The Pakistan Credit Rating Agency Limited

Rating Report

Fauji Cement Company Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
15-Mar-2024	AA-	A1+	Stable	Maintain	-
15-Mar-2023	AA-	A1	Stable	Upgrade	-
15-Mar-2022	A+	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Fauji Cement Company Limited (FCCL) ratings depict the Company's performance towards conquering the third spot in the local cement industry in terms of installed capacity and market share. Moreover, the presence of Fauji Group at the upper echelon further bolsters the overall financial strength. It is noteworthy to mention that the Company successfully commissioned its Greenfield Cement Plant in November 2023, having production capacity of 6,500 TPD at D.G Khan. With commencement of operation of new line, the cumulative cement production capacity of the Company has increased to ~10.6 MTPA. Furthermore, the new greenfield plant will provide access to the South region which would be beneficial going forward. Due to the slowdown in the economy, the cement industry witnessed a decline of ~15.7% in cumulative dispatches during the year (FY23: ~44.5mln MT, FY22: ~52.8mln MT). Local dispatches declined by ~16.0% to ~40.01mln MT during FY23 from ~47.63mln MT in FY22. Similarly, Export volumes dwindled by ~0.7mln MT during the period (FY23: ~4.56mln MT, FY22: ~5.25mln MT). The overall decline in the volumes was due to soaring inflation in the country that led to demand constraints. Furthermore, the political instability hindered the developmental activity in the country that adversely impacted the cement sector. Analogous to the industry's outcome, the Company's cumulative dispatches declined by ~14.30% during FY23 as compared to the same period last year (FY23: ~4.8mln MT, FY22: ~5.6mln MT). However, despite negative growth, the Company along with its peers reported positive growth in Net Revenues in value terms owing to higher retention prices resulting in sustained Gross Margin at 30.0%. FCCL reported Net Revenues of PKR 68,069mln (FY22: 54,243mln) witnessing a growth of 25%. The transition into FY24 brought some relief for the cement sector in the form of growth in total industry volumes of ~10% during the first half (1HFY24: ~23.88mln MT, 1HFY23: ~21.76mln MT). Recovery in both local and exports contributed towards the positive shift. FCCL's cumulative dispatches increased by ~5% to ~2.58mln MT (1HFY23: ~2.46mln MT) resulting in Net Revenues of PKR ~40,352mln (1HFY23: PKR ~33,673mln). Stable pricing during the first half led to further improvement in gross margins of the Company recorded at 32%. The Company has penetrated the local cement industry and increased its market share to ~12% in terms of dispatches during FY23. The management is committed towards its cost optimization strategy to further enhance the capacity utilization and profitability of the Company. The Company's leveraging stood at 36.5% as a result of debt to support the expansion.

Going forward, the industry is expected to witness a negligible growth trend during the remaining half of FY24. The ratings remain dependent on upholding the Company's market position along with sustenance of business volumes and margins.

Disclosure	
Name of Rated Entity	Fauji Cement Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Cement(Mar-23)
Rating Analysts	Hashim Yazdani | hashim.yazdani@pacra.com | +92-42-35869504

Profile

Legal Structure Fauji Cement Company Limited (FCCL), is a public listed company established in 1992. The company is listed on Pakistan Stock Exchange (PSX). The Company has been set up with the primary objective of manufacturing, selling and exporting of different types of Cement products.

Background The Company started its operations in 1997 with the production capacity of 3,885 tons per day (TPD), which was enhanced to over 11,865 TPD, with addition of second production Line in 2011, with annual total production capacity of 3.5mln MT of cement. Upon successful merger with Askari Cement Limited in July 2021 along with completion of expansion of Nizampur line and Greenfield expansion in in D.G Khan, the Company is the third largest player in the cement industry in terms of installed capacity,

Operations The Company is operating at four locations including Attock (2 lines), Nizampur (3 lines), Wah (1 line) and D.G Khan (1 line). The current cumulative installed capacity of the Company stands at 10.6mln MT per annum. The Company is one of the leading producers of a wide range of quality cement including ordinary Portland cement and other specialized cement(s) in Pakistan.

Ownership

Ownership Structure FCCL is majority owned by its sponsor Fauji Foundation and other group companies (67%) while remaining is held by General public (15%) and other institutions (18%).

Stability Fauji Foundation (also known as Fauji Group or FFG), is amongst the largest business conglomerate in Pakistan which "Earns to Serve" the interests of ex-servicemen, basically a Charitable Trust founded in 1954 for the welfare of the ex-servicemen and their dependents.

Business Acumen Fauji Foundation is amongst the leading business conglomerates in Pakistan with investment in different sectors including Banking, Cement, Power, Fertilizer, Oil Exploration and Foods. The group has been operating in the cement sector for three decades which is evidence of their strong business acumen.

Financial Strength Financial Strength of the sponsors is considered strong enough, through above mentioned associated and fully owned projects.

