The Pakistan Credit Rating Agency Limited

Rating Report

Kohat Cement Company Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
12-Jan-2024	A+	A1	Stable	Upgrade	-
26-Jan-2023	A	A1	Positive	Maintain	-
27-Jan-2022	A	A1	Positive	Maintain	-
12-Feb-2021	A	A1	Stable	Maintain	-
13-Feb-2020	A	A1	Stable	Maintain	-
28-Sep-2019	A	A1	Stable	Maintain	-
29-Mar-2019	A	A1	Stable	Maintain	-
22-Nov-2018	A	A1	Stable	Maintain	-
04-May-2018	A	A1	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Kohat Cement Company Limited (KCCL) ratings upgrade depicts its consistency towards improving performance in the cement industry fostered by proficient cost management and utilization of plant. The sponsors expertise coupled with a strong operational history of over 30 years further complements the ratings upgrade. The local cement industry witnessed a downtrend in total sale volumes of 15.7% in FY23 as compared to the previous year. (FY23: 44.5mln MT, FY22: 52.8mln MT). Local dispatches dwindled by 16.0% to 40.01mln MT during FY23 from 47.63mln MT in FY22. Likewise, Export dispatches declined by 0.7mln MT during the period (FY23: 4.56mln MT, FY22: 5.25mln MT). The overall decline in the volumes was nurtured by soaring inflation in the country that led to demand constraints. Furthermore, the economic and political instability in the country during the year hindered the developmental activity in the country which contributed towards fall in consumption of cement. KCCL reported Net Revenue of PKR 38,922mln during FY23 (FY22: PKR 32,877mln) witnessing a growth of 18.4% on back of successful price hikes to reflect the rising cost of raw materials whereas the Company’s volumes declined in line with the industry (FY23: 3.00mln MT, FY22: 3.56mln MT). Based on the total sale volumes of FY23, KCCL occupies 7% market share with significant presence in the North region. The Company efficaciously managed its utilization in the overall stressed environment to sustain its margins during the period. The transition in FY24 brought some relief for the cement sector in the form of growth in total industry volumes of 23.5 % during the first quarter (1QFY24: 11.9mln MT. 1QFY23: 9.6mln MT). Recovery in both local and exports contributed towards the positive shift. Likewise, KCCL volumes also increased by 10.55% to 0.761mln MT (FY22: 0.689mln MT) resulting in Net Revenue of PKR 11,064mln. Competitive pricing contributed towards sustenance of the profit margins. The infrastructure development is in process at the Company’s greenfield expansion project site in Khushab, whereas the import of plant and machinery will be procured once the economic environment stabilizes. Furthermore, the Company has commissioned a 10MW Solar Power Project at its Kohat site and is in the process of installation of another 15MW. This will reduce its dependence on National Grid and provide cost savings.

The sponsors are committed towards upholding the Company’s position in the local cement industry. Furthermore, the Company’s fairly low leveraging, healthy liquid investment book further supplements the ratings upgrade. The Company owns investment properties having a book value of ~PKR 4.3bln which further strengthens the financial profile.

Disclosure

Name of Rated Entity	Kohat Cement Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Cement(Mar-23)
Rating Analysts	Hashim Yazdani | hashim.yazdani@pacra.com | +92-42-35869504

Profile

Legal Structure Kohat Cement Company Limited (KCCL) is a public limited company incorporated in Pakistan under the Companies Act, 1913 (now "Companies Act, 2017") and is listed on Pakistan Stock Exchange (PSX). ANS Capital (Pvt) Limited is the holding company of KCCL.

Background State Cement Corporation of Pakistan established a 1,000 TPD cement line in Kohat in 1984. In 1992, the company was privatized and acquired by new management headed by Mr. Aizaz Sheikh. Subsequent to its privatization, the company has undergone expansion and BMR projects to enhance the capacity and operational efficiency.

Operations KCCL is engaged in the production and sale of cement. It has an installed capacity of ~5.0mln tons per annum from 4 lines operating in Kohat. The Company's products include Grey Cement and White Cement. It has a significant presence in the local market especially in the North region along with minor exports to Afghanistan.

Ownership

Ownership Structure Kohat Cement is majorly owned by sponsor family through ANS Capital (Pvt.) Limited (~56.41%) where, the ownership of ANS Capital (Pvt) Ltd resides equally between Mr. Aizaz & Mr. Nadeem Atta sheikh. The other major proportion of shareholding is of Mrs. Hijab Tariq (widow of late Mr. Tariq Atta) owns ~17.17%. The remaining stake is dispersed amongst General Public and other entities.

Stability Kohat Cement's ownership structure has remained stable over the years with the controlling interest reserved with the sponsoring family.

Business Acumen The sponsors have a proven history of over 30 years of operating in the local cement sector which is a testimony of their expertise. Furthermore, the sponsors have other business interests in Real Estate.

