



The Pakistan Credit Rating Agency Limited

## Rating Report

### Pioneer Cement Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-Jun-2023	A	A2	Stable	Maintain	-
24-Jun-2022	A	A2	Negative	Maintain	-
25-Jun-2021	A	A2	Negative	Maintain	-
29-Jun-2020	A	A2	Negative	Downgrade	-
27-Sep-2019	A	A1	Negative	Maintain	-
29-Mar-2019	A	A1	Stable	Maintain	-
18-Dec-2018	A	A1	Stable	Maintain	-
07-May-2018	A	A1	Stable	Maintain	-
28-Dec-2017	A	A1	Stable	Maintain	-
21-Jun-2017	A	A1	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

Pioneer Cement Limited (“The Company” or “Pioneer”) is a public limited company incorporated in February 1986, commenced its operations in November 1994. Pioneer cement operates with three manufacturing lines, in north region, with the capacity of 5.2Mta. The total installed capacity of cement industry in Pakistan is 80Mta with a further ~7Mta of capacity in the pipeline. This will take total production capacity to 87Mta by FY24. During 9MFY23 industry’s overall dispatches recorded at 33.6mln tons, declined by ~17.7% compared to same period last year. While domestic uptake of cement reduced by 15.6%, major decrease in volumes is witnessed in exports due to higher ocean freight and uncertain political and economic situation. Though the dispatches are reduced, the gross profitability of the sector improved due to better translation of production cost and margins in selling prices. The overall industry’s future demand outlook remains stable, in view of the infrastructure projects in the pipeline. The Company’s volume decrease 18.5% during 9MFY23 in line with the industry trend. However, the Company clocked its net revenue at PKR 27.8bln (9MFY22: PKR 22.5bln) showing 23% growth in revenue term due to better retention prices. Despite the increased input cost majorly energy across the industry, the gross margins of the Company remains stable as the Company substituted costlier imported coal with cost effective local and Afghan-origin coal and, has placed maximum reliance on captive power generation plants. Due to better pricing and cost-effective measures the coverage ratios improved relying on improved FCFOs. This narrowed the gap of debt repayments, though room for further improvement is there.

Stable outlook of the Company depicts improved free cashflows and hence enhanced ability to repay timely. However, it is important to note that the following factors (i) making good margins ii) sustaining cash flows generation iii) low leveraging, and (iv) optimal utilization of existing and new lines remains imperative for the timely repayments as well as the ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Pioneer Cement Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Cement(Mar-23)
<b>Rating Analysts</b>	Anam Waqas Ghayour   anam.waqas@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Pioneer Cement is a listed Company with its shares traded on Pakistan Stock Exchange Limited (PSX). The Company's shares are quoted under the Cement Sector.

**Background** Pioneer Cement was incorporated in 1986. It is headquartered in Lahore, Pakistan and the manufacturing facility is located at Chenki-District Khushab. Its location in central Punjab allows easy and fast approach to market. The main markets of the company are adjoining areas of Punjab, Khyber-Pakhtunkhwa and Sindh. Pioneer operates with three production lines having a combined capacity of 17,300 tpd (CoD: Line I - 1994, Line II - 2006, Line III - 2020).

**Operations** Pioneer Cement is engaged in the manufacturing and sale of Ordinary Portland Cement.

## Ownership

**Ownership Structure** Vision Holding Middle East Limited (VHME) is an offshore SPV of Vision Holding Trust (VHT). VHME holds majority stake (47%) in Pioneer Cement and remaining shares of the company are held by various financial institutions and general public.

**Stability** Ownership structure of the Company is seen as stable as no ownership changes are expected in near future. Majority stake will rest with the Vision Holding Middle East Limited (VHME).

**Business Acumen** Vision holding trust is 100% owned by Mr. Habibullah Khan – a renowned entrepreneur. Apart from Cement, trust maintains interest in several sectors. The sponsors having a diversifiable universe of investments is considered to be a positive sign.

**Financial Strength** Given that Pioneer is a flagship entity of the sponsor, willingness to support the company in case the needs arises is considered high; also supplemented by access to capital markets

## Governance

**Board Structure** The overall control of the company vests in eight member board of directors (BoD), including the CEO and two independent directors. Syed Mazher Iqbal was appointed as Chief Executive Officer of the Company dated June 01, 2021.

