



The Pakistan Credit Rating Agency Limited

## Rating Report

### Bestway Cement Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-May-2018	AA-	A1+	Stable	Maintain	-
17-Nov-2017	AA-	A1+	Stable	Maintain	-
05-Apr-2017	AA-	A1+	Stable	Maintain	-
19-Nov-2016	AA-	A1+	Stable	Maintain	-
19-Nov-2015	AA-	A1+	Stable	Upgrade	-

#### Rating Rationale and Key Rating Drivers

Bestway Cement's ratings reflect its market leading position in industry emanating from strong market share (~18%). The company has history of successful mergers, further fortified by cost-efficient operational framework, robust EBITDA margins and strong profitability. The Company has announced capacity expansion (1.8mln tpa) – entirely financed through internal cashflows – which is likely to commence operations in 1QFY19. This will assist the Company in holding its market share amidst the industry wide significant expansion trend. In addition to strong local demand, the company's business profile is further strengthened by an established dividend stream from its strategic investment - United Bank Limited (~8% stake) - augmenting its cashflows. The entity's financial risk, mainly reflected from sturdy coverages and low leveraged capital structure, remains fairly low. The ratings derive benefit/comfort from (i) the company's association with Bestway Group (UK) and (ii) strong local cement demand on the back of rising economic and infrastructure activity which is likely to prevail in upcoming years.

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>	Bestway 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>	Sehar Fatima   sehar.fatima@pacra.com   +92-42-35869504 Jhangeer Hanif   jhangeer@pacra.com   +92-42-35869504

## BESTWAY CEMENT LIMITED PROFILE

<b>Incorporated</b>	1993
<b>Major Business</b>	Engaged in manufacturing and sale of cement and cement aggregates
<b>Legal Status</b>	Listed
<b>Head Office</b>	Islamabad

### OWNERSHIP & GROUP PROFILE

- Bestway Group (BWG) – UK based conglomerate, majority owned by Sir Mohammed Anwar Pervez (founder) & family – is the majority shareholder (76%) of Bestway Cement; Strong financial muscle of the group
- BWG has interests in banking, real estate, cement, trading and cash & carry businesses

### GOVERNANCE

- The overall control of board vests in eight member board including CEO. The board is dominated by six representatives of BWG including two EDs and two independent members; Strong business acumen of board due to local and international business exposure
- There are Audit and Human Resource Committee in place to assist the board. Audit Committee reports to the board in line with code of corporate governance.
- The auditors of the company M/s. KPMG Taseer Hadi and Co., Chartered Accountants, issued an unqualified audit opinion pertaining to annual financial statements for FY17. An interim audit has been performed on 1HFY18 financial statements.

### MANAGEMENT

- Chairman Sir Mohammed Anwar Pervez and CEO, Mr. Zameer Mohammed Choudrey (also Group CEO), is associated with BWG since 1984
- Experienced management team with multi-tier organizational structure
- The organizational structure is divided into five functional departments, namely: (1) Administration, Marketing and Corporate Affairs, (2) Finance & IT, (3) Procurement, Planning and Coordination, (4) Works and (5) Sales. The Internal Audit department reports to the audit committee.

### SYSTEMS & CONTROLS

- Geographically spread plant locations: Chakwal (3) and Hattar (2); equipped with state-of-the-art technology infrastructure
- Diversified sources including Waste Heat Recovery Plants (WHRPP), WAPDA and gas-based generators to meet power requirements
- Oracle-based ERP system; Comprehensive MIS reporting to department heads

### PERFORMANCE

- Bestway Cement's sales have been on rising trend since last few years. During FY17, turnover was recorded at PKR 51.6bln (FY16: PKR 45.7bln), demonstrating growth of 13% YoY on account of increase in volumetric sales of 21% YoY; Volumetric sales analysis reveals that sales mix remained tilted towards local market (87%) and exports (13%) – in line with industry trend
- During 1HFY18, the sales volume analysis revealed that local dispatches witnessed growth of 12% while clinker sales recorded decrease of 16% - primarily SPLY's dispatches of clinker to another cement player; Capacity Utilization Levels remained robust (1HFY18: 96%, FY17: 98%, FY16: 72%)
- The turnover recorded for the period is PKR 26.4bln (1HFY17: PKR 25.8bln). Gross and EBITDA margins declined to 37.4% and 36.1% (FY17: 43.6% and 41.9%) 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. Dividend income (1HFY18: PKR 1.0bln; 1HFY17: PKR 1.0bln) from strategic investment in UBL supported the revenue stream. Finance costs of the company decreased to PKR 300mln (1HFY17: PKR 473mln) on account of timely repayment of long term debt. Hence, the company posted profits of PKR 6.1bln, down 13% YoY
- As at end-Dec17, the company's investment portfolio stood at 24% (end-Jun17: 25%) of the equity base.
- Going forward, the company's brown-field expansion is going as planned. The project of 1.8mln tpa capacity will be entirely financed through internal cash flows and the expected commissioning is in 1QFY18.

