The Pakistan Credit Rating Agency Limited

Rating Report

Askari Cement Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Sep-2020	A	A1	Stable	Maintain	-
27-Sep-2019	A	A1	Stable	Maintain	-
29-Mar-2019	A	A1	Stable	Maintain	-
16-Nov-2018	A	A1	Stable	Maintain	-
09-Aug-2018	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Askari Cement's ratings reflect its sustained position in the cement industry. The Company has two existing cement manufacturing units (Nizampur and Wah) - operating with combined capacity of 2.7mln tpa. Over the last few years, the company had been able to maintain growth trajectory trend in revenue. However due to pandemic corona virus economic activities has slow down thus resulted in the drop of local demand, export is another avenue. Due to excess capacity from recent industry expansion resulted in depressed cement prices (especially in north region). During 9MFY20 the profitability of the company took a significant dip where margins deteriorated attributable to depressed prevailing cement prices along with muted local demand has affected the company's sales volume due to the aforementioned industry dynamics. Overall industry wide local dispatches increased significantly in July-20 as the government has taken steps towards public sector development projects and this will further improved in future as new projects are coming. Long term loan was acquired in previous years for acquisition of Nizampur plant from AWT, BMR at Nizampur Plant and installation of WHR system at Wah Plant. During last quarter of FY-20, the company successfully obtained deferment of principal repayments amounting PKR 2.1bln for one year under SBP Scheme. The financial risk profile is good with moderate leveraging. 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 encompassing expected challenges of supply glut, substantial decline in local demand or deterioration in cement prices will negatively affect 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-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Cement(Mar-20)
Rating Analysts	Bazahtul Qamar | bazahtul.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure Askari Cement Limited (ACL) is an unlisted, public limited company incorporated in 1990. The Company is wholly owned subsidiary of Fauji Foundation.

Background Fauji Foundation (also known as Fauji Group), is amongst the renowned sponsoring groups in Pakistan. It is a Charitable Trust which was founded back in 1954 with the purpose of welfare of the ex-servicemen and their dependents. Fauji Foundation has another cement company named 'Fauji Cement Company Limited'.

Operations The Company is primarily engaged in the manufacturing and sale of Ordinary Portland Cement. Askari Cement's registered office is located in Rawalpindi. The production facilities are located in North region (Wah and Nizampur) with the total operational capacity of 2.80mln tpa.

Ownership

Ownership Structure Askari Cement is wholly owned subsidiary of Fauji Foundation.

Stability Askari Cement's ownership is expected to remain stable as is amongst the largest sponsoring groups in Pakistan.

Business Acumen The Fauji Foundation Group comprising several industrial/commercial projects in various sectors including energy, gas supply, fertilizer, cement, food etc, includes wholly owned as well as partly owned ventures. The group, with its increased penetration in the major facets of the economy, has garnered expertise and knowledge of various sectors which provides it with a holistic view of the macro economy and a strategic viewpoint.

Financial Strength Fauji Foundation is one of the leading and most diversified groups in Pakistan. The group has a strong equity and asset base. Over the years the group has stretched its business profile by entering into new industries, providing it with diversity in revenue streams, strong brand image and an increased hands-on knowledge of the various sectors of the economy.

Governance

Board Structure The overall control of the company vests in seven-member board of directors (BoD), including the CEO.

Members' Profile The sponsor dominated board is chaired by Chairperson Mr. Waqar A Malik, who is also associated with various Fauji Foundation companies' board. All of the board members, except the CEO, are non-executive members and represents the sponsoring group.

Board Effectiveness The board has three committees in place to oversee and assist board regarding the company's operational and financial matters. These committees include: 1) Audit and Finance committee 2) Human Resource Committee (HR) and 3) Technical Committee.

Financial Transparency M/s. KPMG Taseer Hadi & Co., Chartered Accountants, the external auditor, have given unqualified opinion on the company's financial statements for the year ended Jun19. They have performed interim review on the financial statements for the six months ending December, 2019. While Financial Statements for FY20 are not yet available.