**Members' Profile** Board members carry requisite technical skills which is abetted by diversified professional background of board members. Board meeting minutes are formally maintained and the attendance is considered good which bodes well for overall governance framework of the company.

**Board Effectiveness** The board has two committees to oversee the company's financial matters. These committees include: 1) Audit, and 2) Human Resource & Remuneration (HR&R). This is in compliance with the Code of Corporate Governance.

**Financial Transparency** M/s EY Ford Rhodes Chartered Accountants conducted the external audit services for Pioneer. They're in a '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 30, 2022. Current auditor for FY23 is KPMG Taseer Hadi & Co

## Management

**Organizational Structure** Pioneer Cement has a lean organization structure with the company's operations grouped under nine key functions. These include i) Administration, ii) Corporate Affairs, iii) Finance, iv) Human Resource, v) Information Technology, vi) Marketing, vii) Operations, viii) Supply Chain and ix) Internal Audit. All functional heads report to the CEO except for internal audit, which reports directly to the Audit committee of the board (in compliance with the requirement of law for listed companies).

**Management Team** Syed Mazher Iqbal is serving as the CEO of Pioneer Cement Limited as well as CEO of Haleeb Foods Limited (HFL). Having completed his audit training from AF Ferguson & Co Chartered Accountants, he was also associated with local as well as multinational organizations like Kuwait Finance House, Kuwait National Petroleum Company, Orix Investment Bank, ICI Pakistan Limited and General Tyres.

**Effectiveness** The CEO is supported by experienced professionals at key management positions having a long-term association with the company.

**MIS** Pioneer has deployed an oracle based ERP solution. The company's current operational modules include i) Inventory, ii) Purchasing, iii) Payables, iv) Receivables, v) Cash Management, vi) Fixed Assets, vii) General Ledger, and viii) Order Management.

**Control Environment** Pioneer's plant comprises of three lines wherein, Line I is a European technology (FLSmidth), and Line II and III are mix of European and Chinese technology. Accredited with ISO 9001: 2008 and ISO 14001:2004 certification, Pioneer deploys advance technology to ensure production of quality cement.

## Business Risk

**Industry Dynamics** In FY22, overall sector gross revenues grew by ~24% and were recorded at PKR~671bln; although total dispatches dipped by ~7%, however ~31% higher retention prices per bag drove the industry's topline. Cement Sector is composed of 16 companies (after Askari Cement merged with Fauji Cement). The Sector is divided into two regions; North and South, with North covering areas of Punjab, KPK and AJK and South including areas of Sindh and Baluchistan. Cement sector is organized and is oligopolistic in nature, with most of the players listed on the PSX, market capitalization of the sector was recorded around PKR~378bln in March'23.

**Relative Position** Pioneer Cement is a mid-tier cement player, operating in north region. The company has operational cement capacity of 5.2mln tons per annum with existing market share of 6% during 9MFY23.

**Revenues** During 9MFY23, the company recorded revenue of PKR 27.8bln (9MFY22: PKR 22.5bln, FY22: PKR 31.8bln), showing increase YoY. The cost of sales for the period under review increased as compared to SPLY (9MFY23: PKR 20.6bln, FY22: PKR 24.7bln).

**Margins** Gross margins for the current period under review witnessed a tremendous growth to arrive at PKR 7.18bln (26% of net sales) in comparison to corresponding period amount of PKR 4.9bln (21.6% of net sales).

**Sustainability** The Company is exploring new profitable export markets to augment more margins to the bottom line. Moreover, the efficiencies of new line and reliance on captive power generation will mitigate the adverse impact on input costs.

## Financial Risk

**Working Capital** Pioneer's working capital requirements represented by net cash cycle (net working capital days) – a function of inventory, receivables and payables increased to negative 9days at 9MFY23 (FY22: -18days, FY21: -14days). Whereas payable days remained the same 9MFY23: 47days (FY22: 47days, FY21: 49days). The requirements were met through a mix of internal cash generation and short-term borrowings. As at end-Mar23, STBs stood at PKR 4.2bln (FY22: 4.2bln, FY21: PKR 5.2bln) following decreasing trend attributable to improved internal cash flow generation compared with obligations due.

