



The Pakistan Credit Rating Agency Limited

Rating Report

Fauji Cement Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
15-Mar-2024	AA-	A1+	Stable	Maintain	-
15-Mar-2023	AA-	A1	Stable	Upgrade	-
15-Mar-2022	A+	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Fauji Cement Company Limited (FCCL) ratings depict the Company's performance towards conquering the third spot in the local cement industry in terms of installed capacity and market share. Moreover, the presence of Fauji Group at the upper echelon further bolsters the overall financial strength. It is noteworthy to mention that the Company successfully commissioned its Greenfield Cement Plant in November 2023, having production capacity of 6,500 TPD at D.G Khan. With commencement of operation of new line, the cumulative cement production capacity of the Company has increased to ~10.6 MTPA. Furthermore, the new greenfield plant will provide access to the South region which would be beneficial going forward. Due to the slowdown in the economy, the cement industry witnessed a decline of ~15.7% in cumulative dispatches during the year (FY23: ~44.5mln MT, FY22: ~52.8mln MT). 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 overall decline in the volumes was due to soaring inflation in the country that led to demand constraints. Furthermore, the political instability hindered the developmental activity in the country that adversely impacted the cement sector. Analogous to the industry's outcome, the Company's cumulative dispatches declined by ~14.30% during FY23 as compared to the same period last year (FY23: ~4.8mln MT, FY22: ~5.6mln MT). However, despite negative growth, the Company along with its peers reported positive growth in Net Revenues in value terms owing to higher retention prices resulting in sustained Gross Margin at 30.0%. FCCL reported Net Revenues of PKR 68,069mln (FY22: 54,243mln) witnessing a growth of 25%. The transition into FY24 brought some relief for the cement sector in the form of growth in total industry volumes of ~10% during the first half (1HFY24: ~23.88mln MT, 1HFY23: ~21.76mln MT). Recovery in both local and exports contributed towards the positive shift. FCCL's cumulative dispatches increased by ~5% to ~2.58mln MT (1HFY23: ~2.46mln MT) resulting in Net Revenues of PKR ~40,352mln (1HFY23: PKR ~33,673mln). Stable pricing during the first half led to further improvement in gross margins of the Company recorded at 32%. The Company has penetrated the local cement industry and increased its market share to ~12% in terms of dispatches during FY23. The management is committed towards its cost optimization strategy to further enhance the capacity utilization and profitability of the Company. The Company's leveraging stood at 36.5% as a result of debt to support the expansion.

Going forward, the industry is expected to witness a negligible growth trend during the remaining half of FY24. The ratings remain dependent on upholding the Company's market position along with sustenance of business volumes and margins.

Disclosure

Name of Rated Entity	Fauji 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 Fauji Cement Company Limited (FCCL), is a public listed company established in 1992. The company is listed on Pakistan Stock Exchange (PSX). The Company has been set up with the primary objective of manufacturing, selling and exporting of different types of Cement products.

Background The Company started its operations in 1997 with the production capacity of 3,885 tons per day (TPD), which was enhanced to over 11,865 TPD, with addition of second production Line in 2011, with annual total production capacity of 3.5mtn MT of cement. Upon successful merger with Askari Cement Limited in July 2021 along with completion of expansion of Nizampur line and Greenfield expansion in D.G Khan, the Company is the third largest player in the cement industry in terms of installed capacity,

Operations The Company is operating at four locations including Attock (2 lines), Nizampur (3 lines), Wah (1 line) and D.G Khan (1 line). The current cumulative installed capacity of the Company stands at 10.6mtn MT per annum. The Company is one of the leading producers of a wide range of quality cement including ordinary Portland cement and other specialized cement(s) in Pakistan.

Ownership

Ownership Structure FCCL is majority owned by its sponsor Fauji Foundation and other group companies (67%) while remaining is held by General public (15%) and other institutions (18%).

Stability Fauji Foundation (also known as Fauji Group or FFG), is amongst the largest business conglomerate in Pakistan which "Earns to Serve" the interests of ex-servicemen, basically a Charitable Trust founded in 1954 for the welfare of the ex-servicemen and their dependents.

Business Acumen Fauji Foundation is amongst the leading business conglomerates in Pakistan with investment in different sectors including Banking, Cement, Power, Fertilizer, Oil Exploration and Foods. The group has been operating in the cement sector for three decades which is evidence of their strong business acumen.

Financial Strength Financial Strength of the sponsors is considered strong enough, through above mentioned associated and fully owned projects.

Governance

Board Structure The overall control of the company vests in eight member's board of directors - including the Chief Executive – Mr. Qamar Haris Manzoor. The board comprises of 4 Non-Executive Directors and 3 Independent Directors.

