	7,626.60
Creditors	60.64	429.16	372.41	470.48
Long-term Debt (incl. current portion)	0.00	45.01	0.00	0.00
Short-Term Borrowings	160.55	212.29	206.61	197.65
Total Debt	160.55	257.30	206.61	197.65
Other Liabilities	809.68	1,206.21	1,179.25	2,749.25
Total Liabilities	1,030.87	1,892.67	1,758.27	3,417.38
Paid up Capital	997.18	997.18	997.18	847.18
Equity (excl. Revaluation Surplus)	2,664.21	2,740.31	2,984.71	4,209.19
Income Statement (PKR Millions)	FY21A	FY22A	FY23A	FY24A
Net Sales	2,427.31	4,263.89	5,410.13	7,521.57
Gross Profit	384.66	320.62	420.51	2,163.72
Operating Profit	267.18	188.14	415.38	2,526.28
Finance Costs	17.07	33.38	50.86	53.29
Profit Before Tax	250.11	154.76	364.52	2,472.99
Profit After Tax	201.79	119.29	249.07	1,501.04
Ratio Analysis	FY21A	FY22A	FY23A	FY24A
Gross Margin (%)	15.85%	7.52%	7.77%	28.77%
Operating Margin (%)	11.01%	4.41%	7.68%	33.59%
Net Margin (%)	8.31%	2.80%	4.60%	19.96%
Funds from Operation (FFO) (PKR Millions)	353.18	279.94	439.71	2,536.99
FFO to Total Debt* (%)	219.98%	108.80%	212.82%	1283.58%
FFO to Long Term Debt* (%)		621.95%		
Gearing (x)	0.06	0.09	0.07	0.05
Leverage (x)	0.39	0.69	0.59	0.81
Debt Servicing Coverage Ratio* (x)	16.22	7.78	9.53	48.59
Current Ratio (x)	2.05	1.52	1.76	1.67
(Stock in trade + trade debts) / STD (x)	5.11	6.18	7.48	2.83
Return on Average Assets* (%)	5.63%	2.86%	5.31%	24.27%
Return on Average Equity* (%)	7.87%	4.41%	8.70%	41.73%
Cash Conversion Cycle (days)	119.48	70.30	68.41	22.36
<i>*Annualized, if required</i>				
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				
	09/12/2024	A	A-2	Stable	Upgrade
	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.				
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 Meetings Conducted	Name	Designation	Date		
	N/A				