**Coverages** In 9MFY23, Pioneer's revenues and profitability has improved. FCFO stood at PKR 8.6bln (FY22: PKR 8.5bln, FY21: PKR 4.2bln). The coverage (EBITDA/Finance Cost) of the Company also showed the same trend and stood at 3.4x compared with last fiscal year FY22 at 3.4x, ensuring better position of paying its financial obligations. On account of acquisition of long-term finance for projects (capacity expansion, coal fired power plant and WHRPP); finance cost has increased. This increase in mainly due to upward revision in the policy rate.

**Capitalization** Pioneer has moderate level of leverage. For the period 9MFY23, the leverage [Total Borrowings/ (Total Borrowings + Shareholders' Equity)] stood at 38% (FY22: 43%, FY21: 64%). The short term borrowings vs. total borrowing stood at 21.5% (FY22: 19.2%).



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Pioneer Cement Ltd. Cement	Mar-23 9M	Jun-22 12M	Jun-21 12M	Jun-20 12M
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#### A BALANCE SHEET

1 Non-Current Assets	62,560	63,323	43,010	41,623
2 Investments	545	563	1,067	827
3 Related Party Exposure	-	-	-	-
4 Current Assets	8,222	8,103	7,404	6,584
<i>a Inventories</i>	1,950	534	659	418
<i>b Trade Receivables</i>	2,074	1,708	1,334	974
5 Total Assets	71,328	71,988	51,481	49,035
6 Current Liabilities	7,089	7,971	6,635	6,249
<i>a Trade Payables</i>	4,434	5,026	3,192	2,657
7 Borrowings	19,549	22,315	26,792	26,514
8 Related Party Exposure	-	-	350	500
9 Non-Current Liabilities	11,847	11,368	2,605	2,643
10 Net Assets	32,843	30,334	15,099	13,128
11 Shareholders' Equity	32,483	29,771	15,099	13,128

#### B INCOME STATEMENT

1 Sales	27,796	31,879	21,818	6,287
<i>a Cost of Good Sold</i>	(20,614)	(24,676)	(17,700)	(6,390)
2 Gross Profit	7,182	7,203	4,118	(103)
<i>a Operating Expenses</i>	(212)	(254)	(247)	(361)
3 Operating Profit	6,970	6,950	3,871	(464)
<i>a Non Operating Income or (Expense)</i>	(338)	(349)	150	102
4 Profit or (Loss) before Interest and Tax	6,631	6,601	4,021	(363)
<i>a Total Finance Cost</i>	(2,635)	(2,656)	(1,818)	(393)
<i>b Taxation</i>	(1,285)	(2,894)	(229)	546
6 Net Income Or (Loss)	2,711	1,050	1,974	(210)

#### C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	8,621	7,789	4,237	(113)
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	6,006	5,225	1,534	(194)
<i>c Changes in Working Capital</i>	(2,013)	403	178	638
1 Net Cash provided by Operating Activities	3,994	5,628	1,712	444
2 Net Cash (Used in) or Available From Investing Activities	(1,223)	(544)	(1,861)	(5,854)
3 Net Cash (Used in) or Available From Financing Activities	(2,767)	(4,900)	120	5,566
4 Net Cash generated or (Used) during the period	4	184	(29)	155

#### D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	16.3%	46.1%	247.0%	-35.4%
<i>b Gross Profit Margin</i>	25.8%	22.6%	18.9%	-1.6%
<i>c Net Profit Margin</i>	9.8%	3.3%	9.0%	-3.3%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	23.8%	25.7%	20.2%	8.3%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/S)</i>	11.1%	4.1%	13.4%	-1.7%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	37	29	35	81
<i>b Net Working Capital (Average Days)</i>	-9	-18	-14	-42
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.2	1.0	1.1	1.1
3 Coverages				
<i>a EBITDA / Finance Cost</i>	3.4	3.1	2.7	0.2
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.0	0.7	0.4	0.0
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	2.3	4.2	10.5	-51.8
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	37.6%	42.8%	64.3%	67.3%
<i>b Interest or Markup Payable (Days)</i>	69.3	107.9	116.1	915.7
<i>c Entity Average Borrowing Rate</i>	16.8%	10.3%	6.7%	1.6%

### 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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<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.
AA-	
A+	
A	<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.
A-	
BBB+	
BBB	<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 and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	
BB	<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.
BB-	
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-	
CCC	
CC	<b>Very high credit risk.</b> 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.



\*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
- 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

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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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(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)

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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 | 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)

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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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