The Pakistan Credit Rating Agency Limited

Rating Report

Askari Cement Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
09-Aug-2018	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Askari Cement's ratings reflect the strong position in the cement industry from its sustained profile. The Company has two existing cement manufacturing units (Nizampur and Wah) - operating with combined capacity of 2.8mln tpa. Over the last few years, the company was able to maintain growth trajectory trend in revenue, supported by strong cement sector fundamentals. The company secures healthy margins - in line with general sector phenomenon. The business profile of the company is likely to stay stable due to strong sector fundamentals, maintained volumes and sustained EBITDA. The upcoming projects include BMR at Nizampur plant and WHR at Wah plant. Hence, currently financials are moderately leveraged. However, cashflows provide good coverage to anticipate repayment. Going forward, leveraging is expected to remain at comfortable level. The ratings take comfort from strong financial strength of Fauji Foundation - third largest sponsoring group in the cement industry.

The ratings are dependent on current positioning of the company’s business besides financial risk profile; strengthening of equity base is essential. Any significant deterioration in the sector’s outlook particularly any unfavourable change in demand and expansion matrix, thereby exerting pressure on prices and margins, may negatively impact the ratings.

Disclosure

Name of Rated Entity	Askari Cement Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-18),Methodology | Criteria | Rating Modifier(Jun-18),Methodology | Correlation Between Long-Term And Short-Term Rating Scale | Jun18(Jun-18)
Related Research	Sector Study | Cement(Nov-17)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

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ASKARI CEMENT LIMITED
PROFILE

Incorporated	1990
Major Business	Production and sale of Ordinary Portland Cement
Legal Status	Public Limited - Unlisted
Head Office	Rawalpindi

OWNERSHIP

- Askari Cement is wholly owned subsidiary of Fauji Foundation.
- Fauji Foundation (also known as Fauji Group) is amongst largest sponsoring groups in Pakistan. FG has diversified interest in various sectors.

GOVERNANCE

- The overall control of the company vests in seven-member board of directors (BoD), including the CEO.
- The sponsor dominated board is chaired by Chairperson – Lt Gen Syed Tariq Nadeem Gilani, (Retd), who is also associated with various Fauji Foundation companies board. He holds extensive experience of banking, fertilizer, petroleum, power and several other sectors.
- All of the Board members, except the CEO, are non-executive members and represents the sponsoring group.

MANAGEMENT

- The CEO, Maj Gen Ghulam Mustafa Kausar, is a graduate from Command and Staff College Quetta and Armed Forces War College (National Defense University), is associated with the company as Managing Director / CEO since Aug-16
- Askari Cement has a multi-tier organizational structure, divided into four key functions, namely (i) Finance, (ii) Marketing, (iii) Technical and Operations, and (iv) HR & Admin. Each function is headed by an experienced personnel who, in turn, reports to the CEO.

SYSTEMS & CONTROLS

- Askari Cement Company has two cement manufacturing units which are located in areas of plentiful limestone reserves in Wah (Isalamabad) and Nizampur.
- Wah –European technology plant, while Nizampur is Chinese technology.
- Askari Cement deploys an Oracle based ERP solution implemented at head office, on both manufacturing sites.

PERFORMANCE

- Askari Cement's sales have maintained growth trajectory, over last years, driven by strong cement sector fundamentals. During FY17, the company maintained volumes at 2.3mln (M. Tons) (FY16: ~2.3mln (M. Tons)) primarily due to lower industry growth witnessed in FY17 of 8% only (FY16: 17%). The company's exports avenue is Afghanistan.
- During FY17, exports witnessed volumetric decline by 30%. Local-export dispatches mix remained skewed towards domestic market, in line with the industry trend. Cement capacity utilization levels remained healthy 87% (FY16: ~84%).
- During FY17, ACL reported revenue of PKR 15.9bln (FY16: PKR 15.6bln), demonstrating marginal growth of 2.2%.
- However, the uptick in coal prices – average FY17 (ex-Richards Bay): USD ~77/ton, average FY16 (ex-Richards Bay): USD 57/ton resulted in decrease in the company's margins; gross and EBITDA margin declined to 32.1% (FY16: 35.0%) and 34.7% (FY16: 36.7%) respectively.
- Other recurring non-core income supported bottom-line by PKR 143mln (FY16: PKR 119mln). Finance costs declined to PKR 506mln (FY16: PKR 585mln). Hence, the net profit stood at PKR 2.7bln (FY16: PKR 2.9bln, down ~10% YoY.
- During 9MFY18, the company recorded turnover of PKR 11.5bln. Gross and EBITDA margins stood at 24.8% and 27.6% respectively. Margins reduces on account of lower retention prices and fluctuating international coal prices. Other income of PKR 135mln supported the bottom-line. Hence, the net profit figure stood at PKR 1.4bln.
- Askari Cement Company has investments in the term deposit reciepts at end-Jun17, the company has investment portfolio of PKR 1.7bln (as at end-Jun16: PKR 1.6bln) which equates to only 15% of the company's equity base.

