

Analysts:

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THATTA CEMENT COMPANY LIMITED

Chief Executive: Mr. Kamran Munir Ansari

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A	A2	A	A2
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Upgrade	
RATING DATE	September 18, 2025		September 12, 2024	

APPLICABLE METHODOLOGY(IES):

VIS Entity Rating Criteria Methodology – Corporate Rating

(https://docs.vis.com.pk/docs/CorporateMethodology.pdf)

Rating Scale:

(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

RATING RATIONALE

The assigned ratings of the Company also reflect sustained improvement in financial performance, supported by stronger profitability, enhanced liquidity, and a conservative capital structure. Profitability was reinforced by the shift to cost-efficient domestic coal and the commissioning of a 5MW solar project and 4.8MV wind power plant, which diversified the energy mix and provided an effective hedge against input cost volatility. Capitalization remains conservative, with no long-term debt and minimal reliance on short-term borrowings, translating into low gearing and strong debt-servicing capacity underpinned by healthy cash flows.

Looking ahead, the Company's planned diversification into a new business line may constrain liquidity due to funding requirements in the near term. Nonetheless, the initiative is expected to support the Company's cash flow generation going forward. Ratings remain underpinned on the Company's ability to maintain working capital discipline and secure timely contributions from the acquired business.

<u>Rs. Million</u>	FY24A	FY25A
Net Sales	7,521.57	7,566.42
Profit Before Tax	2,472.97	3,639.35
Profit After Tax	1,501.02	2,556.59
Paid up Capital	847.18	847.18
Equity (excl. Revaluation Surplus)	4,209.19	6,698.45
Total Debt	197.65	197.86
Leverage (x)	0.81	0.42
Gearing (x)	0.05	0.03
Funds From Operations (FFO)	2,567.98	2,948.80
FFO/Total Debt (x)	12.99	14.90
Net Margin (%)	20%	34%

*Annualized, if required

A - Actual Accounts

COMPANY PROFILE

Thatta Cement Company Limited ("THCCL" or "the Company") was incorporated in Pakistan in 1980 as a public limited company under the repealed Companies Act, 1913 (now the Companies Act, 2017) and was listed on the Pakistan Stock Exchange in 2008. The Company's principal business activity is the manufacturing and marketing of clinker and cement. The registered office is located in Karachi, while the production facility is situated at Ghulamullah Road, Makli, District Thatta, Sindh.

THCCL holds 88.52% shareholding in Thatta Power (Private) Limited (TPPL), which functions as a captive thermal power producer. The subsidiary operates a gas-fired Captive Power Plant (CPP) and a Waste Heat Recovery Project with a generation capacity of 28.1 MW. Earlier in April, THCCL completed and commissioned a 4.8MW wind power project at its plant in Thatta, Sindh. This took the company's total installed capacity from renewable energy sources to 9.8MW, comprising a 5MW solar installation. TPPL also has a Power Purchase Agreement with Hyderabad Electric Supply Company (HESCO) for any surplus.

As part of its diversification strategy and to accelerate growth, the Company has announced the acquisition of an operating entity outside the cement sector. The transaction will be financed through a mix of internally generated funds and external borrowings, with a PKR 5.5 billion sukuk issuance planned as part of the funding structure.

GOVERNANCE

The Board of Directors is composed of seven members, including two female directors and four independent directors. Two committees, Audit Committee and the Human Resource and Remuneration Committee operate under the oversight of the Board.

INDUSTRY PROFILE & BUSINESS RISK

The business risk profile of Pakistan's cement sector is assessed as High to Medium, reflecting structural overcapacity, cyclicity, and high exposure to cost volatility. The industry remains oligopolistic, dominated by a few large integrated players, yet competitive pressures persist given significant idle capacity and subdued domestic demand. The sector is inherently tied to construction activity, with operations being highly capital-intensive and sensitive to shifts in energy and raw material costs.

In FY25, installed capacity stood at ~84.6 million tons against total dispatches of ~46.2 million tons, translating into capacity utilization of ~53% (FY24: ~55%). Domestic sales declined by 3% amid inflationary pressures, weak private sector construction, and constrained purchasing power, with only limited support from higher PSDP allocations. Export volumes, however, rose by ~29% to 9.2 million tons, benefitting from demand from regional markets. Despite this, profitability remains under pressure, as margins are constrained by elevated energy tariffs, volatility in imported coal prices, and recent taxation measures. Smaller players face

heightened stress, while larger producers have leveraged economies of scale and export channels to partially offset weak domestic demand.

Financially, the industry remains highly leveraged, with debt-funded expansions in recent years adding to borrowing requirements and liquidity pressures. Elevated working capital needs further constrain financial flexibility, though most larger players continue to demonstrate adequate coverage indicators.

Key risks for the sector include continued reliance on imported coal, exchange rate and fuel price volatility, evolving regulatory and taxation policies, and the cyclical nature of construction demand. The outlook is stable, with gradual recovery expected from FY26, supported by monetary easing, higher PSDP spending, and reconstruction demand arising from recent flood damage, alongside policy measures to stimulate construction activity. Nonetheless, sustained margin recovery will hinge on cost efficiencies, diversification of energy sources, and improved domestic demand dynamics.

