



The Pakistan Credit Rating Agency Limited

Rating Report

Gharibwal Cement Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-Nov-2018	A-	A2	Stable	Maintain	-
04-May-2018	A-	A2	Stable	Maintain	-
20-Nov-2017	A-	A2	Stable	Maintain	-
06-Jun-2017	A-	A2	Stable	Maintain	-
04-Oct-2016	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect Gharibwal Cement's strength in its key markets. The company focuses on geographies closer to the plant location; Gujranwala division remained company's home market. Owing to current demand situation, the company decided to delay its capacity enhancement plan by two years. The company's business profile remained adequate on account of decreased operating and EBITDA margins and squeezed profitability. The company's margins squeezed, industry wide phenomenon, on account of; 1) international coal prices hike and relevant duties 2) increase in FED 3) dip in cement prices. The financial profile of the Company is expected to remain adequate. The leveraging is expected to remain at same level owing to delay in expansion planning. The ratings draw comfort from sponsor families, having prime focus of the company.

The ratings are dependent on upholding of the company's business vis-à-vis financial risk profile in current economic scenario. Industry's dynamics 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	Gharibwal Cement Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Cement(Nov-18)
Rating Analysts	Sehar Fatima sehar.fatima@pacra.com +92-42-35869504

Profile

Legal Structure Gharibwal Cement Limited – the flagship company of Gharibwal Group – was incorporated in 1960 as Public Limited Company and commenced operations in 1965 and is listed on Pakistan Stock Exchange.

Background Way back in 1970's, the company was nationalized like other peers. Subsequently, after two decades (1992), in the wake of industries' privatization, Mr. Tausif Peracha and Mr. Abdur Rafiq Khan – a foreign entrepreneur – acquired majority stake in Gharibwal Cement. Since then, both have been associated with company.

Operations Gharibwal Cement's registered office is located in Pace Tower Lahore and production facility is located in Ismailwal, Tehsil Pind Dadan Khan, District Chakwal. Gharibwal Cement Limited has lately enhanced grinding capacity by adding new vertical mill of cement, in which company has increased its capacity to 13,680 t.p.d of grinding mill.

Ownership

Ownership Structure Gharibwal Cement is a family owned business with majority stake held by two families. Peracha family owns ~56% while Khan family holds 32% equity stake in the company; all through individuals. However, Mr. Muhammad Tousif Peracha (single key shareholder) is identified as the man at the last mile.

Stability Tacit understanding between shareholding families necessitates formal documentation.

Business Acumen Mr. Muhammad Tousif Peracha and Mr. Abdur Rafique Khan have been together for more than three decades and are partners in different business ventures internationally – mainly shipping and real estate business. They have no blood relation but had been family friends since many past years.

Financial Strength Gharibwal Group has interests in glass manufacturing, lubricants, and real estate projects locally and shipping and truck manufacturing in Nigeria.

Governance

Board Structure The overall control of the company vests in seven member's board of directors including the newly appointed Chairman - Mian Nazir Ahmed Peracha, and the CEO - Mr. Muhammad Tousif Peracha. There are two independent members. Out of five, there are two executive directors – the CEO and a director– and three non-executive directors.

Members' Profile Board members carry adequate experience; though challenge to management decisions is limited.

Board Effectiveness Two committees, Audit and Human Resource and Remuneration, are in place to assist the board on relevant matters.

Financial Transparency M/s Kreston Hyder Bhimji and Co. Chartered accountants, 'A' category SBP panel member, are the external auditor for the company. They have given unqualified opinion on the financial statements for the year June 30, 2018.

Management

Organizational Structure The organizational structure of the company is divided into eight key functions. These include i) Operations and Projects, ii) Procurement, iii) Finance, iv) Marketing/ Commercial, v) Technical Advisory, vi) Information Technology, vii) Administration/ HR, and viii) Internal Audit. The Director Operations and Projects, supported by GM Works and his team, resides at Plant. All functional heads report to the CEO except Internal Audit, who reports to the Audit Committee.

Management Team The management is equipped with necessary skill set and technical skills required. The board has lately approved new positions which are not yet finalized. Few changes in management structure, in order to bring efficiency in overall group structure, are expected.

