



The Pakistan Credit Rating Agency Limited

## Rating Report

### Flying Cement Company Limited

#### Report Contents

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Apr-2022	A-	A2	Stable	Maintain	Yes
07-May-2021	A-	A2	Stable	Maintain	Yes
16-May-2020	A-	A2	Stable	Maintain	Yes
15-Nov-2019	A-	A2	Stable	Maintain	-
16-May-2019	A-	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Flying cement operates with one manufacturing unit, having capacity of 1.2mln tpa, in the North region. The Cement sector's dispatches have recorded splendid growth and surged by 21% in FY21 as demand in the domestic market accelerated. The industry's future demand outlook is positive, in view of the infrastructure projects in the pipeline. Cement sector announced third phase of expansion (~18 mln tpa) which is expected to increase with more players joining the lane. Flying Cement announced cement capacity expansion plan in FY16 which got delayed due to a number of unfavorable economic conditions. As per management, after BMR, total capacity will be 11,700tpd (Clinker) which will achieve COD by the end of current year. The Company has successfully started commercial operations of captive power plant of 12 MW at its site in Distt. Khushab in January 2022. This is in addition to completion of WHRPP done last year. The Company is picking up pace. In 1HFY22, Flying Cement recorded profits of PKR 464mln attributable to augmented supply side, better cement prices and less reliance on imported coal. Hence, margins took steep rise. The financial risk matrix remained manageable as long-term finance being acquired in pursuit of expansion; short term finance already reduced. The equity base improved attributable to equity injection by sponsors through right issue of PKR 2 billion. In cognizance thereof, sponsors have subscribed to substantial amount of PKR 1.56bln of right shares to strengthen the equity base of the Company. Company is in the process of issuing another right issue of PKR 3 billion to finance its expansion and working capital needs. Going forward, sustainability in margins and cash flows remains vital to the ratings. Rating watch incorporates delays in expansion projects and pressure on financial risk matrix.

The ratings are dependent on sustainability of the company's business and financial risk profile; timely repayments of long-term loans and strengthening of equity base is vital. Any derivation from the envisaged financial structure (debt equity ratio, cash coverage etc.) would be considered negative.

#### Disclosure

<b>Name of Rated Entity</b>	Flying Cement Company Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Cement(Mar-22)
<b>Rating Analysts</b>	Uswa Sikandar   uswa.sikandar@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Flying Cement Company Limited was incorporated in December 1992 as a public limited company. It started commercial production in 2005. The Company is listed on Pakistan Stock Exchange. Flying Cement is engaged in the manufacturing and sale of Ordinary Portland Cement.

**Background** Initially, the family was engaged in Flying coaches' business back in 1970s. The group started Flying Paper Industries Limited in 1986 and Flying Board & Paper Products Limited. In 1990's group decided to enter into cement industry. The company started its commercial production in January 2005 and produced & marketed Ordinary Portland Cement. Flying Cement was part of diversification strategy followed by group.

**Operations** Flying Cement registered Head Office is situated at 1-Sarwar Colony, Sarwar Road, Lahore Cantt and manufacturing facility established at Lilla Interchange (LHR-ISB Motorway), Mangowal Khushab; located in province Punjab. Currently, the company has ~ 2.3% share in North region's cement capacity (operational). The company announced up gradation of the existing capacity and is currently working on the project. After BMR, total capacity will be 11,700 tpd (clinker) which is expected to come online by end of current calendar year.

## Ownership

**Ownership Structure** The ownership of Flying Cement mainly lies with the sponsors' family (63.1% ).

**Stability** The shareholding is divided equally between the family members. As third generation has entered business at executive positions. The division between the next generation is yet to be seen.

**Business Acumen** The sponsors, Mr. Kamran Khan and Mr. Momin Qamar are associated with the company for very long and have capabilities of strategic decision making. Majority shareholders are young blood, started working in family business with different educational backgrounds so their business Acumen is considered adequate

**Financial Strength** Flying Group consist of 3 companies; 1) Flying Paper Industries Limited, 2) Flying Board & Paper Products and 3) Flying Cement Company Limited. Financial Strength of sponsors is considered good owing to the investment in diversified nature of companies.

## Governance

**Board Structure** The overall structure vests with eight board members including CEO. Three directors are Flying Cement's executives – CEO, Director Technical & Administration, Director Finance, Director Marketing – while three are non-executive directors and one female director.

**Members' Profile** Board members carry adequate requisite skills, competence, knowledge and experience required for a vigilant oversight.

**Board Effectiveness** There are two board committees in place to assist board through decision making process. The committees are: 1) Audit Committee and 2) Human Resource & Remuneration Committee (HR&R), both chaired by independent member. Internal audit department reports to board .

**Financial Transparency** M/s. Naveed Zafar Ashfaq Jaffery & Co., Chartered Accountants, the external auditor is categorized satisfactory by ICAP has given unqualified opinion on the company's financial statements for the year ended Jun-21 of the company. The auditors are QCR rated and classified in category "A" of SBP Panel of Auditors.

