



Rating Action

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Analyst

Aisha Yasin
(+92-42-586 9504)
aishayasin@pacra.com
www.pacra.com

PACRA ASSIGNS RATINGS TO DEWAN CEMENT LIMITED

The Pakistan Credit Rating Agency (PACRA) has assigned the long-term and short-term entity ratings of “A-” (single A Minus) and “A2” (A two), respectively, to Dewan Cement Limited (DCL). The proposed issue of listed secured Term Finance Certificates of PKR 5bln is assigned a rating of “A” (Single A). These ratings denote a low expectation of credit risk and a strong capacity for timely payment of financial commitments.

The ratings reflect the relatively high business risk in the cement sector, which has been lately magnified by the emerging capacity overhang in the industry. Given the current scenario and DCL’s ongoing capacity expansion, it would be difficult for the company to achieve higher capacity utilization at reasonable margins in the near-term. Meanwhile, the ratings recognize the management’s preemptive measures in managing potential financial risk through debt re-profiling. The company’s association with a well-diversified group is also a key rating factor.

About the company: Dewan Cement Limited (DCL) – incorporated in 1980 and listed on the Karachi and Lahore stock Exchanges – is majority owned by Dewan Mushtaq Group (DMG). DCL has three cement plants with combined capacity of 1.98mln tpa, providing access to both South and North zones.

The group, an established conglomerate in the country, has interests in synthetic fibers, automotive, sugar and allied, textiles, oil and gas, cement, and general trading sectors. Dewan Muhammad Yousuf Farooqui, the group Managing Director, is spearheading the expansion and diversification program of the group. He is also the Chief Executive Officer of DCL. Professionals, mainly serving the group in different capacities, dominate DCL’s BOD, with three members of Dewan family.

About the TFC: The company is in the process of issuing a secured TFC of PKR 5bln including a green shoe option of PKR 2bln for a tenure of 6 years inclusive of a grace period of 1.5 years at a rate of 6 month KIBOR + 200bps. The proceeds of the TFC would be utilized for debt re-profiling. The instrument is initially secured by ranking charge, which would be upgraded to first pari passu charge on the present fixed assets of DCL with 25% margin within 30 days of pre-IPO disbursement. Considering the secured nature of the instrument, it has been assigned a one-notch higher rating than the long-term entity rating.

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