Effectiveness The management is supported by four committees: – (i) Core Executive, (ii) Risk Management, (iii) Investor Relation, and (v) Finance and Policy Committee.

MIS Deploys Microsoft Dynamic G.P 2015 as operating software; quality of MIS reporting considered good.

Control Environment Plant – a mix of European and Chinese technology. Gharibwal Cement has several sources to cater its power requirements (57MW).

Business Risk

Industry Dynamics Cement industry is divided into North and South region – majority players operating in North region. Currently, cement industry is going through phase of capacity expansion. Cement industry dispatches remained tilted towards locals sales. Market dynamics has changed significantly in last year driven by escalation of international coal prices, increased FED and fluctuation in cement prices (especially in north region). Hence, Cement players witnessed significant dip in margins. Currently, leveraging of industry is moderate but in increasing interest rates environment it is critical for cement players to vigilantly manage cost structure. Going forward – with full utilization of lately commenced plants – industry is expected to face expanded capacity challenge. Cement prices and margins are expected to stay under stress. Cement demand is expected to stay nominal (at least for upcoming two years) as new government's prerogative for infrastructure will take some time to materialize. Therefore, upcoming capacity expansion utilization will be challenging factor.

Relative Position Gharibwal Cement is among middle-tier cement players with an operational capacity of 2.1mln tpa. Over last few years, the company commenced some projects in order to gain overall efficiency which included raw material conveyer belt, setting up a WHRPP and lately commenced cement grinding mill. The company announced production expansion capacity, however, by taking into account lately developed industry dynamics the expansion is currently on hold.

Revenues Gharibwal Cement is a single product (OPC) company and sells under the brand name of 'Paiddar'. Key markets include Jehlum, Sargodha, Gujranwala, Mureedkay, and Lahore. Lately, the Company took initiatives to tap and penetrate markets in Lahore, Faisalabad and Multan. In recent years company's revenues increased but showed a slow growth trend as compared to previous year on the back of supply glut in market (FY18: 2%, FY17: ~7%, FY16: ~10%). Topline mix is predominantly skewed towards local sales. Key reason being the plant's location, whereby local sales can secure margins, local sales are more profitable than exports. Local dispatches have slimmed down (FY18: 9%; FY17: 7%; FY16: 11%). Export volumes has witnessed downtrend – an industry wide phenomenon – the contribution of exports in overall revenues is nominal. The Company's interest income was reduced to PKR 26mln (FY17: 62mln) owing to the presence of settlement of markup on repayments in previous years. Financial charges reported an inclining trend; attributable to payment of outstanding debt level and increase in borrowing rate. Resultantly, the company reported a significant reduction in net income of PKR 1.5bln (FY16: 2.3bln) down ~35% YOY. During 1QFY19, Company's revenue decreased to PKR 2.5bln on account of demand supply gap.

Margins In recent years, gross margins have reduced significantly (gross: FY18: 24%, FY17: 34%, FY16: ~40%), (operating: FY18: 20%; FY17: 29%, FY16: 34%). This is on account of increase in international coal prices which ultimately effected the cost of manufacturing. Also, there had been industry wide challenge on sustainability of cement prices. Hence, EBITDA margin (FY18: 27%, FY17: ~36%, FY16: ~41%) reduced – industry wide trend. During 1QFY19, company's gross margins slightly improved (1QFY19: 27%; 1QFY18: 24%).

Sustainability Going forward, the company is planning to focus on fully utilizing its current capacity and achieving overall efficiency in manufacturing process. Previously, the company announced capacity expansion of 1mln tpa – effective capacity will reach at 10,000 tpd post expansion. The project cost is estimated to be PKR 6.5bln with debt equity ratio of 50:50. Owing to the current economic pressures, the company has delayed the expansion for some years.

Financial Risk

Working Capital Gharibwal Cement's working capital requirements are a function of its inventory and payables, for which the company currently relies on mix of internal cashflows and short term borrowings. Net cash cycle improved to (30) days at end-Jun18; on account of delayed payments to creditors (end-Sep18: (46) days). Current ratio has marginally increased to 1.0x during 1QFY19 (FY18: 0.9, FY17: 0.8x) but still remained on the lower side. Company has approved short term advance to facility up to PKR 500mln (FY17: 250mln) to its associated Company BGL at a markup @ 3 months KIBOR plus 3.5% p.a outstanding balance includes markup receivable.