## Management

**Organizational Structure** Flying Cement has a multi-tier organizational structure, divided into four key functions, namely (I) Finance, (ii) Technical & Administration/ HR/ IT, (iii) Factory Administration and, (iv) Sales/ Marketing. Each function is headed by a separate director who, in turn, reports to the Board directly.

**Management Team** The CEO, Mr. Agha Hamayun Khan is associated with the group from 24 years while Mr. Kamran Khan, chairman of the group has 36 years of experience and handles Technical matters and capacity expansion of the company. Mr. Momin Qamar, Director Finance, Graduate in Business has 36 years of experience. The management is equipped with necessary technical skills and relevant industry experience.

**Effectiveness** Majority of the sponsors are into management so there are no formal committees for the management. Important matters are discussed in the meeting of the management. The members review business operational progress while taking the decisions there and then.

**MIS** Flying Cement deploys in house software by the Australian software firm. The MIS reporting is built in Power Builder Language and old version is being used by the company. The mentioned version is enough for company needs. The Company generates reports for IT, Business IT and Finance.

**Control Environment** Flying Cement plant is located at Lilla Interchange, Jhelum, Punjab. The company's lease for limestone mining stands at 25 years from now. The company deploys Japanese plant at its manufacturing facility supplied by IHI Japan.

## Business Risk

**Industry Dynamics** As per prime bifurcation of Cement industry into North & South, majority concentration lies in North region. The domestic cement dispatches have grown by 2% from 23.6 million tonnes to 24.1 million tonnes for the half year ended 31 December 2021 due to CPEC related projects and increase in local construction activity. Coal, is extensively used by the cement companies in their manufacturing process and accounts for ~40% of the total production cost of cement.

**Relative Position** The company is smaller player of the industry, by currently operating at a capacity of 1.2mln tpa which translates into market share of 2.3% of cement capacity operational in North region as of Jun-20. The company is trying to maintain its share by expanding its existing capacity.

**Revenues** During 1HFY22, the company reported revenue of PKR 2.62bln compared to PKR 1.02bln same period last year (FY21: PKR 3.206bln; FY20: PKR 1.08bln), demonstrating a significant growth of ~157%. Significant increase in revenue resulted in increase in gross profit from PKR 82bln in Dec 20 to PKR 517bln in current period and increase in net profit from PKR 89bln in Dec 20 to PKR 464bln in current period.

**Margins** During 1HFY22, Flying cement's margins improved (Gross Margin: 1HFY22: 19.7%, FY21: 9.4%, FY20: -42.8%, Operating Margin: 1HFY22: 18.3%, FY21: 7.4%, FY20: -48.9%, Net Profit Margin: 1HFY22: 17.7%, FY21: 4.5%, FY20: -49.2%, ). This is due to the increase in local selling price and sales volume despite increase in electricity cost and coal prices.

**Sustainability** The Company is fully committed to complete its Line 2 expansion project, and expects to achieve its COD during September 2022 after which the annual cement production capacity will be 3,510,000 tons. The Right Share Issue of Rs 3 billion is in progress and expected to be successfully completed soon which will bring its gearing ratio to approx. 30%. With completion of WHR and BMR the company will be able to achieve efficiency.

## Financial Risk

**Working Capital** During 1HFY22, Company's working capital requirements, represented by net cash cycle significantly improved to 118 days (FY21: 227days; FY20: 592days) as inventory days decreased significantly from 575 in Dec 20 to 163 in Dec 21 owing to normal flow of business after pandemic. Current ratio has decreased to 1.3x in Dec 21 (end-Jun21: 1.5x; end-Jun20: 2.1x) due to significant decrease in inventories. Short term trade leverage stands at 37% indicating sufficient room to borrow.

**Coverages** During 1HFY22, FCFO and EBITDA have improved to PKR 581 million and PKR 626 million respectively from PKR 419 mln and PKR 437 mln in June 21 mainly due to improvement in local selling price. Resultantly interest coverage has also improved from 5.9x in June21 to 15.6x in Dec 21.

**Capitalization** During the first half of year-22, long term debt remained at PKR 5.17bln from financial institution other than that company borrowed from directors/ sponsors PKR 2.6bln and PKR .313bln from associated undertakings as interest free loan for expansion and working capital requirements which will be ultimately repaid after the expansion project. The company is predicting the long term debt to increase to service repayment of previously incurred loans. The company's equity base reported at PKR 8.7bln. Debt to debt plus equity ratio stood at 49.1% (FY21: 48.3%,FY20: 56.7%). Short term borrowing include only 4% in total borrowings.