### FINANCIAL RISK

- During 1HFY18, Bestway's working capital requirements, represented by net cash cycle (net working capital days) – a function of inventory, receivables and payables – improved to 13days (end-Jun17: 18days). The company manages its working capital requirements through mix of internal generation and short term borrowings.
- Core coverages ratio stood at 2.7x and 20.2x at end-Dec17 and end-Jun17 respectively. The coverages declined but are expected to remain within comfortable range.
- The company is currently leveraged at ~28% as at end-Dec17. Furthermore, the company has short term borrowing of PKR 8.9bln which is 47% of the total debt. Going forward, leveraging is not expected to increase as upcoming expansion is being financed through internal generation.



# Cement

The Pakistan Credit Rating Agency Limited

Financials (Summary)

PKR mln

## Bestway Cement Limited

BALANCE SHEET	30-Dec-17 IHFY18	30-Jun-17 Annual	30-Jun-16 Annual
<b>Non-Current Assets</b>	<b>60,850</b>	<b>54,129</b>	<b>54,112</b>
<b>Investments (Incl. Associates)</b>	<b>11,963</b>	<b>11,851</b>	<b>11,593</b>
Equity	11,963	11,851	11,593
Debt Securities	-	-	-
Investment Property	250	250	351
<b>Current Assets</b>	<b>16,955</b>	<b>15,534</b>	<b>11,765</b>
Inventory	3,381	4,646	2,532
Trade Receivables	2,007	1,462	1,176
Others	11,567	9,426	8,057
<b>Total Assets</b>	<b>90,018</b>	<b>81,765</b>	<b>77,820</b>
<b>Debt</b>	<b>18,973</b>	<b>14,888</b>	<b>18,941</b>
Short-Term	8,973	4,888	2,441
Long-term (Incl. Current Maturity of Long-Term Debt)	10,000	10,000	16,500
Other Short-Term Liabilities	10,688	8,638	7,294
Other Long-Term Liabilities	10,230	10,470	9,602
<b>Shareholder's Equity</b>	<b>50,128</b>	<b>47,769</b>	<b>41,983</b>
<b>Total Liabilities &amp; Equity</b>	<b>90,018</b>	<b>81,765</b>	<b>77,820</b>

## INCOME STATEMENT

<b>Turnover</b>	<b>26,460</b>	<b>51,623</b>	<b>45,721</b>
Gross Profit	9,902	22,533	21,148
Other Income	542	926	1,394
Financial Charges	(300)	(831)	(1,823)
<b>Net Income</b>	<b>6,194</b>	<b>13,293</b>	<b>11,880</b>

## Cashflow Statement

EBITDA	9,562	21,640	20,776
Free Cashflow from Operations (FCFO)	6,952	16,777	16,756
Net Cash changes in Working Capital	883	(2,160)	580
Net Cash from Operating Activities	8,129	14,927	16,566
Net Cash from Investing Activities	(8,633)	(4,192)	(1,531)
Net Cash from Financing Activities	(3,578)	(13,357)	(17,528)

## Ratio Analysis

<b>Performance</b>			
Turnover Growth (same period last year)	2.4%	12.9%	39.8%
Gross Margin	37.4%	43.6%	46.3%
Net Margin	23.4%	25.7%	26.0%
ROE	13.0%	27.8%	28.3%
<b>Coverages</b>			
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	2.7	20.2	9.2
Interest Coverage (x) (FCFO/Gross Interest)	23.1	20.2	9.2
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Term Borrowings) / FCF)	1.0	0.6	1.1
<b>Liquidity</b>			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	13	18	16
<b>Capital Structure</b> (Total Debt/Total Debt+Equity)	27%	24%	31%

Bestway Cement Limited

May 2018

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## 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>			
<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>			
<b>A-</b>			
<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>			
<b>BBB-</b>			
<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>			
<b>BB-</b>			
<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>			
<b>B-</b>			
<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>			
<b>C</b>			
<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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### **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**

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (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.
- (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)

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- (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)
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- (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)
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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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