Coverages Company's Interest coverage deteriorated (Interest Coverage: FY18: 5.6x; FY17: 12.0x; Core Coverage: FY17: 2.1x). Debt service coverage significantly deteriorated to (end-Jun18; 1.2x) from (end-Jun17; 2.1x) on account of increased CMLTD and declined profits. However, during 1QFY19, core coverage remained stable at 1.7x. Going forward, leveraging will be observed by the management critically.

Capitalization During 1QFY19, the capital structure of the company remained moderate as total debt to debt plus equity ratio remained at 24% (FY18: 26%, FY17: 28%). Profit retention has assisted in strengthening the equity base. Leveraging marginally declined due to debt repayment by the company.



Gharibwal Cement Limited

BALANCE SHEET	30-Sep-18	30-Jun-18	30-Jun-17	30-Jun-16	30-Jun-15
	1Q	Annual	Annual	Annual	Annual
Non-Current Assets	18,904	19,251	18,768	15,491	13,813
Investments (Incl. associates)	-	-	20	104	-
Equity	-	-	-	-	-
Mutual Funds	-	-	-	4	-
TDRs	-	-	20	100	-
Current Assets	4,525	3,592	2,827	2,457	2,070
Stores and Spares	1,863	1,570	1,133	879	812
Inventory	1,083	632	625	290	625
Others	1,579	1,389	1,069	1,288	633
Total Assets	23,428	22,843	21,615	18,052	15,884
Debt	3,945	4,338	4,506	3,893	3,674
Short-term	80	300	-	-	138
Long-term (Incl. Current Maturity of long-term debt)	3,865	4,038	4,506	3,893	3,536
Other short-term liabilities	4,300	3,701	3,452	2,522	2,946
Other Long-term Liabilities	2,423	2,313	2,275	1,566	1,526
Shareholder's Equity	12,761	12,491	11,381	10,071	7,738
Total Liabilities & Equity	23,428	22,843	21,615	18,052	15,884

INCOME STATEMENT

Turnover	2,480	11,484	11,223	10,522	9,601
Gross Profit	660	2,712	3,854	4,172	2,969
Financial Charges	(102)	(430)	(308)	(266)	(505)
Net Income	270	1,510	2,284	2,681	1,202

Cashflow Statement

Free Cashflow from Operations (FCFO)	676	2,264	3,692	4,075	3,163
Net Cash changes in Working Capital	(352)	577	375	(552)	(498)
Net Cash from Operating Activities	252	2,469	3,491	2,901	2,237
Net Cash from Investing Activities	72	(1,337)	(3,796)	(2,544)	(1,299)
Net Cash from Financing Activities	(394)	(1,169)	(61)	(46)	(792)
Net Cash generated during the period	(69)	(37)	(365)	310	146

Ratio Analysis

Performance

Turnover Growth	-7.9%	2.3%	6.7%	9.6%	12.3%
Gross Margin	26.6%	23.6%	34.3%	39.7%	30.9%
Net Margin	10.9%	13.0%	20.3%	25.4%	12.5%
ROE	8.8%	12.2%	21.9%	29.2%	17.7%

Coverages

Core: (FCFO/Gross Interest+CMLTD+Uncovered S	1.7	1.2	2.1	5.4	1.2
Interest Coverage (x) (FCFO/Gross Interest)	6.6	5.3	12.0	15.3	6.3
Debt Payback (Years) (Total Lt. Debt (excluding Co	1.7	2.4	1.5	1.1	1.8

Liquidity

Net Cash Cycle (Inventory Days + Receivable Days	-46	-30	-8	0	0
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Capital Structure (Total Debt/Total Debt+Equity)	23.6%	25.8%	28.4%	29.1%	33.1%
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Credit Rating Scale & Definitions

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 Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

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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)

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- 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)

Conduct of Business

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- (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)
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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

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- (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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