



The Pakistan Credit Rating Agency Limited

**Rating Report**

**Gharibwal Cement Limited**

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**Rating History**

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
04-May-2018	A-	A2	Stable	Maintain	-
20-Nov-2017	A-	A2	Stable	Maintain	-
06-Jun-2017	A-	A2	Stable	Maintain	-
04-Oct-2016	A-	A2	Stable	Initial	-

**Rating Rationale and Key Rating Drivers**

The ratings reflect Gharibwal Cement's sustained business profile appended by good sector dynamics. The company focuses on geographies closer to the plant location; Gujranwala division remained company's home market - Lahore, Faisalabad and Multan are company's next focus. Announced capacity expansion 1.0mln tons with contract finalized with a Chinese Supplier (CITIC HIC) is expected to strengthen Gharibwal's position. Over last few years business profile has shown steady improvement - on account of strong demand. However, margins declined during 1HFY18 mainly due to lower retention prices and increased international coal prices on average basis. Going forward, with translation of rupee depreciation, the margins are expected to remain under pressure. Continuation in demand trend and Gharibwal Cement's ability to build requisite efficient supply chain remains important. The financial profile of the Company is expected to remain adequate. The leveraging is expected to increase in medium term in pursuit of expansion.

The ratings are dependent on upholding of the company's business vis-à-vis financial risk profile. Any significant deterioration in the sector's outlook particularly any unfavorable change in demand and expansion matrix, thereby exerting pressure on prices and margins, may negatively impact the ratings.

**Disclosure**

<b>Name of Rated Entity</b>	Gharibwal Cement Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating Methodology(Jul-17),Methodology   Correlation between long-term and short-term rating scale(Jun-17),Methodology   Criteria Modifiers(Jun-17)
<b>Related Research</b>	Sector Study   Cement(Nov-17)
<b>Rating Analysts</b>	Jhangeer Hanif   jhangeer@pacra.com   +92-42-35869504

## GHARIBWAL CEMENT LIMITED PROFILE

<b>Incorporated</b>	1965
<b>Major Business</b>	Engaged in manufacturing and sale of Ordinary Portland Cement
<b>Legal Status</b>	Listed
<b>Head Office</b>	Lahore

### OWNERSHIP & GROUP PROFILE

- GWCL production facility located in District Chakwal, Gharibwal Cement operates with a cement capacity of 2.1mln tpa; market share: 4.4%.
- In 1992, in the wake of privatization of cement sector, majority stake was acquired by two families; Mr. Tausif Peracha, founder of Gharibwal Group, owns ~58% while Rafique Family has ~33% stake.
- Tacit understanding between shareholding families necessitates formal documentation.
- Gharibwal Group has interests in glass manufacturing, lubricants, and real estate projects locally and shipping and truck manufacturing in Nigeria.

### GOVERNANCE

- Eight member board including the Chairman, Mr. Abdur Rafique Khan, and the CEO, Mr. Muhammad Tousif Peracha. There are two independent members. Out of five, there are two executive directors – the CEO and Technical advisor – and four non-executive directors.
- Board members carry adequate experience; though challenge to management decisions is limited.
- Two committees, Audit and Human Resource and Remuneration, are in place to assist the board on relevant matters.

### MANAGEMENT

- The CEO, Mr. Tousif Peracha, has been associated with the company since its acquisition in 1992.
- The organizational structure of the company is divided into eight key functions namely; i) Operations and Projects, ii) Procurement, iii) Finance, iv) Marketing/ Commercial, v) Technical Advisory, vi) Information Technology, vii) Administration/ HR, and viii) Internal Audit. All functional heads report to the CEO except Internal Audit, who reports to the Audit Committee of the board.

### SYSTEMS & CONTROLS

- Plant – a mix of European and Chinese technology.
- Deploys Microsoft Dynamic G.P 2015 as operating software; quality of MIS reporting considered good.
- The company has dual fuel captive power generators and WHRPP to meet its power requirements (57MW).

### PERFORMANCE

- Revenues continued to improve (FY17: PKR 11.2bln, FY16: PKR 10.5bln) with mix tilted towards local sales in line with industry trend due to increased infrastructural activity.
- Adequate capacity utilization levels - lower as compare to peers (FY17: 65%, FY16: 65%).
- The turnover recorded for 1HFY18 is PKR 5.48bln (1HFY17: PKR 5.53bln). Gross and EBITDA margins declined to 27.7% and 30.8% (FY17: 34.3% and 36.0%) respectively mainly due to lower retention prices and fluctuating international coal prices. Going forward, with translation of rupee depreciation, the margins are expected to remain under pressure.
- During 1HFY18, with support from interest income of PKR 13mln, the company posted profit of PKR ~753mln (1HFY17: PKR 1.1bln).
- Going forward, Gharibwal Cement has announced capacity expansion 1.0mln tons with contract finalized with a Chinese Supplier (CITIC HIC), the project will be financed with debt to equity of 40:60.