Flying Cement Company Limited Cement	Dec-21 6M	Jun-21 12M	Jun-20 12M	Jun-19 12M
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**A BALANCE SHEET**

1 Non-Current Assets	17,321	15,919	13,320	11,249
2 Investments	-	-	-	-
3 Related Party Exposure	0	0	-	-
4 Current Assets	2,011	2,361	3,003	2,220
<i>a Inventories</i>	999	1,220	2,100	1,195
<i>b Trade Receivables</i>	176	186	3	10
<b>5 Total Assets</b>	<b>19,331</b>	<b>18,280</b>	<b>16,323</b>	<b>13,470</b>
6 Current Liabilities	1,518	1,620	1,456	836
<i>a Trade Payables</i>	802	856	940	630
7 Borrowings	5,498	5,888	5,042	2,249
8 Related Party Exposure	2,911	1,838	3,044	3,072
9 Non-Current Liabilities	671	659	597	596
<b>10 Net Assets</b>	<b>8,733</b>	<b>8,274</b>	<b>6,185</b>	<b>6,716</b>
<b>11 Shareholders' Equity</b>	<b>8,733</b>	<b>8,274</b>	<b>6,185</b>	<b>8,232</b>

**B INCOME STATEMENT**

1 Sales	2,620	3,206	1,080	3,271
<i>a Cost of Good Sold</i>	(2,102)	(2,903)	(1,542)	(3,081)
<b>2 Gross Profit</b>	<b>517</b>	<b>303</b>	<b>(462)</b>	<b>191</b>
<i>a Operating Expenses</i>	(38)	(65)	(66)	(58)
<b>3 Operating Profit</b>	<b>479</b>	<b>238</b>	<b>(528)</b>	<b>133</b>
<i>a Non Operating Income or (Expense)</i>	74	87	95	84
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>553</b>	<b>325</b>	<b>(433)</b>	<b>217</b>
<i>a Total Finance Cost</i>	(37)	(72)	(80)	(33)
<i>b Taxation</i>	(51)	(110)	(17)	(42)
<b>6 Net Income Or (Loss)</b>	<b>464</b>	<b>144</b>	<b>(531)</b>	<b>142</b>

**C CASH FLOW STATEMENT**

<i>a Free Cash Flows from Operations (FCFO)</i>	581	419	(335)	189
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	544	348	(415)	157
<i>c Changes in Working Capital</i>	(70)	1,082	(621)	1,179
<b>1 Net Cash provided by Operating Activities</b>	<b>474</b>	<b>1,429</b>	<b>(1,035)</b>	<b>1,335</b>
<b>2 Net Cash (Used in) or Available From Investing Activities</b>	<b>(1,475)</b>	<b>(2,770)</b>	<b>(2,208)</b>	<b>(1,507)</b>
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>857</b>	<b>1,522</b>	<b>2,132</b>	<b>821</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>(144)</b>	<b>182</b>	<b>(1,111)</b>	<b>649</b>

**D RATIO ANALYSIS**

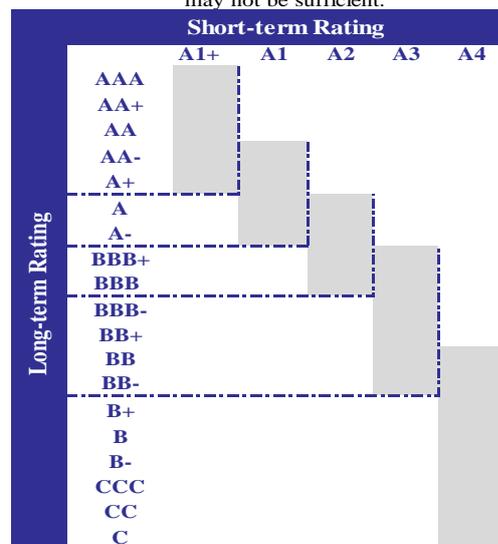
<b>1 Performance</b>				
<i>a Sales Growth (for the period)</i>	63.4%	197.0%	-67.0%	12.4%
<i>b Gross Profit Margin</i>	19.7%	9.4%	-42.8%	5.8%
<i>c Net Profit Margin</i>	17.7%	4.5%	-49.2%	4.4%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	19.5%	46.8%	-88.5%	41.8%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sl</i>	10.9%	1.8%	-9.4%	2.0%
<b>2 Working Capital Management</b>				
<i>a Gross Working Capital (Average Days)</i>	176	329	858	160
<i>b Net Working Capital (Average Days)</i>	118	227	592	108
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.3	1.5	2.1	2.7
<b>3 Coverages</b>				
<i>a EBITDA / Finance Cost</i>	16.8	6.1	-4.1	9.7
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	0.6	0.3	-2.5	2.1
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	7.4	21.0	-15.8	23.0
<b>4 Capital Structure</b>				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	49.1%	48.3%	56.7%	33.5%
<i>b Interest or Markup Payable (Days)</i>	1032.4	1153.0	1020.2	0.0
<i>c Entity Average Borrowing Rate</i>	0.9%	0.9%	1.3%	0.9%

**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+	<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	
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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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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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(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.

(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)

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