Members' Profile The board members' have good business acumen on the back of significant local industry exposure in several sectors. Mr. Waqar Ahmed Malik is the Chairman of the board. He has vast experience of different sectors and is holding the position of Chairman on different boards of the groups associated companies.

Board Effectiveness FCCL has three committees: 1) Audit committee 2) Human resource & Remuneration Committee (HR&R) and 3) Investment Committee; this is in compliance with the Code of Corporate Governance. The board along with its committees conduct regular meetings as needed to discuss matters relating to operational and financial performance of the Company.

Financial Transparency A.F. Fergusson & Co, Chartered Accountants conducted the external audit services for Fauji Cement for FY23. 'A.F. Fergusson & Co, Chartered Accountant is in 'A' category of SBP list of external auditors and has a QCR rating.

Management

Organizational Structure The organizational structure is divided into different functions. Main functions are; 1) Sales & Marketing, 2) Plant Operations 3) Finance & Accounts. 4) Internal Audit 5) Human Resource 6) Legal & Corporate Affairs and 7) Management Information System. The internal audit department reports to the Audit Committee in line with the Code of Corporate Governance.

Management Team Mr Qamar Haris Manzoor the CEO, has done his master's in chemical Engineer from US and holds over 36 years of experience in plant and project management. He is accompanied by a team of qualified and competent individuals who head their respective departments.

Effectiveness The management is mainly supported by seven departments (i) Management, (ii) Production, (iii) Finance & Accounts (iv) Sales & Marketing, (v) IT Steering (vi) Legal & Corporate Affairs and (vii) Human Resource. The management meetings are conducted on frequent basis to ensure smooth flow of processes and resolve operational bottlenecks. The necessary information is captured in minutes.

MIS FCCL has implemented SAP (ERP) solution in the Company. The technology infrastructure with reasonably conceived and implemented policies or procedures enables the management to generate various regular and customized reports of different frequency (daily, weekly, monthly and yearly) pertaining to sales, purchase, inventory, general ledger, payroll, costing & budget and Preventive maintenance and other important financial figures.

Control Environment Fauji Cement has an in house internal audit function. HOD Internal Audit is reportable to Audit Committee. Internal Audit function is an integral part of the process and regularly appraises and monitors the implementation of financial controls and other procedures.

Business Risk

Industry Dynamics The country's total installed capacity of ~95mtn MT is divided between North and South zones. During FY23, total industry volumes stood at 44.5mtn MT (FY22: 52.8mtn MT) reporting a decline of 15.7%. Local dispatches declined by 16.0% to 40.01mtn MT during FY23 from 47.63mtn MT in FY22. Similarly, Export volumes dwindled by 0.7mtn MT during the period (FY23: 4.56mtn MT, FY22: 5.25mtn MT). The decline in overall volumes was a result of soaring inflation in the country that led to demand constraints. However, during 1HFY24 dispatches stood at 23.90mtn MT (1HFY23: 21.76mtn MT) witnessing a growth of 10% as a result of recovering demand.

Relative Position In terms of installed cement manufacturing capacity, Fauji Cement is the third largest player in the local cement sector. In terms of volumes sold during FY23, the Company occupies ~12% market share.

Revenues During FY23, FCCL's cement dispatches were 4.8mtn MT resulting in Net Revenues of PKR 68,069mtn (FY22: PKR 54,243mtn) witnessing a growth of 25% on back of higher pricing even though the volumes declined. Similarly, during 1HFY24, Net Revenues were PKR 40,351mtn (1HFY23: PKR 33,673mtn) resulting from stable pricing and growth in dispatches during the period (1HFY24: 2.58mtn MT, 1HFY23: 2.46mtn MT).

Margins The Company successfully passed on the increase in the cost of raw materials including coal and electricity to the customers through price hikes during the period. As a result of which, Gross Profit Margin for 1HFY24 improved to 32.0% (1HFY23: 30.0% FY23: 30.0%). Net Profit Margins (FY23: 10.9%, FY22: 13.1%, FY21: 14.3%) witnessed a slight decline during FY23 as a result of high policy rate. Continuing into 1HFY24, the Company has recovered its Net Profit Margins to 13.1%.

Sustainability The Company has successfully completed its Greenfield expansion project in D.G Khan allowing FCCL to become the third largest player in the local cement industry. This will allow the Company to further expand its market share specially in the South region. Furthermore, the management is committed towards cost optimization initiatives to add value to the bottomline.

