VIS
Credit Rating Company Limited

RATING REPORT

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APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Industrial Corporates
(https://docs.vis.com.pk/docs/CorporateMethodology.pdf)
VIS Instrument Rating Methodology:
(https://docs.vis.com.pk/Methodologies-2025/IRM-Apr-25.pdf)
Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

Rs. Million	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

THATTA CEMENT COMPANY LIMITED

Chief Executive: Mr. Kamran Munir Ansari

RATING DETAILS

RATINGS CATEGORY	PRELIMINARY RATING
	Long-term
LT-SUKUK	AA- (plim)
RATING OUTLOOK/ WATCH	Stable
RATING ACTION	Preliminary
RATING DATE	September 18, 2025

RATING RATIONALE

Assessment of Thatta Cement Company Limied (THCCL) reflects 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 solar project 4.8MW 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. However, the proposed sukuk for acquisition will elevate leverage, but improved core profitability and cash flows from the operational target are expected to support gradual deleveraging and restore capitalization to comfortable levels over the medium term.

Sukuk rating incorporates credit enhancements, including charge over the Company's present and future current and fixed assets, creation of a Sukuk Payment Account (SPA) funded 30 days prior to payment date, and a signed undertaking, approved by the Board, authorizing the CEO to sell Treasury Shares in case of any shortfall in the SPA for Sukuk repayments. The disposal of Treasury Shares, if triggered, is to be completed within 20 days to ensure the SPA is adequately funded at least 10 days before the payment due date.

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, cyclicality, 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, dependence on the quality of local coal 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.

PROPOSED SUKUK

THCCL plans to raise a secured, listed, & privately placed Long-Term Islamic Certificate ('Sukuk' or 'the Instrument') of up to PKR 5,500 million inclusive of green shoe option of PKR 500 million. The proceeds from the issue will be utilized for the purpose of acquiring a listed operational company registered under the Companies Act, 2017.

The structure of the Sukuk is as follows:

- The tenor of the instrument is four (04) years from the date of drawdown.
- The proposed profit rate is based on 6 months KIBOR plus 2.50% per annum.
- Profit will be payable on six monthly basis in arrears on the outstanding principal amount.

Security:

- Pari Passu charge on the present and future Current and Fixed Assets of the Company with a 35% margin from the Issue Date. Upon principal redemption, charge on present and future current and fixed assets will be proportionately released.
- The Company shall maintain a Sukuk Payment Account (SPA) with a lien marked in favor of the investment agent. In order to ensure availability of funds during each instalment, the Company shall make the requisite deposits from the collection account as per the repayment schedule.
- The Company shall deposit the principal and profit amounts in the SPA **thirty (30) days** prior to the repayment date of each semi-annual instalment. In case of a shortfall in funds, the Company will replenish/furnish the

differential amount through the cashflows of the company being acquired by THCCL.

Additional Security:

In case the Company is unable to deposit the redemption amounts in the SPA (to meet its payment / repayment obligations under the Sukuk Issue), the Board of Directors shall authorize the disposal of Treasury Shares, held under the Listed Companies (Buy-Back of Shares) Regulations, 2019. This is to be backed by an undertaking, approved by the Board, agreeing to sell off Treasury Stock in case of any shortfall in SPA. The disposal of Treasury Shares, if triggered, is to be completed within 20 days to ensure the SPA is adequately funded at least 10 days before the payment due date.

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 Funds-from-operations 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 *(Inc. current matur)*	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 (%)*	[redacted]	30.2%	26.1%
ROAE (%)*	[redacted]	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	Sukuk Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
	18-Sept-24	AA-(plim)		Stable	Preliminary

Instrument Structure

Instrument	**Details**
Nature of Instrument	Long-term Sukuk
Tenure of Instrument	4 years
Size of the Issue	PKR 5,500 million
Principle Redemption Schedule	Semi-annual
Interest Redemption Schedule	Semi-annual
Issue Date	-
Grace Period	-
Redemption Date	-
Nature of Secutiry (in case of secured instrument)	Secured
Name of Trustee	Pak Brunei Investment Company

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