MAPLE LEAF CEMENT FACTORY LIMITED (MLCFL)

Rating (February 2006)

Maple Leaf Cement Factory Limited

	New	Previous
Secured TFC PKR 250mln		
Long-term:	-	A+
Short-term:	A1	-

Financial Data

PKR (mln)

	30-Jun-05	30-Jun-04
Total Assets	10,419.4	7,087.7
Profit After Tax	715.7	487.5
Gross Margin %	30.9	34.0
ROE %	15.2	14.1
Equity/Total Assets	55.1	52.2

Analysts

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Rating Rationale

Assessment

- The rating reflects the improving trend in profitability of MLCFL on the back of robust cement demand and firm cement prices. The rating also factors in the strong cashflow generation capacity over the remaining tenor of TFCs. As only one instalment amounting to PKR 45mln, payable in July 06 is outstanding, the TFC issue has been assigned a short-term rating of 'A1'.
- The turnaround in the performance of the cement sector initiated since 2004, continued during the year, as profitability across the sector improved substantially on the back of strong cement demand resulting in higher capacity utilization and rise in selling prices, offsetting the impact of increase in production costs, mainly with regard to fuel. Likewise, MLCFL also recorded impressive improvement in the bottom line during FY05, attributable to strong turnover growth and noteworthy decline in financing costs. The gross margins, though declining slightly due to utilization of relatively high cost wet process production lines to meet the incremental demand, remained at fairly high levels. The decline in financing cost was due to the full year's effect of reprofiling of the expensive foreign currency debt with low cost local currency loans.
- The management has completed the planned optimization of the dry process grey plant capacity through upgradation of essential equipments and necessary adjustments in operational parameters, in July 2005. This has resulted in increase in dry process capacity by 0.21mln tons per annum (tpa). During 1QFY06, the profitability of the company continued the improving trend, attributable to further increase in sales volumes and rise in gross margins. The rise in margins is attributable to sharp upsurge in the prices of cement caused by constrained supply situation due to temporary shut down of some cement plants for planned annual maintenance. Meanwhile, the cost efficiency achieved through enhancement in dry process capacity also contributed towards this improvement.
- To benefit from the increasing demand of cement and to maintain the market share in the wake of substantial capacity expansions across the sector, the management has initiated a major expansion project for the installation of a new production line of grey cement of 2.2mln tpa capacity. The work on the project is progressing as per schedule and the new production line is expected to become operational in Jan 07. Besides being able to achieve higher profitability on the back of increasing sales volumes, the company would also be able to reduce the overall production costs owing to better efficiency of the new plant. The overall project cost estimate has increased due to provision for additional power generation facilities owing to anticipated power shortages in the country and substantial increase in the prices of construction material, particularly steel. The management is currently under negotiations with financial institutions to borrow additional funds to finance the incremental expenditure.
- The management has also completed the conversion of a wet process grey cement line to a fuel-efficient dry process white cement line of 0.16mln tpa capacity, increasing the total white cement production capacity to 0.18mln tpa, by end-05. Given the strong demand for white cement in the country and relative cost efficiency of the dry process line, the completion of this project is expected to have a healthy impact on profitability in the near future.