### FINANCIAL RISK

- Working capital requirements has been met through internal generation owing to healthy cash flows; negative cash cycle owing to higher creditor days which required management attention.
- Current ratio remained adequate at (1HFY18: 0.9x; FY17: 0.8x, FY16: 1x).
- Core coverage witnessed decline (1HFY18: 1.3x; FY17: 2.1x, FY16: 5.4x)
- Moderately leveraged capital structure; with debt driven expansion, (Total debt to debt plus equity Ratio (1HFY18: 27.2%; FY17: 28%; FY16: 29%) - leveraging is expected to increase in pursuit of expansion.



**Gharibwal Cement Limited**

<b>BALANCE SHEET</b>	<b>31-Dec-17</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>
	<b>1H</b>	<b>Annual</b>	<b>Annual</b>	<b>Annual</b>
<b>Non-Current Assets</b>	<b>18,991</b>	<b>18,768</b>	<b>15,491</b>	<b>13,813</b>
<b>Investments (Incl. associates)</b>	<b>20</b>	<b>20</b>	<b>104</b>	<b>-</b>
Equity	-	-	-	-
Mutual Funds	20	20	104	-
<b>Current Assets</b>	<b>3,396</b>	<b>2,827</b>	<b>2,457</b>	<b>2,070</b>
Stores and Spares	1,395	1,133	746	671
Inventory	755	625	423	766
Others	1,246	1,069	1,288	633
<b>Total Assets</b>	<b>22,407</b>	<b>21,615</b>	<b>18,052</b>	<b>15,884</b>
<b>Debt</b>	<b>4,320</b>	<b>4,506</b>	<b>4,029</b>	<b>3,696</b>
Short-term	-	-	-	138
Long-term (Incl. Current Maturity of long-term deb	4,320	4,506	4,029	3,558
Other short-term liabilities	3,997	3,452	2,628	3,180
Other Long-term Liabilities	2,557	2,275	1,566	1,526
<b>Shareholder's Equity</b>	<b>11,533</b>	<b>11,381</b>	<b>9,828</b>	<b>7,482</b>
<b>Total Liabilities &amp; Equity</b>	<b>22,407</b>	<b>21,615</b>	<b>18,052</b>	<b>15,884</b>

**INCOME STATEMENT**

<b>Turnover</b>	<b>5,478</b>	<b>11,223</b>	<b>10,522</b>	<b>9,601</b>
Gross Profit	1,515	3,854	4,172	2,969
Net Income	(70)	(153)	127	(109)
Financial Charges	(206)	(308)	(266)	(505)
<b>Net Income</b>	<b>753</b>	<b>2,284</b>	<b>2,694</b>	<b>1,284</b>

**Cashflow Statement**

Free Cashflow from Operations (FCFO)	1,361	3,692	4,075	3,163
Net Cash changes in Working Capital	200	375	(552)	(498)
Net Cash from Operating Activities	1,381	3,491	2,901	2,237
Net Cash from Investing Activities	(605)	(3,796)	(2,544)	(1,299)
Net Cash from Financing Activities	(747)	(61)	(46)	(792)
Net Cash generated during the period	30	(365)	310	146

**Ratio Analysis**

<b>Performance</b>				
Turnover Growth	-0.9%	6.7%	9.6%	12.3%
Gross Margin	27.7%	34.3%	39.7%	30.9%
Net Margin	13.7%	20.3%	25.6%	13.4%
ROE	13.3%	20.6%	28.1%	17.7%
<b>Coverages</b>				
Core: (FCFO/Gross Interest+CMLTD+Uncovered)	1.3	2.1	5.4	1.2
Interest Coverage (x) (FCFO/Gross Interest)	6.6	12.0	15.3	6.3
Debt Payback (Years) (Total Lt.Debt (excluding C	2.1	1.5	1.1	1.8
<b>Liquidity</b>				
Net Cash Cycle (Inventory Days + Receivable Days	-23	-14	-12	0
<b>Capital Structure</b> (Total Debt/Total Debt+Equity)	27.2%	28.4%	29.1%	33.1%



## ENTITY CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.			
<b>LONG TERM RATINGS</b>		<b>SHORT TERM RATINGS</b>	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<b>A1+:</b> The highest capacity for timely repayment.  <b>A1:</b> A strong capacity for timely repayment.  <b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.  <b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.  <b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.  <b>C:</b> An inadequate capacity to ensure timely repayment.	
<b>AA+</b>	<b>Very high credit quality.</b> 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.		
<b>AA</b>	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.		
<b>AA-</b>	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.		
<b>A+</b>	<b>High credit quality.</b> 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.		
<b>A</b>	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.		
<b>A-</b>	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.		
<b>BBB+</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.		
<b>BBB</b>	The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.		
<b>BBB-</b>	The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.		
<b>BB+</b>	<b>Moderate risk.</b> 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>BB</b>	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>BB-</b>	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>	<b>High credit risk.</b> 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>B</b>	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>B-</b>	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</b>	<b>Very high credit risk.</b> "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.		
<b>CC</b>	"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.		
<b>C</b>	"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.		
<b>D</b>	Obligations are currently in default.		
<b>Rating Watch</b>	<b>Outlook (Stable, Positive, Negative, Developing)</b>	<b>Suspension</b>	<b>Withdrawn</b>
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.	Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business or 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'.	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, a suspended rating should be considered withdrawn.	A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.
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(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

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- (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)

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- (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.
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- (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)

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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 on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(f-VII)

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