Management

Organizational Structure Askari Cement has a multi-tier organizational structure, divided into five key functions, namely (i) Finance, (ii) Marketing, (iii) Technical and Operations, (iv) Internal Audit and (v) HR & Admin. All departments reports to heads except for Internal Audit who reports directly to board.

Management Team The CEO, Mr, Qamar Haris Manzoor has done Masters in Chemical Engineer from US and holds over 33 years of experience in plant and project management . He is involved in all strategic, key business and financial decisions of the company.

Effectiveness The management is equipped with good professional skills and enjoys long association with the company. There are several management committees in, place to oversee operations.

MIS The MIS reports pertaining to sales, purchase, inventory, general ledger, payroll, costing & budget, and Preventive maintenance and other important financial figures.

Control Environment Control Environment Askari Cement deploys an Oracle based ERP solution implemented at head office, on both manufacturing sites. 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.

Business Risk

Industry Dynamics Cement industry is divided into North and South region – majority players operating in North region. Cement industry undergoing expansions with majority capacities commencing operations in FY20. COVID-19, as expected, had its impact on domestic consumption of cement industry that declined by 16.7% in Mar20

Relative Position Askari cement is representing Fauji Foundation along with another player (Fauji Cement). The company is operating as mid-tier player in the industry and a Fauji Foundation Group is operating as fourth largest group in the cement industry.

Revenues During 9MFY20, the company recorded turnover of PKR 10.2bln (9MFY19: PKR 12.1bln). In line with the industry trend, local dispatches of the company decreased during 9MFY20 owing to slowdown in public and private development projects, whereas exports dispatches also decreased. Cost of sales amounted to PKR 10.1bln during 9MFY20, mainly comprising energy cost, raw materials consumed, salaries & wages, and packing materials.

Margins During 3QFY20 Company reported a gross loss of PKR 364 mln mainly due to increased raw material and freight cost. During 9MFY20 company reported a net loss of PKR1,036mln out of which PKR 662mln pertains to 3QFY20. A significantly increased finance cost is the major reason behind this dip in margins.

Sustainability Going forward, Company is planning a capacity expansion at its Nizampur plant for which the board has approved the expansion plan and the feasibility analysis is under process which is expected to be finalized.

Financial Risk

Working Capital During 9MFY20, Askari Cement working capital requirements, represented by net cash cycle (net working capital days) – a function of inventory, receivables and payables – stood at 36days (end-Jun19: - 32days). The Company manages its working capital requirements through mix of internal generation and short term borrowings. At end-Mar20, the company reported STBs of PKR 4.6bln (end-Jun19: PKR 4.1bln).

Coverages During 9MFY20 interest coverage has fell significantly because of hike in finance cost of the company due to increase in short term borrowings & key policy rate; along with a decline in EBITDA standing at PKR 620mln (end-Jun19: PKR 4083mln). Furthermore, FCFO also witnessed a declining trend in 9MFY20 and decreased to PKR 162mln (FY19 PKR 3,554mln) resultantly interest coverage ratio and core coverage ratio weakened and reported at 0.2x and 0.1x at end- Mar20 (Jun19: 4.4x and 1.5).

Capitalization During 9MFY20, long-term debt increased to PKR 5,515mln (FY19: PKR 4,723mln) resultantly debt to debt plus equity ratio increased to ~43.6% (FY19: 39.5%), the long term debt increased due to installation of Waste Heat Recovery System (WHR) at Nizampur Plant of Askari Cement Limited. Furthermore, the Company has short term borrowing of PKR 4.6bln which is ~36% of total debt.