Financial Strength Kohat Cement is the flagship entity of the sponsors. Therefore the willingness of the sponsors to support the Company in case the needs arises is considered high. Moreover, the investment portfolio of the sponsors in real estate and other financial instruments provides further support.

Governance

Board Structure The overall control of the company vests in eight member's board of directors including the CEO. The board comprises of 5 Non-Executive, 1 Executive and 2 Independent members.

Members' Profile Mr. Aizaz Mansoor is the Chairman of the board. He has been associated with the Company since 1992 and thus possess vast experience of the cement industry. He is assisted by qualified member with diverse skillset and a long association with the board.

Board Effectiveness Kohat Cement has two committees: 1) Audit committee and 2) Human resource & Remuneration Committee (HR&R) to assist the management in related matters. Furthermore, the board conducts regular meetings as needed during the year to discuss and advise on matters relating to the Company's financial and operational performance.

Financial Transparency KPMG Taseer Hadi & Co., Chartered Accountants conduct the external audit services for Kohat Cement. 'KPMG' is in 'A' category of SBP list of external auditors and has a QCR rating. They have expressed unqualified opinion on the financial statements for the year ended June 30th, 2023.

Management

Organizational Structure The organizational structure is divided into fourteen main functions. The functions reporting to CEO are as follows: 1) Sales & Marketing, 2) Administration, 3) HR, 4) Planning & Development, 5) Finance & Accounts 6) Works. However, the functions reporting to GM Works are: 1) Production, 2) Electrical, 3) Quality Control, 4) Power Plants, 5) Technical & Purchase, 6) Maintenance, 7) Works and 8) Material and Mining.

Management Team Mr. Nadeem Atta, the CEO, is associated with the company for almost 30 years. The CEO is supported by a team of experienced individuals equipped with necessary technical skills and relevant industry exposure.

Effectiveness The management has a "hands on" approach and thus is involved in the day to day activity of the company. The well defined structure allows effective communication and reporting of operational and financial activity.

MIS Kohat Cement has strong technology infrastructure with reasonably defined policies and procedures. The company's current operational modules include marketing, supply chain and financial modules with comprehensive MIS quality. Various system generated reports including the Cash flow/investment portfolio, daily management report, and daily production summary and sale variance report which are reviewed by top management.

Control Environment The Company has outsourced the internal audit function to M/s Crowe Hussain Chaudhury & Co. Chartered Accountants who are considered suitably qualified and experienced. The internal audit function takes both regular and ad hoc services of risk management controls and procedures, the results of which are reported to the Audit Committee. Furthermore, the Internal Audit function is responsible for conducting financial audits, monitoring control systems and compliance with external and internal guidelines.

Business Risk

Industry Dynamics The total installed capacity of ~83mln MT is divided between North and South zones. During FY23, total industry volumes stood at 44.5mln MT (FY22: 52.8mln MT) reporting a decline of 15.7%. Local dispatches declined by 16.0% to 40.01mln MT during FY23 from 47.63mln MT in FY22. Similarly, Export volumes dwindled by 0.7mln MT during the period (FY23: 4.56mln MT, FY22: 5.25mln MT). The decline in overall volumes was a result of soaring inflation in the country that led to demand constraints. However, during the latest quarter 1QFY24, the industry volumes increased by ~23.5% to 11.9mln MT from 9.6mln MT during 1QFY23 on back of recovering demand and economic conditions.

Relative Position As per the Company's total sale volumes including local and export during FY23 of 3.000mln MT, it occupies ~7.5% market share. The market share of the Company has remained stable over the years owing to its brand value and significant presence in the North region.

Revenues The Company reported Net Revenues of PKR 38,922 during FY23, witnessing a growth of 18.4% on back of price hikes whereas volumes declined (FY23: 3.00mln MT, FY22: 3.557mln MT). Furthermore, during 1QFY24, total sale volumes increased by 10.55% to 0.761mln MT (FY22: 0.689mln MT) resulting in Net Revenues of PKR 11,064mln.

Margins KCCL has been successfully maintaining its margins since FY21 owing to efficient cost optimization. During FY23, the Company witnessed a slight decline in reported Gross Profit Margins (FY23: 26.8%, FY22: 29.8%) owing to rise in the prices of coal, electricity and other raw materials that were not entirely passed on to the customers.

Sustainability The Company is committed towards managing its input costs towards sustainable performance. The Company has also announced Greenfield expansion of 7,800 TPD in Khaushab, Punjab. The work on the expansion is yet to begin but once completed will give further opportunity to capture the market share in the South region. Furthermore, to cater the electricity demand of the plant and reduce reliance on expensive electricity from the national grid, the Company has commissioned a 10MW Solar power plant in August 2023 and is in the process of installation of another 15MW Solar power project.

Financial Risk

Working Capital As on Sep 2023, the Company's Gross working capital days stood at 33 days (June 2023: 31 days, June 2022: 25 days). The rise in the days was due to surge in inventory days as a result of lower demand during the period.