Product Profile & Capacity

In FY25, THCCL's production of cement and clinker declined to 502,985 metric tons and 415,850 metric tons, respectively, resulting in lower capacity utilization of 72.6% and 63.0% (FY24: 76.4% and 64.2%). The decline mirrored broader industry trends, driven by weaker domestic demand for cement. Nevertheless, THCCL's utilization levels remained above the industry average of 53%.

Production Capacity and Utilization	FY23	FY24	FY25
Installed Capacity - Clinker (Tons)	660,000	660,000	660,000
Actual Production - Clinker (Tons)	444,087	423,491	415,850
Utilization	67.3%	64.2%	63.0%
Installed Capacity - Cement (Tons)	693,000	693,000	693,000
Actual Production - Cement (Tons)	441,480	529,700	502,985
Utilization	63.7%	76.4%	72.6%

FINANCIAL RISK

Profitability

In FY25, the Company recorded revenues of PKR 7,566 million (FY24: PKR 7,521 million), reflecting marginal growth of 1%. Sales remain entirely domestic, with topline growth supported by a ~6% increase in average cement prices, partially offset by a 5% decline in sales volumes to 502,985 MT. Despite lower offtake, gross margins held steady at 28.4% (FY24: 28.8%), underscoring the sustained benefits of cost optimization initiatives implemented in FY24, including the substitution of imported coal with local coal and the integration of renewable energy sources (wind and solar) into the power mix. These measures provided a meaningful hedge against cost volatility and supported margin resilience.

At the bottom line, profitability was notably uplifted by higher other income of PKR 1,999 million (FY24: PKR 744 million), largely comprising dividends from Thatta

Power and interest income. While dividend inflows are expected to continue, a portion of the income is non-recurring, and therefore earnings normalization is likely over the medium term. The sustainability of core earnings will remain sensitive to volume growth and operational efficiencies.

Going forward, profitability is projected to strengthen, supported by a likely pickup in cement demand from post-flood reconstruction activity and further cost efficiencies through improved capacity utilization. However, sustained earnings growth will hinge on managing input costs, particularly coal, and maintaining stable demand amid broader economic headwinds.

Capital Structure

The Company has over time deleveraged, maintaining a conservative capitalization profile characterized by the absence of long-term borrowings and limited short-term debt of PKR 196 million. This prudent approach translated into strengthening capital structure, with gearing and leverage ratios improving to 0.03x and 0.42x, respectively, in FY25 (FY24: 0.05x and 0.81x). On a consolidated basis with Thatta Power, gearing at end FY25 stands at 0.18x.

Going forward, the planned issuance of a PKR 5.5 billion long-term sukuk to partially finance an acquisition will elevate leverage indicators. Nonetheless, improved profitability from core cement operations is expected to support gradual deleveraging, bringing capitalization metrics back within comfortable ranges over the medium term (2–3 years). Additional comfort is derived from the fact that the target acquisition is an operational entity, thereby providing cash flow support to service the incremental debt burden.

Debt Coverage & Liquidity

The Company's liquidity and debt-servicing profile has remained strong, underpinned by healthy profitability and a relatively modest debt load. Coverage indicators are robust, with FFO-to-total debt standing at a comfortable 12x in FY25, supported by stable cash flows from core cement operations. Going forward, profitability from existing operations is expected to remain resilient, ensuring a steady base for debt servicing. However, the planned acquisition—financed through an equal mix of debt and equity—will moderate coverage ratios, though these are expected to remain adequate with debt service coverage projected above 1.5x on a standalone basis. Liquidity, however, is likely to remain tight in the near term due to the diversion of internal cash flows toward acquisition funding. Sustaining working capital discipline, avoiding excessive buildup of payables, and timely contributions from the acquired business will be critical for maintaining a sound liquidity position and supporting ratings.

