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
24-Sep-2021	A	A1	Stable	Maintain	-
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. Economic activities have resumed despite continuing vicissitudes of COVID 19. Growth in local capacity utilization depicts the sector's resilience to the impacts amid country wide lock down observed due to COVID-19 outbreak. This resulted in improved demand along with pricing implications supporting margins. Furthermore, curtailed policy rates and better cement prices giving the required supporting environment to flourish. The Company's revenues witnessed an increase attributable to uptick in sales (end-Dec20: PKR 8.7bln, Jun20: PKR 13bln). During 1HFY21, margins improved slightly, reviving from Covid period. Therefore; the company managed to recoup previous losses and reported profits of ~PKR 669mln for half-yearly Dec20. The company has announced a capacity brown field expansion of 6,500 tons the cost of project (including WHR) is estimated to be ~ PKR 27bln, which is planned to be financed through debt(70%) and equity (30%). The Company is in the process of merger with Fauji Cement, transaction is however yet to be materialized. The ratings take into account the fact that up taking of further loan will potentially impact the financial risk profile of the Company, while expected to remain manageable through positive outcomes of merger. The ratings further 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 and financial risk profile; strengthening of equity base is essential. Any significant increase in leveraging ratio will could potentially 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 Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Cement(Mar-21)
Rating Analysts	Bazah Tul 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, have given unqualified opinion on the company's financial statements for the year ended Jun20. M/s BDO Ebrahim & Co. have reviewed the interim financial statements for the six months ending December, 2020.

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 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 (Islamabad) and Nizampur. Wah –European technology plant, while Nizampur is Chinese technology.

Business Risk

Industry Dynamics Overall size of the sector was recorded at PKR~345,054mln during FY20 (FY19: PKR~413,879mln) down ~17% YoY, due to reduced retention prices in the north region amid increased supply and reduced exports. Cement Sector is composed of 19 companies of which 16 companies are operational. Cement sector's production capacity is recorded around ~69mln tons in FY20 (~59mln tons in FY19), an increase of ~18% YoY. Lately, top five (5) cement companies have announced expanding their production capacities, which would add approximately ~18mln tons to the total cement production capacity of Pakistan, taking it up to approx. 87mln tons.

Relative Position Total 16 companies are operational in the country. 11 companies have presence in north region and 2 have presence in only south region whereas 3 companies have production plants in both south and north regions. In terms of production capacity Askari cement hold ~4% share in the sector.

Revenues During 6MFY21, the company recorded turnover of PKR 8.69bln (6MFY20: PKR 7.31bln). In line with the industry trend, local dispatches of the company increased during 6MFY21 owing to the construction package announced by government along with other regulatory relaxations to spur construction activity. These measure are yielding positive results as the sector has shown positive growth since then, whereas exports dispatches have decreased. Cost of sales amounted to PKR 7.3bln during 6MFY21 (6MFY20: PKR 6.8bln, mainly comprising energy cost, raw materials consumed, salaries & wages, and packing materials.

Margins During 6MFY21 Company reported a gross profit of PKR 1.39bln against PKR 487mln in last year, mainly due to increased dispatches. During 6MFY21 company reported a net profit of PKR 669mln against a loss of PKR 375mln in same period last year . A significantly decrease in finance cost is observed in current period.

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 6MFY21, Askari Cement working capital requirements, represented by net cash cycle (net working capital days) – a function of inventory, receivables and payables – stood at 62days (end-Jun20: - 82days). The Company manages its working capital requirements through mix of internal generation and short term borrowings. At end-Dec 20, the company reported STBs of PKR 1.96bln (end-Jun20: PKR 4.1bln).

Coverages During 6MFY21 interest coverage has improved significantly because of decrease in finance cost of the company due to decrease in short term borrowings along with a rise in EBITDA standing at PKR 1.7bln (end-Jun20: PKR 568mln). Furthermore, FCFO also witnessed an upward trend in 6MFY21 and increased to PKR 1.4bln (FY20: PKR -57mln) resultantly interest coverage ratio and core coverage ratio strengthened and reported at 3.3x and 1.0x at end- Dec20 (Jun20: Nil and Nil).

Capitalization During 6MFY20, long-term debt increased to PKR 7.7bln (FY20: PKR 8.5bln) resultantly debt to debt plus equity ratio reduced to ~40.6% (FY20: 44.6%), the long term debt decreased as the project is completed and debt repayment has started. Furthermore, the Company has short term borrowing of PKR 1.9bln which is ~17% of total debt.