Coverages The Company has a strong cash flow position with a stable FCFO (1QFY24: PKR 3,051mln, FY23: PKR 9,644mln, FY22: PKR 9,888mln) due to consistent profitability during the last three years. Interest Coverage (FCFO/Finance Cost) stood at 16.3x during 1QFY24 (FY23: 14.1x, FY22: 19.2x) emanating from lower markup cost.

Capitalization Borrowings including CMLTB amounting to PKR 2,926mln (FY23: PKR 3,183mln). As a result, leveraging stood at 7.8%. Going forward, the company's leveraging is expected to increase in pursuit of expansion. However, it is expected to be comfortably managed through healthy cash flows.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Kohat Cement Company Limited	Sep-23	Jun-23	Jun-22	Jun-21
Cement	3M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	22,279	22,292	21,441	22,102
2 Investments	21,123	16,660	14,258	7,136
3 Related Party Exposure	254	170	-	-
4 Current Assets	9,496	10,408	7,652	6,849
a Inventories	*2,280*	*2,943*	*1,456*	*1,113*
b Trade Receivables	*1,470*	*1,206*	*916*	*984*
5 Total Assets	53,152	49,530	43,351	36,087
6 Current Liabilities	10,565	8,878	8,416	5,927
a Trade Payables	*1,724*	*713*	*1,325*	*1,672*
7 Borrowings	2,926	3,183	4,251	6,051
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	5,236	4,859	3,437	1,885
10 Net Assets	34,426	32,610	27,246	22,224
11 Shareholders' Equity	34,426	32,610	27,246	22,224
B INCOME STATEMENT				
1 Sales	11,064	38,922	32,877	24,057
a Cost of Good Sold	*(7,835)*	*(28,489)*	*(23,065)*	*(18,092)*
2 Gross Profit	3,229	10,433	9,812	5,965
a Operating Expenses	(147)	(572)	(476)	(408)
3 Operating Profit	3,082	9,860	9,336	5,558
a Non Operating Income or (Expense)	*619*	*1,349*	*127*	*(155)*
4 Profit or (Loss) before Interest and Tax	3,701	11,210	9,463	5,403
a Total Finance Cost	*(203)*	*(740)*	*(538)*	*(517)*
b Taxation	*(1,269)*	*(4,649)*	*(3,901)*	*(1,388)*
6 Net Income Or (Loss)	2,229	5,821	5,024	3,498
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*3,051*	*9,644*	*9,888*	*6,575*
b Net Cash from Operating Activities before Working Capital Changes	*2,842*	*8,958*	*9,374*	*5,975*
c Changes in Working Capital	*1,501*	*(3,307)*	*(1,192)*	*(886)*
1 Net Cash provided by Operating Activities	4,343	5,651	8,181	5,089
2 Net Cash (Used in) or Available From Investing Activities	(3,899)	(3,670)	(7,093)	(3,950)
3 Net Cash (Used in) or Available From Financing Activities	(672)	(1,529)	(1,805)	(943)
4 Net Cash generated or (Used) during the period	(228)	453	(717)	196
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	13.7%	18.4%	36.7%	112.9%
b Gross Profit Margin	29.2%	26.8%	29.8%	24.8%
c Net Profit Margin	20.1%	15.0%	15.3%	14.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	41.1%	16.3%	26.4%	23.6%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	26.8%	19.0%	20.1%	16.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	33	31	25	27
b Net Working Capital (Average Days)	23	21	8	5
c Current Ratio (Current Assets / Current Liabilities)	0.9	1.2	0.9	1.2
3 Coverages				
a EBITDA / Finance Cost	18.5	18.1	20.6	14.1
b FCFO / Finance Cost+CMLTB+Excess STB	6.9	5.6	6.2	4.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.3	0.4	0.5	0.9
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	7.8%	8.9%	13.5%	21.4%
b Interest or Markup Payable (Days)	92.1	102.9	100.7	91.3
c Entity Average Borrowing Rate	21.3%	18.4%	9.9%	7.6%

Credit Rating

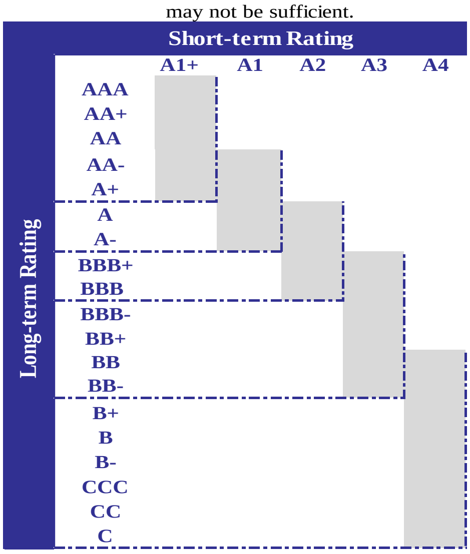
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions
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(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument;| Chapter III | 17-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)
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