Financial Risk

Working Capital During 1HFY24, FCCL working capital requirements represented by net cash cycle (net working capital days) - a function of inventory, receivables and payables - increased to 41 days (FY23: 31 days). Cash cycle days (1QFY24: 53 days; 1QFY23: 44 days) increased on account of rise in inventory days owing to slowdown in sales as a result of lower demand during the period. The Company meets its working capital requirements through internally generated cash flows along with STBs amounting to PKR 6,426mtn as of Dec 2023.

Coverages During 1HFY24, FCCL's FCFO increased to PKR 11,450mtn (1HFY23: PKR 8,519mtn) owing to better profitability as a result of stable pricing and recovering volumes. FCFO during FY23 also witnessed impressive improvement as compared to FY22. (FY23: PKR 17,322mtn, FY22: 12,221mtn). Interest Coverage (FCFO/Finance Cost + CMLTB + Excess Borrowings) declined to 2.5x during 1HFY24 as compared to 4.2x during 1HFY23 as a result of higher policy rates.

Capitalization The leveraging of the Company has remained stable and moderately leveraged at 36.5% as of Dec 2023 resulting from long term borrowings owing to the expansion project along with STBs to finance working capital needs.



The Pakistan Credit Rating Agency Limited

Financial Summary

Fauji Cement Company Limited Cement	Dec-23	Jun-23	Jun-22	Jun-21
	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	120,521	115,694	85,415	21,598
2 Investments	250	250	3,843	4,398
3 Related Party Exposure	-	-	67	15
4 Current Assets	25,191	22,884	24,374	8,041
a Inventories	7,501	7,112	3,698	1,189
b Trade Receivables	5,031	3,572	2,413	1,450
5 Total Assets	145,962	138,828	113,698	34,052
6 Current Liabilities	12,610	11,738	12,696	4,143
a Trade Payables	2,676	2,623	2,683	863
7 Borrowings	44,815	44,004	28,266	2,568
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	10,700	10,524	7,613	4,065
10 Net Assets	77,837	72,563	65,123	23,276
11 Shareholders' Equity	77,837	72,563	65,123	23,276
B INCOME STATEMENT				
1 Sales	40,352	68,069	54,243	24,271
a Cost of Good Sold	(27,493)	(47,651)	(39,844)	(18,207)
2 Gross Profit	12,858	20,418	14,399	6,064
a Operating Expenses	(2,381)	(4,087)	(1,838)	(714)
3 Operating Profit	10,478	16,332	12,561	5,350
a Non Operating Income or (Expense)	(239)	214	169	(133)
4 Profit or (Loss) before Interest and Tax	10,238	16,545	12,730	5,217
a Total Finance Cost	(2,141)	(3,645)	(1,202)	(110)
b Taxation	(2,824)	(5,460)	(4,416)	(1,636)
6 Net Income Or (Loss)	5,274	7,440	7,113	3,471
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	11,450	17,322	12,221	5,892
b Net Cash from Operating Activities before Working Capital Changes	7,787	14,759	11,236	5,798
c Changes in Working Capital	(3,600)	(1,121)	(4,653)	(153)
1 Net Cash provided by Operating Activities	4,186	13,637	6,582	5,644
2 Net Cash (Used in) or Available From Investing Activities	(5,455)	(29,667)	(26,065)	(5,142)
3 Net Cash (Used in) or Available From Financing Activities	1,084	14,694	20,888	(163)
4 Net Cash generated or (Used) during the period	(185)	(1,336)	1,406	340
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	18.6%	25.5%	123.5%	40.9%
b Gross Profit Margin	31.9%	30.0%	26.5%	25.0%
c Net Profit Margin	13.1%	10.9%	13.1%	14.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	19.5%	23.8%	14.0%	23.6%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	13.9%	11.3%	16.8%	16.0%
2 Working Capital Management				
a Gross Working Capital (Average Days)	53	45	29	37
b Net Working Capital (Average Days)	41	31	18	28
c Current Ratio (Current Assets / Current Liabilities)	2.0	1.9	1.9	1.9
3 Coverages				
a EBITDA / Finance Cost	6.0	5.7	13.6	76.3
b FCFO / Finance Cost+CMLTB+Excess STB	2.5	2.2	2.9	12.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.0	2.8	2.2	0.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	36.5%	37.8%	30.3%	9.9%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.

Long-term Rating	Short-term Rating
AAA	A1+
AA+	A1
AA	A2
AA-	A3
A+	A4
A	
A-	
BBB+	
BBB	
BBB-	
BB+	
BB	
BB-	
B+	
B	
B-	
CCC	
CC	
C	

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

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- (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)
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- (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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