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Financial Summary
PKR mln

Askari Cement Cement	Mar-20 9M	Jun-19 12M	Jun-18 12M	Jun-17 12M
A BALANCE SHEET				
1 Non-Current Assets	26,765	25,878	25,582	19,602
2 Investments	3,042	3,542	1,270	1,745
3 Related Party Exposure	-	-	-	-
4 Current Assets	6,004	6,326	5,411	4,146
a Inventories	*1,678*	*1,827*	*1,134*	*959*
b Trade Receivables	*681*	*890*	*831*	*580*
5 Total Assets	35,812	35,746	32,263	25,493
6 Current Liabilities	3,526	3,604	2,516	2,676
a Trade Payables	*1,085*	*1,305*	*574*	*610*
7 Borrowings	11,870	10,487	10,011	8,185
8 Related Party Exposure	800	900	850	-
9 Non-Current Liabilities	3,212	3,314	2,733	2,972
10 Net Assets	16,404	17,441	16,153	11,660
11 Shareholders' Equity	16,404	17,441	16,153	11,660
B INCOME STATEMENT				
1 Sales	10,246	16,124	14,752	15,953
a Cost of Good Sold	*(10,123)*	*(12,155)*	*(11,239)*	*(10,835)*
2 Gross Profit	122	3,969	3,513	5,118
a Operating Expenses	(423)	(586)	(993)	(530)
3 Operating Profit	(301)	3,384	2,521	4,588
a Non Operating Income or (Expense)	*424*	*(630)*	*138*	*(127)*
4 Profit or (Loss) before Interest and Tax	123	2,753	2,659	4,461
a Total Finance Cost	*(1,106)*	*(833)*	*(515)*	*(506)*
b Taxation	*(53)*	*(484)*	*(424)*	*(1,261)*
6 Net Income Or (Loss)	(1,037)	1,437	1,720	2,694
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*162*	*3,554*	*2,242*	*3,970*
b Net Cash from Operating Activities before Working Capital Changes	*(498)*	*3,077*	*1,783*	*3,566*
c Changes in Working Capital	*274*	*371*	*(938)*	*(374)*
1 Net Cash provided by Operating Activities	(224)	3,448	846	3,192
2 Net Cash (Used in) or Available From Investing Activities	35	(1,050)	(2,165)	516
3 Net Cash (Used in) or Available From Financing Activities	664	(809)	2,603	(4,189)
4 Net Cash generated or (Used) during the period	475	1,589	1,284	(481)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-15.3%	9.3%	-7.5%	2.3%
b Gross Profit Margin	1.2%	24.6%	23.8%	32.1%
c Net Profit Margin	-10.1%	8.9%	11.7%	16.9%
d Cash Conversion Efficiency (EBITDA/Sales)	6.0%	25.3%	23.7%	34.7%
e Return on Equity (ROE)	-8.2%	8.6%	12.4%	22.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	68	53	43	28
b Net Working Capital (Average Days)	36	32	29	15
c Current Ratio (Total Current Assets/Total Current Liabilities)	1.7	1.8	2.2	1.5
3 Coverages				
a EBITDA / Finance Cost	0.6	5.0	7.0	11.3
b FCFO / Finance Cost+CMLTB+Excess STB	0.1	1.5	1.4	2.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-6.6	2.6	4.6	1.5
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	43.6%	39.5%	40.2%	41.2%
b Interest or Markup Payable (Days)	119.8	130.7	140.8	129.9
c Average Borrowing Rate	11.9%	7.3%	5.3%	6.3%

Credit Rating

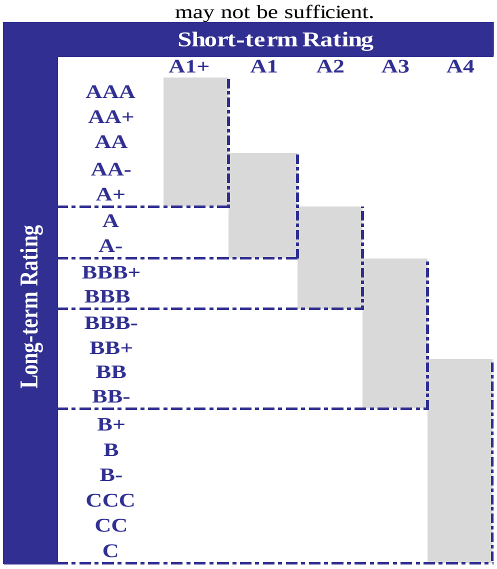
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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 Rating

Scale	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
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 surveill 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):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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**

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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.
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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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(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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(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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