The Pakistan Credit Rating Agency Limited

Rating Report

Bestway Cement Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
06-Sep-2024	AA-	A1+	Stable	Maintain	-
06-Sep-2023	AA-	A1+	Stable	Maintain	-
09-Sep-2022	AA-	A1+	Stable	Maintain	-
09-Sep-2021	AA-	A1+	Stable	Maintain	-
11-Sep-2020	AA-	A1+	Stable	Maintain	-
28-Sep-2019	AA-	A1+	Stable	Maintain	-
29-Mar-2019	AA-	A1+	Stable	Maintain	-
19-Nov-2018	AA-	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Bestway Cement’s ratings reflect its leading position in the market emanating from its high market share in north region. The company has maintained its position by taking capacity enhancement steps through organic and inorganic means. Keeping the cement expansion phase in view and to maintain its position in competitive environment, Bestway completed its two expansion projects in FY23. The company successfully completed the construction of its Greenfield cement plant and Brownfield line of 7,200 tonnes of clinker per day each along with 9 MWs Waste Heat Recovery Power Plant taking the Company's cement manufacturing capacity up to ~15.3mln tons p.a. In FY24, the overall dispatches of the industry increased by 1.6% from 44.6mln tons to 45.3mln tons. The growth in overall dispatches is on the back of healthy growth of export dispatches. The export volumes increased by 54% from 4.6mln tons in FY23 to 7.1mln tons in FY24. The Company boded well with the increase in export volumes and showed an approximately similar growth of 52% in export dispatches. However, the industry’s domestic dispatches witnessed a decrease of 5% from 40mln tons in FY23 to 38.2mln tons in FY24. Despite the decline in the overall domestic dispatches, the Company, contrarily, showed a growth of ~5% in the domestic volumetric sales on the back of higher production capacity available during FY24. The Company recorded gross turnover of PKR 145.6 billion for FY24, 21% higher compared to PKR 120 billion during the last year. Higher revenue was driven by an overall increase of 6% in volumetric sales and the increase in selling prices which was necessitated by an exorbitant and persistent increase in the input costs, thus helping the company in retention of its margins. Financial charges during the period increased by ~65% to PKR 11.2bln from PKR 6.8bln due to higher interest rates and borrowings for the new projects. Net profit for the year grew by 16% from PKR 11.892 billion to PKR 13.769 billion whereas, the net margin remained almost similar at 13.2% (FY23: 13.6%). The Company’s ratings are strengthened by the sustainable dividend income from its strategic investment in United Bank Limited (UBL) in which company is holding 8.17%. The company’s reliance on long-term debt to support the expansion projects and reliance on short-term debt to manage the working capital cycle has impacted the Company’s leveraging, coverages as well as current ratios.

The Company's business performance with local demand remains vital with focus on sustaining margins. The ratings also draw comfort from the strong sponsor support (Bestway Group). The ratings are dependent on upholding of company’s leading market position along with sustenance of business volumes and margins. The company's good business performance as compared to other players in current stretched economic scenario - challenges on demand front - remains vital for ratings.

Disclosure

Name of Rated Entity	Bestway Cement Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Rating Modifiers(Apr-24),Methodology | Corporate Rating(Jul-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24)
Related Research	Sector Study | Cement(Apr-24)
Rating Analysts	Shujat Ehsanullah Wasim | Shujat.Ehsan@pacra.com | +92-42-35869504

Profile

Legal Structure Bestway Cement Limited (Bestway Cement) – Flagship Company of Bestway Group (BG) – is a public limited company. The company obtained listing on Pakistan Stock Exchange on April 9, 2001.

Background Bestway Cement formally incorporated in 1993 and commenced operations in 1998. The company has history of successful acquisitions of cement plants. These acquisitions have abetted in solidifying the company's foot print in Pakistani cement industry. Latest acquisition held was of 'Pakcem Limited' with and into Bestway Cement.

Operations Bestway Cement registered Head Office is situated at College Road, F-7 Markaz, Islamabad. The company has multiple cement manufacturing facilities at locations of Hattar, Farooqia, Chakwal, Kallar Kahar and Mianwali. With recent completion of brownfield as well as greenfield expansion, company has an installed capacity of ~15.3 mln M.t.p.a. The company's sales office is located in Rawalpindi.

Ownership

Ownership Structure Bestway Cement is majority owned (77.5%) by Bestway Group (BWG) – UK – mainly through corporate (~60%), followed by individuals (~17%). Bestway group companies include Bestway International Holdings Limited and Bestway Foundation.

Stability Ownership of Bestway cement remained same throughout the years. Therefore no change is expected in foreseeable future.

Business Acumen Bestway Group is a British multinational conglomerate based in London, United Kingdom. It has its operations in United Kingdom and Pakistan. The association with various diversified businesses, since last few decades, reflects strong business acumen of sponsors .