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Askari Cement Limited Cement	Dec-20 6M	Jun-20 12M	Jun-19 12M	Jun-18 12M
A BALANCE SHEET				
1 Non-Current Assets	27,854	27,492	25,878	25,582
2 Investments	852	2,703	3,542	1,270
3 Related Party Exposure	-	-	-	-
4 Current Assets	6,338	5,772	6,326	5,411
a Inventories	*1,783*	*1,571*	*1,827*	*1,134*
b Trade Receivables	*351*	*559*	*890*	*831*
5 Total Assets	35,044	35,967	35,746	32,263
6 Current Liabilities	3,566	3,596	3,604	2,516
a Trade Payables	*868*	*808*	*1,305*	*574*
7 Borrowings	11,703	13,260	10,487	10,011
8 Related Party Exposure	-	-	900	850
9 Non-Current Liabilities	2,666	2,670	3,314	2,733
10 Net Assets	17,109	16,440	17,441	16,153
11 Shareholders' Equity	17,110	16,440	17,441	16,153
B INCOME STATEMENT				
1 Sales	8,697	12,964	16,124	14,752
a Cost of Good Sold	*(7,299)*	*(13,074)*	*(12,155)*	*(11,239)*
2 Gross Profit	1,398	(110)	3,969	3,513
a Operating Expenses	(300)	(556)	(586)	(993)
3 Operating Profit	1,098	(666)	3,384	2,521
a Non Operating Income or (Expense)	*75*	*571*	*(630)*	*138*
4 Profit or (Loss) before Interest and Tax	1,173	(95)	2,753	2,659
a Total Finance Cost	*(435)*	*(1,435)*	*(833)*	*(515)*
b Taxation	*(69)*	*477*	*(484)*	*(424)*
6 Net Income Or (Loss)	669	(1,053)	1,437	1,720
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,430*	*(57)*	*3,554*	*2,242*
b Net Cash from Operating Activities before Working Capital Changes	*958*	*(1,436)*	*3,077*	*1,783*
c Changes in Working Capital	*(812)*	*1,303*	*371*	*(938)*
1 Net Cash provided by Operating Activities	146	(134)	3,448	846
2 Net Cash (Used in) or Available From Investing Activities	(825)	(2,129)	(1,050)	(2,165)
3 Net Cash (Used in) or Available From Financing Activities	230	2,519	(809)	2,603
4 Net Cash generated or (Used) during the period	(449)	256	1,589	1,284
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	34.2%	-19.6%	9.3%	-7.5%
b Gross Profit Margin	16.1%	-0.8%	24.6%	23.8%
c Net Profit Margin	7.7%	-8.1%	8.9%	11.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	7.1%	9.6%	24.3%	8.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	7.7%	-6.4%	8.7%	11.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	80	111	83	65
b Net Working Capital (Average Days)	62	82	62	50
c Current Ratio (Current Assets / Current Liabilities)	1.8	1.6	1.8	2.2
3 Coverages				
a EBITDA / Finance Cost	4.0	0.4	5.0	7.0
b FCFO / Finance Cost+CMLTB+Excess STB	1.0	0.0	1.5	1.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	4.9	-6.2	2.6	4.6
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	40.6%	44.6%	39.5%	40.2%
b Interest or Markup Payable (Days)	65.6	79.3	130.7	140.8
c Entity Average Borrowing Rate	7.0%	11.8%	7.4%	5.2%

Credit Rating

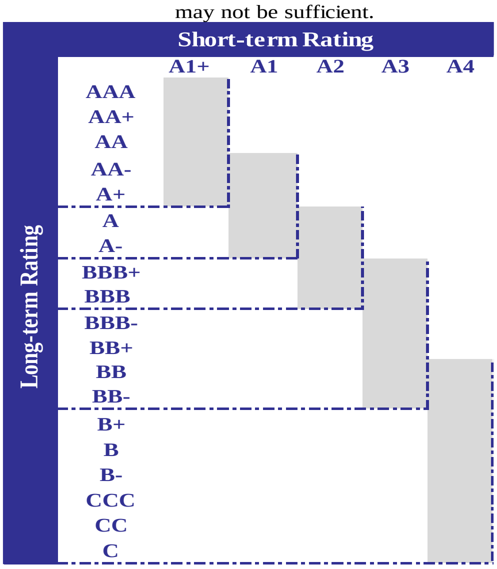
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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)

Independence & Conflict of interest
(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)
Proprietary Information