Governance

Board Structure The overall control of the company vests in eight member's board of directors - including the Chief Executive – Mr. Qamar Haris Manzoor. The board comprises of 4 Non-Executive Directors and 3 Independent Directors.

Members' Profile The board members' have good business acumen on the back of significant local industry exposure in several sectors. Mr. Waqar Ahmed Malik is the Chairman of the board. He has vast experience of different sectors and is holding the position of Chairman on different boards of the groups associated companies.

Board Effectiveness FCCL has three committees: 1) Audit committee 2) Human resource & Remuneration Committee (HR&R) and 3) Investment Committee; this is in compliance with the Code of Corporate Governance. The board along with its committees conduct regular meetings as needed to discuss matters relating to operational and financial performance of the Company.

Financial Transparency A.F. Furguson & Co, Chartered Accountants conducted the external audit services for Fauji Cement for FY23. 'A.F. Furguson & Co, Chartered Accountant is in 'A' category of SBP list of external auditors and has a QCR rating.

Management

Organizational Structure The organizational structure is divided into different functions. Main functions are; 1) Sales & Marketing, 2) Plant Operations 3) Finance & Accounts. 4) Internal Audit 5) Human Resource 6) Legal & Corporate Affairs and 7) Management Information System. The internal audit department reports to the Audit Committee in line with the Code of Corporate Governance.

Management Team Mr Qamar Haris Manzoor the CEO, has done his master's in chemical Engineer from US and holds over 36 years of experience in plant and project management. He is accompanied by a team of qualified and competent individuals who head their respective departments.

Effectiveness The management is mainly supported by seven departments (i) Management, (ii) Production, iii) Finance & Accounts (iv) Sales & Marketing, (v) IT Steering (vi) Legal & Corporate Affairs and (vii) Human Resource. The management meetings are conducted on frequent basis to ensure smooth flow of processes and resolve operational bottlenecks. The necessary information is captured in minutes.

MIS FCCL has implemented SAP (ERP) solution in the Company. The technology infrastructure with reasonably conceived and implemented policies or procedures enables the management to generate various regular and customized reports of different frequency (daily, weekly, monthly and yearly) pertaining to sales, purchase, inventory, general ledger, payroll, costing & budget and Preventive maintenance and other important financial figures.

Control Environment Fauji Cement has an in house internal audit function. HOD Internal Audit is reportable to Audit Committee. Internal Audit function is an integral part of the process and regularly apprises and monitors the implementation of financial controls and other procedures.

Business Risk

Industry Dynamics The country's total installed capacity of ~95mln MT is divided between North and South zones. During FY23, total industry volumes stood at 44.5mln MT (FY22: 52.8mln MT) reporting a decline of 15.7%. Local dispatches declined by 16.0% to 40.01mln MT during FY23 from 47.63mln MT in FY22. Similarly, Export volumes dwindled by 0.7mln MT during the period (FY23: 4.56mln MT, FY22: 5.25mln MT). The decline in overall volumes was a result of soaring inflation in the country that led to demand constraints. However, during 1HFY24 dispatches stood at 23.90mln MT (1HFY23: 21.76mln MT) witnessing a growth of 10% as a result of recovering demand.

Relative Position In terms of installed cement manufacturing capacity, Fauji Cement is the third largest player in the local cement sector. In terms of volumes sold during FY23, the Company occupies ~12% market share.

Revenues During FY23, FCCL's cement dispatches were 4.8mln MT resulting in Net Revenues of PKR 68,069mln (FY22: PKR 54,243mln) witnessing a growth of 25% on back of higher pricing even though the volumes declined. Similarly, during 1HFY24, Net Revenues were PKR 40,351mln (1HFY23: PKR 33,673mln) resulting from stable pricing and growth in dispatches during the period (1HFY24: 2.58mln MT, 1HFY23: 2.46mln MT).

Margins The Company successfully passed on the increase in the cost of raw materials including coal and electricity to the customers through price hikes during the period. As a result of which, Gross Profit Margin for 1HFY24 improved to 32.0% (1HFY23: 30.0% FY23: 30.0%). Net Profit Margins (FY23: 10.9%, FY22: 13.1%, FY21: 14.3%) witnessed a slight decline during FY23 as a result of high policy rate. Continuing into 1HFY24, the Company has recovered its Net Profit Margins to 13.1%.

Sustainability The Company has successfully completed its Greenfield expansion project in D.G Khan allowing FCCL to become the third largest player in the local cement industry. This will allow the Company to further expand its market share specially in the South region. Furthermore, the management is committed towards cost optimization initiatives to add value to the bottomline.

Financial Risk

Working Capital During 1HFY24, FCCL working capital requirements represented by net cash cycle (net working capital days) - a function of inventory, receivables and payables - increased to 41 days (FY23: 31 days). Cash cycle days (1QFY24: 53 days; 1QFY23: 44 days) increased on account of rise in inventory days owing to slowdown in sales as a result of lower demand during the period. The Company meets its working capital requirements through internally generated cash flows along with STBs amounting to PKR 6,426mln as of Dec 2023.