Financial Strength Bestway Group (end-Jun23 shareholders' equity: GBP 1.9bln, asset base: GBP 12.748bln) has business interests in the segments of wholesale segment, cement manufacturing, global banking, real estate, and pharmaceutical.

Governance

Board Structure The Company's nine member board comprises mainly BWG nominees. Two directors are Bestway Cement's executives (including CEO) while seven are non-executive directors including three independent members.

Members' Profile Board members are equipped with necessary skill set as they have diversified professional background. Chairman, Sir Mohammed Anwar Pervez is associated with the group since 1984.

Board Effectiveness There are four board committees in place to assist board through decision making process. The committees are: 1) Audit committee 2) Human Resource & Remuneration Committee (HR&R) 3) Nomination Committee & 4) Risk Management Committee.

Financial Transparency The Company 's new auditors M/s. A.F. Ferguson & Co., Chartered Accountants, the external auditor, has given unqualified opinion on the company's financial statements for the year ended June, 2024.

Management

Organizational Structure The company has a streamlined organizational structure with clearly demarcated roles and high degree of delegation.

Management Team The CEO, Mr. Zameer Mohammed Choudrey (also Group CEO), is associated with BWG since 1984. Mr. M. Irfan A Sheikh, is the Managing Director and Mr. Muhammad Danish Khan is the CFO (Previously designated as acting CFO).

Effectiveness A monthly Coordination Committee (ManCom) meeting is held, that is attended by the CEO (either through telecon or in person), four EDs, and four General Managers Works. The members review business operational progress while taking the decisions there and then.

MIS SAP-based ERP system; Comprehensive MIS reporting to department heads.

Control Environment Geographically spread plant locations, equipped with state-of-the-art technology infrastructure. Diversified sources including Waste Heat Recovery Plants (WHRPP), Boilers, WAPDA, captive power plants and gas-based generators to meet power requirements.

Business Risk

Industry Dynamics Domestic cement dispatches decreased by 5% to 38.2 million tonnes from 40.0 million last year. Export volumes grew by a healthy 54% from 4.6 million tonnes to 7.1 million tonnes. Overall, dispatches by the industry increased by 1.60% from 44.6 million tonnes last year to 45.3 million tonnes for the year ended 30 June 2024. The shrinkage in the domestic sales volumes is primarily attributed to the economic and political uncertainty, high interest rates and inflation that remained prevalent throughout the year. Increase in exports was enabled by conducive price in the international market and Rupee devaluation.

Relative Position After commencement of cement production in brownfield cement plant at Hattar of 7,200 tonnes of clinker per day and the greenfield plant at Mianwali site on 17 February 2023 and 29 March 2023 respectively, the Company's capacity has increased to ~15.3 million tonnes of cement per annum, bringing it at par with the capacity of Lucky Cement. They are followed by D.G Khan cement with ~7mln MT capacities respectively.

Revenues During FY24, volumetric analysis reveals that the company's total production witnessed a 6% increase whereas, the dispatches increased by 6%. Local-export dispatches mix (FY24: 98:2; FY23: 99:1; FY22: 99:1; FY21: 95:5), almost remained filled by domestic market sales. Total cement capacity utilization decreased to ~45% (FY23: ~54%) due to increase in the production capacity. The company's net turnover witnessed upwards trend and recorded at PKR 103.9bln in FY24 as compared to PKR 87.7bln in FY23 due to higher volumes sold and increase in prices, while profits were recorded at PKR 13.7bln (FY23: PKR 11.8bln). Going forward, the Company's capacity utilization and sustainability of profits remains challenging due to stubborn inflation, high taxation and increase in finance cost which may impact demand and erode company's profit margins.

Margins During FY24, Gross and net profit margins were reported at 31% (FY23: 31%) and 13.2% (FY23: 13.6%) respectively. Gross and Net Margins remained almost similar despite an exponential increase in finance costs of 65%.

Sustainability Despite facing a plethora of challenges of economic as well as political nature, the company successfully commissioned two state-of-the-art cement plants along with Waste Heat Recover Power Plant at Mianwali and Hattar in FY-23, making it the largest cement producer in the country. The company is increasingly becoming less dependent on national grid through installation of solar power plants and waste heat recovery power plants (WHRPP). The company has installed solar capacity at all five locations. As at Jun-24, solar capacity stood at 105.4 MWs.

Financial Risk

Working Capital As at FY24, Bestway Cement's working capital requirements, represented by net cash cycle (net working capital days) – a function of inventory, receivables and payables –increased to 17days (FY23: 13days). This is on account of decrease in trade payables days from 15days at FY23 to 11days at FY24. The company meets working capital requirements through a mix of internal cashflows and STBs. The quantum of STBs stood at PKR 12.8bln at end-Jun24 (end-Jun23: PKR 23bln). Current ratio stood at (end-Jun-24: 1.6x; end-Jun- 23: 2.1x).