Financial Summary (Unconsolidated) (Amount in Million)					Projections		
BALANCE SHEET	FY22A	FY23A	FY24A	FY25A	FY26P	FY27P	FY28P
Property, Plant & Equipment	1920.06	1838.81	2219.82	3425.61	4041.88	4010.92	3980.19
ROU Asset	42.18	0.00	0.00	0.00	0.00	0.00	0.00
Intangible Assets	5.27	4.10	2.93	1.76	2.93	2.93	2.93
Long-term Investments	299.16	299.16	299.16	936.66	11409.39	11409.39	11409.39
Stock in Trade	563.20	933.54	243.94	62.24	255.49	261.12	280.85
Trade Debts	524.15	424.52	138.88	166.37	149.56	157.11	167.36
Short Term Investments	473.72	223.72	1190.83	0.00	0.00	0.00	0.00
Cash & Bank Balances	228.18	667.07	2953.62	4069.73	295.37	1443.89	2904.50
Other Assets	577.05	352.08	577.42	852.75	852.75	852.75	852.75
Total Assets	4632.97	4742.98	7626.58	9515.10	17007.36	18138.09	19597.95
Trade and Other Payables	1297.39	1236.39	2165.62	1349.14	2268.18	2318.10	2493.25
Short Term Borrowings	212.29	206.61	197.65	197.86	197.65	197.65	197.65
Long-Term Borrowings (Inc. current matur)	42.22	0.00	0.00	0.00	4122.50	2055.00	675.00
Total Debt	254.51	206.61	197.65	197.86	4320.15	2252.65	872.65
Deferred Liabilities	278.36	278.07	349.36	680.11	223.59	178.87	143.10
Total Liabilities	1892.66	1758.27	3417.39	2816.64	8245.45	6814.79	5530.34
Issued, Subs, and Paid Up Capital	997.18	997.18	847.18	847.18	847.18	847.18	847.18
Equity	2740.31	2984.71	4209.19	6698.45	8849.83	11451.74	14234.95
INCOME STATEMENT	FY22A	FY23A	FY24A	FY25A	FY26P	FY27P	FY28P
Net Sales	4263.89	5410.13	7521.58	7566.41	8100.04	8508.97	9064.15
Gross Profit	320.62	420.51	2163.73	2150.70	2488.28	2773.71	2895.53
Operating Profit	133.53	156.69	1782.08	1683.21	2087.88	2317.63	2387.48
Profit Before Tax	154.77	364.53	2472.99	3639.35	2599.52	3118.01	3373.90
Profit After Tax	119.29	249.08	1501.04	2556.58	2151.66	2601.91	2783.21
FFO	276.97	434.69	2537.02	2748.79	0.00	0.00	0.00
RATIO ANALYSIS	FY22A	FY23A	FY24A	FY25A	FY26P	FY27P	FY28P
Gross Margin (%)	7.52%	7.77%	28.77%	28.42%	30.72%	32.60%	31.94%
Net Margin (%)	2.80%	4.60%	19.96%	33.79%	26.56%	30.58%	30.71%
FFO to Long-Term Debt*	6.56	0.00	0.00	0.00	0.70	1.67	5.46
FFO to Total Debt*	1.09	2.10	12.84	13.89	0.67	1.52	4.22
Debt Servicing Coverage Ratio (x)*	7.70	9.43	48.59	64.79	2.78	2.08	2.34
ROAA (%)*	2.86%	5.31%	24.27%	29.83%	16.17%	14.72%	14.64%
ROAE (%)*	4.41%	8.70%	41.73%	46.88%	27.68%	25.63%	21.67%
Gearing (x)	0.09	0.07	0.05	0.03	0.49	0.20	0.06
Leverage (x)	0.69	0.59	0.81	0.42	0.93	0.60	0.39
Current Ratio	1.52	1.76	1.67	2.41	0.39	0.59	0.90
Inventory + Receivables/Short-term Borrowings (x)	6.37	7.48	2.83	2.97	3.01	3.13	3.34

*Annualized

Financial Summary (Consolidated Accounts)			
BALANCE SHEET	FY23A	FY24A	FY25A
Property, Plant & Equipment	3,811	4,064	5,290
Other LT Assets	32	31	7
Stock in Trade	926	251	559
Trade Debts	970	745	1,226
Short Term Investments	324	1,191	-
Cash & Bank Balances	684	2,993	4,229
Other Assets	934	564	1,325
Total Assets	7,682	9,839	12,636
Trade and Other Payables	1,166	1,424	1,865
Short Term Borrowings	207	198	198
Long-Term Borrowings (<i>Inc. current matur</i>)	751	751	751
Total Debt	958	949	949
Other Liabilities	466	1,372	1,662
Total Liabilities	2,590	3,745	4,476
Issued, Subs, and Paid Up Capital	997	847	847
Equity	5,092	6,094	8,160
INCOME STATEMENT	FY23A	FY24A	FY25A
Net Sales	5,527	7,684	9,444
Gross Profit	659	2,348	2,951
Profit Before Tax	438	2,274	3,439
Profit After Tax	310	1,279	2,344
FFO	669	2,647	2,933
RATIO ANALYSIS	FY23A	FY24A	FY25A
Gross Margin (%)	11.9%	30.6%	31.2%
Net Margin (%)	5.6%	16.6%	24.8%
FFO to Long-Term Debt*	0.89	3.52	3.90
FFO to Total Debt*	0.70	2.79	3.09
Debt Servicing Coverage Ratio (x)*	0.81	2.72	3.14
ROAA (%)*		30.2%	26.1%
ROAE (%)*		22.9%	32.9%
Gearing (x)	0.19	0.16	0.12
Leverage (x)	0.51	0.61	0.55
Current Ratio	1.70	1.68	1.94
Inventory + Receivables/Short-term Borrowings (x)	9.18	5.04	9.02

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/Watch	Rating Action
	18-Sept-24	A	A2	Stable	Reaffirmed
	12-Sept-24	A	A2	Stable	Upgrade
	05- May-24	A-	A2	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 Meeting Conducted	Name		Designation		Date
	Mr. Abid Khan		Company Secretary		10-09-2025