RATING REPORT

Askari Cement Limited (ACL)

REPORT DATE:
August 20, 2018

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating	
Rating Category	**Long-term**	**Short-term**
Entity	A	A-1
Rating Date	*August 20, 2018*	
Rating Outlook	*Stable*	
Outlook Date	*August 20, 2018*	

COMPANY INFORMATION

Incorporated in 1990	**External auditors:** M/s KPMG Taseer Hadi & Co., Chartered Accountants
Public Limited Company	**Chairman of the Board:** Lt. Gen Khalid Nawaz Khan HI (M) (Retd)
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Maj Gen. Ghulam Mustafa Kausar (Retd).
Fauji Foundation- 100.0%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Industrial Corporates (May 2016)
http://jcrvis.com.pk/kc-meth.aspx

Askari Cement Limited

OVERVIEW OF THE INSTITUTION

Askari Cement Limited (ACL) was incorporated in 1990 as an 'unlisted' public limited company under the Companies Ordinance, 1984. ACL is a wholly owned subsidiary of Fauji Foundation. The company is primarily engaged in production and sale of ordinary Portland cement.

Profile of Chairman

Lt Gen Khalid Nawaz Khan is a graduate of Armed Forces War College (National Defence University) and Command and General Staff College, Fort Leavenworth, USA. He carries vast and varied experience in various capacities in the armed forces. He also serves as Chairman of Fauji Foundation and Fauji Oil Terminal & Distribution Company Limited.

Profile of CEO

Major General Ghulam Mustafa Kausar (Retd) is the Managing Director of Askari Cement Limited since 1 August 2016. He has served in Pakistan Army for 36 years and held various command, staff and instructional responsibilities. He is a graduate of Command and Staff College Quetta and Armed Forces War College (National Defence University) Islamabad. For his distinguished military

RATING RATIONALE

ACL currently operates two plants in Wah and Nizampur with installed cement production capacity of 2.68m tons per annum. Capacity utilization of the plant has ranged between 71.8% and 86.4% over the last three years. Efficiency indicators of the plant in terms of kcal per kg of clinker and kwh per ton of cement have largely been maintained over the last two years. In order to enhance efficiencies and reduce cost, the company is working upon installation of a 7.5MW Waste Heat Recovery (WHR) plant at Wah (Cost of Rs. 1b and expected completion in June'2018) and upgradation of Nizampur plant through a BMR (Cost of Rs. 4b and expected completion by Dec'2018). Completion of BMR at Nizampur plant will also increase installed capacity to 2.89m tons per annum. For the company's power related needs, grid based power supply arrangement has been made from IESCO and PESCO. In order to maintain market share and compete in terms of efficiencies with peers, management is in the process of finalization expansion plans.

Sector Dynamics

- JCR-VIS expects industry margins to witness pressure in FY18 on account of full year impact of increase in coal prices and significant additional capacities, particularly in the South region. Additional capacities coming online in the South region in FY18 represents around 62% of existing capacities resulting in decline in capacity utilization from current levels. There is also risk of this increased production in South region being sold in the North market as is already the case. However, industry players anticipate current industry structure to continue due to capital commitment of major players, projected closure of inefficient lines and growth in domestic demand.

- Industry players plan to increasingly tap export market in order to enhance capacity utilization levels. Given the excess capacities in key regional markets, scope for significant increase in exports at competitive prices remains limited. Demand patterns synchronizing with substantial supply side dynamics will continue to be an important rating driver, going forward.

Profitability & Liquidity

Profitability indicators of the company have remained healthy on the back of growth in dispatches. However, gross margins, which compare less favorably to peers, have witnessed pressure during FY17 and 9MFY18 due to rising input prices. Going forward, gross margins of the company are expected to remain under pressure on account of sizeable new capacities coming online. Impact of decline in cash flows on account of lower gross margins is projected to be offset by incremental cash flows post completion of WHR and BMR. While liquidity profile of the company has weakened on a timeline basis on account of increase in trade debts in relation to sales and decline in current ratio, comfort is drawn from company's adequate cash flows in relation to outstanding obligations.

service, he was conferred the award of Hilal-i-Imtiaz (Military).

Funding and Capitalization

The company's aggressive dividend payout policy which combined with sizeable debt funded expansion reflects an aggressive financial policy. This is also evident from leverage indicators being the highest amongst peers (Adjusted Gearing; FY17: 1.41x; FY16: 1.19x). Going forward, JCR-VIS expects leverage indicators to increase further as higher debt drawdown to fund ongoing and future projects materialize. While debt servicing coverage is expected to remain adequate for repayment of existing and WHR & BMR debt, cushion in debt servicing even for funding finance cost of new line under proposed funding mix and existing cash flows is expected to remain limited.

Corporate Governance

Overall governance framework and control infrastructure is adequate with scope and adequacy of internal audit and IT function being at par with peers. In line with best corporate governance practices, board composition has room for improvement through inclusion of independent directors.

Askari Cement Limited (ACL) **Appendix I**

FINANCIAL SUMMARY			(Amounts in PKR Millions)
BALANCE SHEET	**9MFY18**	**FY17**	**FY16**
Fixed Assets	22,202	19,602	19,608
Stock-in-Trade	964	959	772
Trade Debts	854	580	120
Cash and Bank Balances	524	463	504
Total Assets	29,012	25,493	24,707
Trade and Other Payables	2,272	2,502	1,998
Long Term Debt(Including current maturity)	7,518	5,078	6,186
Short-term Debt	3,337	3,088	1,199
TIER 1 Equity	5,778	4,559	4,808
Total Equity	12,794	11,660	12,008
INCOME STATEMENT	**9MFY18**	**FY17**	**FY16**
Net Sales	11,468	15,953	15,600
Gross Profit	2,839	5,118	5,463
Profit before Tax	2,023	3,955	4,234
Profit After Tax	1,434	2,694	2,983
RATIO ANALYSIS	**9MFY18**	**FY17**	**FY16**
Gross Margin (%)	25%	32%	35%
FFO	1,781	3,434	3,562
FFO to Total Debt	0.22	0.42	0.48
FFO to Long-term Debt	0.37	0.68	0.58
Debt Leverage	2.81	3.03	2.77
Gearing	1.88	1.79	1.54
DSCR	1.68	2.39	2.93
Dividend Payout		97.00%	80.00%
ROAA (%)	7.00%	10.70%	12.20%
ROAE (%)	36.90%	57.50%	63.10%

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	Askari Cement 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.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
August 20, 2018	A	A-1	Stable	Initial