Coverages As at FY24, EBITDA clocked in at PKR 34.9bln (FY23: 28.4bln) while FCFO's were recorded at PKR 29.6bln (FY23: 22.4bln) due to increased sales. Financial charges increased to PKR 11bln as against PKR 6.8bln in FY23 due to increase in average borrowing cost and borrowings. Resultantly, interest coverage ratio was recorded at 2.7x as compared to 3.3x in FY23.

Capitalization Total borrowings and CMLTD stood at PKR 53.5bln and 8.7bln at FY24 as opposed to PKR 69.6bln & 6.4bln at FY23. The commencement of projects along with pay off of Long term debt has decreased debt to debt plus equity ratio to 49.7% (FY23: 55%). The company's equity base augmented to PKR 63bln (FY23: PKR 61bln) due to accumulation of profits and has strong capacity to absorb economic shocks in the medium term.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Bestway Cement Limited Cement	Jun-24 12M	Jun-23 12M	Jun-22 12M
A BALANCE SHEET			
1 Non-Current Assets	120,831	122,976	93,247
2 Investments	226	5,109	197
3 Related Party Exposure	20,025	16,066	14,309
4 Current Assets	26,827	30,989	25,690
a Inventories	*5,647*	*7,307*	*4,438*
b Trade Receivables	*1,971*	*1,211*	*916*
5 Total Assets	167,909	175,140	133,444
6 Current Liabilities	16,640	14,828	17,940
a Trade Payables	*3,041*	*3,381*	*4,019*
7 Borrowings	62,339	76,084	38,495
8 Related Party Exposure	-	-	1,048
9 Non-Current Liabilities	25,871	22,383	15,202
10 Net Assets	63,060	61,846	60,758
11 Shareholders' Equity	63,060	61,846	60,758
B INCOME STATEMENT			
1 Sales	103,922	87,742	72,371
a Cost of Good Sold	*(71,695)*	*(60,426)*	*(49,377)*
2 Gross Profit	32,227	27,316	22,993
a Operating Expenses	(2,856)	(1,984)	(2,555)
3 Operating Profit	29,372	25,332	20,439
a Non Operating Income or (Expense)	*4,218*	*4,094*	*1,004*
4 Profit or (Loss) before Interest and Tax	33,590	29,426	21,443
a Total Finance Cost	*(11,212)*	*(6,828)*	*(2,096)*
b Taxation	*(8,609)*	*(10,707)*	*(9,108)*
6 Net Income Or (Loss)	13,769	11,892	10,239
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*29,670*	*22,472*	*19,508*
b Net Cash from Operating Activities before Working Capital Changes	*18,348*	*16,401*	*17,921*
c Changes in Working Capital	*6,051*	*(6,101)*	*(4,450)*
1 Net Cash provided by Operating Activities	24,399	10,299	13,472
2 Net Cash (Used in) or Available From Investing Activities	4,214	(32,566)	(32,395)
3 Net Cash (Used in) or Available From Financing Activities	(19,919)	13,174	8,976
4 Net Cash generated or (Used) during the period	8,694	(9,092)	(9,948)
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	18.4%	21.2%	27.3%
b Gross Profit Margin	31.0%	31.1%	31.8%
c Net Profit Margin	13.2%	13.6%	14.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	34.4%	18.7%	20.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	21.4%	21.8%	19.4%
2 Working Capital Management			
a Gross Working Capital (Average Days)	28	29	26
b Net Working Capital (Average Days)	17	13	6
c Current Ratio (Current Assets / Current Liabilities)	1.6	2.1	1.4
3 Coverages			
a EBITDA / Finance Cost	3.1	4.2	16.3
b FCFO / Finance Cost+CMLTB+Excess STB	1.3	1.5	1.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.8	3.5	1.7
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	49.7%	55.2%	38.8%
b Interest or Markup Payable (Days)	0.0	0.0	0.0
c Entity Average Borrowing Rate	17.3%	10.9%	6.3%

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Corporate Rating Criteria

Scale

Credit Rating

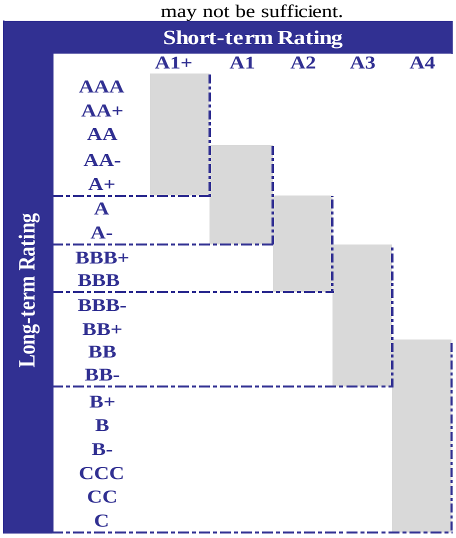
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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