FINANCIAL RISK

- During FY17, Askari Cement working capital requirements, represented by net cash cycle (net working capital days) – a function of inventory, receivables and payables – stood at 16days (end-Jun16: -14days).
- The company manages its working capital requirements through mix of internal generation and short term borrowings. At end-Mar18, the company reported STBs of PKR 3.3bln (end-Jun17: PKR 3.1bln).
- During FY17, EBITDA clocked in at PKR 5.5bln (end-Jun16: PKR 5.7bln). Furthermore, robust FCFO (end-Mar18: PKR 2.2bln; at end-Jun17: PKR 3.9bln). Hence, the core coverage ratio was reported at 1.8x and 2.4x at end-Mar18 and end-Jun17 respectively.
- During 9MFY18, long-term debt increased to PKR 7.5bln (FY17: PKR 5.1bln) subsequently debt to debt plus equity ratio slightly increased to ~46% (FY17: 41%) on account of ongoing BMR at Nizampur site.
- Company paid a dividend of PKR 3bln as at Jun-17 (Jun-16: PKR 2.9bln).

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Financials (Summary)

PKR mln

Askari Cement Limited

BALANCE SHEET	31-Mar-18	30-Jun-17	30-Jun-16	30-Jun-15
	9M	Annual	Annual	Annual
Non-Current Assets	**22,202**	**19,602**	**19,608**	**19,948**
Investments (Incl. associates)	**1,920**	**1,745**	**1,639**	-
Equity	1,920	1,745	1,639	-
Mutual Funds	-	-	-	-
Current Assets	**4,889**	**4,146**	**3,461**	**3,865**
Stores and Spares	1,942	1,699	1,880	1,504
Inventory	964	959	772	1,052
Others	1,983	1,489	809	1,309
Total Assets	**29,011**	**25,493**	**24,707**	**24,339**
Debt	**10,856**	**8,185**	**7,384**	**7,312**
Short-term	3,337	3,088	1,199	349
Long-term (Inlc. Current Maturity of long-term debt)	7,518	5,097	6,186	6,963
Other short-term liabilities	2,361	2,676	2,498	2,387
Other Long-term Liabilities	3,001	2,972	2,816	3,351
Shareholder's Equity	**12,794**	**11,660**	**12,008**	**11,288**
Total Liabilities & Equity	**29,011**	**25,493**	**24,707**	**24,339**
INCOME STATEMENT				
Turnover	**11,468**	**15,953**	**15,600**	**13,526**
Gross Profit	2,839	5,118	5,463	4,327
Operating Profit / (Loss)	2,440	4,588	4,929	3,936
Financial Charges	(398)	(506)	(585)	(810)
Net Income	**1,434**	**2,694**	**2,983**	**2,198**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	2,228	3,970	4,221	3,936
Net Cash changes in Working Capital	(730)	(374)	324	(291)
Net Cash from Operating Activities	1,140	3,192	3,996	2,831
Net Cash from InvestingActivities	(3,264)	(828)	(387)	(623)
Net Cash from Financing Activities	2,111	(4,189)	(3,692)	(2,289)
Net Cash generated during the period	(13)	(1,825)	(83)	(81)
Ratio Analysis				
Performance				
Turnover Growth	-5.9%	2.3%	15.3%	NA
Gross Margin	24.8%	32.1%	35.0%	32.0%
Net Margin	12.5%	16.9%	19.1%	16.2%
ROE	11.2%	23.5%	25.0%	19.5%
Coverages				
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	1.8	2.4	2.5	2.5
Interest Coverage (x) (FCFO/Gross Interest)	5.6	7.8	7.2	4.9
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Term Borrowings) / FCFC	3.1	1.5	1.7	2.2
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	26	15	13	20
Capital Structure (Total Debt/Total Debt+Equity)	45.9%	41.2%	38.1%	39.3%

Rating Scale

Credit Rating Scale & Definitions

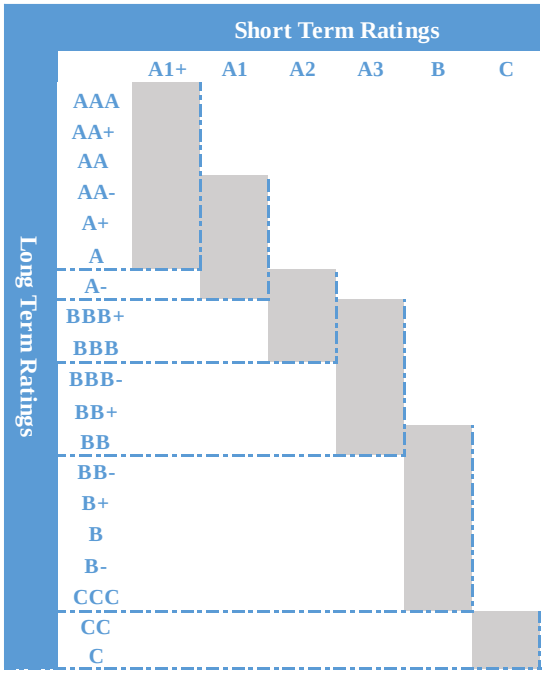
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

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 Ratings

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.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) 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.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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

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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.
(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)
(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 | 18-(a)
(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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