Coverages During 1HFY24, FCCL's FCFO increased to PKR 11,450mln (1HFY23: PKR 8,519mln) owing to better profitability as a result of stable pricing and recovering volumes. FCFO during FY23 also witnessed impressive improvement as compared to FY22. (FY23: PKR 17,322mln, FY22: 12,221mln). Interest Coverage (FCFO/Finance Cost +CMLTB + Excess Borrowings) declined to 2.5x during 1HFY24 as compared to 4.2x during 1HFY23 as a result of higher policy rates.

Capitalization The leveraging of the Company has remained stable and moderately leveraged at 36.5% as of Dec 2023 resulting from long term borrowings owing to the expansion project along with STBs to finance working capital needs.

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Financial Summary
PKR mln

Fauji Cement Company Limited	Dec-23	Jun-23	Jun-22	Jun-21
Cement	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	120,521	115,694	85,415	21,598
2 Investments	250	250	3,843	4,398
3 Related Party Exposure	-	-	67	15
4 Current Assets	25,191	22,884	24,374	8,041
a Inventories	*7,501*	*7,112*	*3,698*	*1,189*
b Trade Receivables	*5,031*	*3,572*	*2,413*	*1,450*
5 Total Assets	145,962	138,828	113,698	34,052
6 Current Liabilities	12,610	11,738	12,696	4,143
a Trade Payables	*2,676*	*2,623*	*2,683*	*863*
7 Borrowings	44,815	44,004	28,266	2,568
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	10,700	10,524	7,613	4,065
10 Net Assets	77,837	72,563	65,123	23,276
11 Shareholders' Equity	77,837	72,563	65,123	23,276
B INCOME STATEMENT				
1 Sales	40,352	68,069	54,243	24,271
a Cost of Good Sold	*(27,493)*	*(47,651)*	*(39,844)*	*(18,207)*
2 Gross Profit	12,858	20,418	14,399	6,064
a Operating Expenses	(2,381)	(4,087)	(1,838)	(714)
3 Operating Profit	10,478	16,332	12,561	5,350
a Non Operating Income or (Expense)	*(239)*	*214*	*169*	*(133)*
4 Profit or (Loss) before Interest and Tax	10,238	16,545	12,730	5,217
a Total Finance Cost	*(2,141)*	*(3,645)*	*(1,202)*	*(110)*
b Taxation	*(2,824)*	*(5,460)*	*(4,416)*	*(1,636)*
6 Net Income Or (Loss)	5,274	7,440	7,113	3,471
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*11,450*	*17,322*	*12,221*	*5,892*
b Net Cash from Operating Activities before Working Capital Changes	*7,787*	*14,759*	*11,236*	*5,798*
c Changes in Working Capital	*(3,600)*	*(1,121)*	*(4,653)*	*(153)*
1 Net Cash provided by Operating Activities	4,186	13,637	6,582	5,644
2 Net Cash (Used in) or Available From Investing Activities	(5,455)	(29,667)	(26,065)	(5,142)
3 Net Cash (Used in) or Available From Financing Activities	1,084	14,694	20,888	(163)
4 Net Cash generated or (Used) during the period	(185)	(1,336)	1,406	340
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	18.6%	25.5%	123.5%	40.9%
b Gross Profit Margin	31.9%	30.0%	26.5%	25.0%
c Net Profit Margin	13.1%	10.9%	13.1%	14.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	19.5%	23.8%	14.0%	23.6%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	13.9%	11.3%	16.8%	16.0%
2 Working Capital Management				
a Gross Working Capital (Average Days)	53	45	29	37
b Net Working Capital (Average Days)	41	31	18	28
c Current Ratio (Current Assets / Current Liabilities)	2.0	1.9	1.9	1.9
3 Coverages				
a EBITDA / Finance Cost	6.0	5.7	13.6	76.3
b FCFO / Finance Cost+CMLTB+Excess STB	2.5	2.2	2.9	12.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.0	2.8	2.2	0.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	36.5%	37.8%	30.3%	9.9%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0

Credit Rating

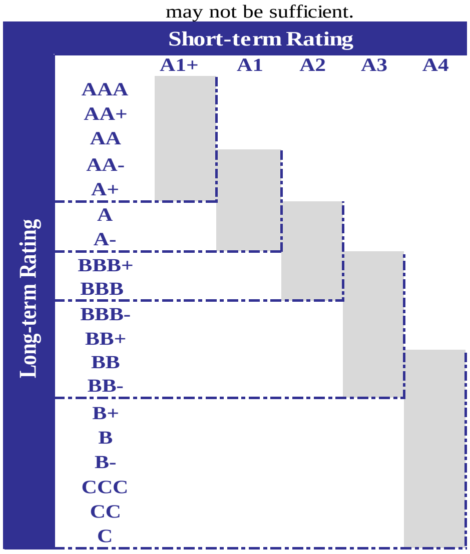
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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

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**
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 | 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)

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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
Proprietary Information