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 |
|---|---|---|---|---|---|
| 29-Mar-2019 | AA- | A1+ | Stable | Maintain | - |
| 19-Nov-2018 | AA- | A1+ | Stable | Maintain | - |
| 07-May-2018 | AA- | A1+ | Stable | Maintain | - |
| 17-Nov-2017 | AA- | A1+ | Stable | Maintain | - |
| 05-Apr-2017 | AA- | A1+ | Stable | Maintain | - |
| 19-Nov-2016 | AA- | A1+ | Stable | Maintain | - |

### Rating Rationale and Key Rating Drivers

Bestway Cement’s ratings reflect its leading position in the market emanating from its highest market share (18.2%) as at Jan-19. The Company's brown field expansion in 4QFY18 and successful mergers in the past helped company to maintain its position. The company has cost efficient operational framework, healthy margins, and good profitability. Despite the sharp decline witnessed in margins, industry wide, on account of 1) international coal prices and relevant duties, 2) increase in FED and 3) fluctuation in cement prices – Bestway managed to secure its margins as compared to others. Lately, the coal prices showed downward trend due to cutdown of imports by China- are expected to remain range bound in medium term. Upcoming industry wide expansions of 11.7mln tpa (North Region only) commissioning by Sep-19 and slowdown in the growth of local demand seems a challenge. The demand needs to be up to secure companies’ margin. Export is another avenue. Industry wide exports (sizeable increase in South Region) have gone up due to muted growth in local demand. A new export window is created in Bangladesh market. Previously, cement exports were seen at its peak after financial crisis in 2008. The company’s expansion of 1.9 mln tpa was commenced in Jun-18 and has been fully operational since then which is supplementing positively to the company’s business profile. The company’s ratings are further strengthened by the sustainable dividend income from its strategic investment in United Bank Limited (UBL) in which company is holding 7.68%. The company’s financial risk is categorized by efficient working capital management in terms of both cashflows and short-term borrowing, low leveraged structure, good coverages, remains low. 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. Company's long term debt repayment is scheduled in Apr-20, which will further strength financial risk profile. 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 \| Corporate Ratings(Jun-18),Methodology \| Criteria \| Rating Modifier(Jun-18),Methodology \| Correlation Between Long-Term And Short-Term Rating Scale(Jun-18) |
| **Related Research** | Sector Study \| Cement(Nov-18) |
| **Rating Analysts** | Saliha Sajid \| saliha.sajid@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. In Aug-16, the Islamabad High court sanctioned the Scheme of Amalgamation of Pakcem Limited – 88% owned subsidiary – with and into Bestway Cement; the effective date of the merger was September 16, 2016. Bestway Cement vividly consolidated operations of Pakcem with parent company in time of one and half years only. The company has recently secured 'Annual Environment Excellence Award 2018' and 'Corporate Social Responsibility Award 2018' on account of practices followed for social welfare.

**Operations** Bestway Cement registered Head Office is situated at College Road, F-7 Markaz, Islamabad. The company has multiple cement manufacturing facilities which are established at locations of Hattar, Farooqia, Chakwal and Kallar Kahar. The company's sales office is located in Rawalpindi.

## Ownership

**Ownership Structure** Bestway Cement is majority owned (77%) by Bestway Group (BWG) – UK – mainly through corporate (60%), followed by individuals (~17%). Bestway group companies include Bestway Holdings Limited, Bestway Foundation and Bestway Northern Limited.

**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-Jun16 shareholders' equity: GBP 1.4bln, asset base: GBP 10.3bln, turnover: GBP 3.3bln) has business interests in the segments of wholesale segment, cement manufacturing, global banking, and real estate.

## Governance

**Board Structure** The Company's eight member board comprises mainly BWG nominees. Two directors are Bestway Cement's executives (including CEO) while six are non-executive directors including two 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 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).

**Financial Transparency** The Company 's new auditors M/s. A.F.Ferguson & Co., Chartered Accountants, the external auditor, conducted a interim review, has given unqualified opinion on the company's financial statements for the half year ended Dec-18.

## 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, Director Finance / CFO is accompanied with overall experience of 40 years and has been associated with the group since 2012.

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

**Control Environment** Geographically spread plant locations: (1) Chakwal (2) Hattar (3) Farooqia (4) Kallar Kahar ; equipped with state-of-the-art technology infrastructure. Diversified sources including Waste Heat Recovery Plants (WHRPP), WAPDA and gas-based generators to meet power requirements.

## Business Risk

**Industry Dynamics** Cement industry is divided into North and South region – majority players operating in North region. Cement industry undergoing expansions with majority capacities commencing operations in FY20. During FY19, sizeable drop in domestic consumption was witnessed which led to drop in local cement dispatches by 4% attributable to slowdown in large construction projects driven by lesser PSDP utilization. Previously, cement exports were seen at its peak after financial crisis in 2008. Currently, exports to Afghanistan and India also witnessed downtrend by ~22% and ~5% YoY. However, exports via sea to Bangladesh witnessed uptrend of 58%. Margins of industry players came under pressure driven by escalation of international coal prices (8HFY19: $96, FY18: $90, FY17: $77, F16: $53), rupee depreciation and unsustainable cement prices (especially in north region) due to slowdown in local demand. Lately, the coal prices showed downward trend due to cutdown of imports by China- are expected to remain range bound in medium term. Currently, leveraging of industry is moderate but in increasing interest rates environment it is critical for cement players to vigilantly manage cost structure. Cement demand is expected to stay nominal (at least for upcoming one year) as new government's prerogative for infrastructure will take some time to materialize. Therefore, upcoming capacity expansion utilization will be challenging factor.

**Relative Position** Bestway Cement has operational capacity of 9.9mln tpa which translates into market share of 18.2% as at Jan-19 in cement industry.

**Revenues** During FY18, the company achieved standalone growth of 15% in terms of volumes sold against average growth recorded by industry of 15%. The company's dispatches remained tilted towards local market – an industry wide trend. Volumetric analysis revealed that exports showed an upward trend in line with industry (~2 increase in export dispatches). Hence, local-export dispatches mix (FY18: 88:12; FY17: 87:13) remained skewed towards domestic market. Total capacity utilization remained at optimum level 97% (FY17: 98%). During FY18, the Company reported revenue of PKR 53bln (FY17: PKR 52bln), demonstrating a slight growth of ~2% primarily due to positive local demand. Dividend income (FY18: PKR 1.3bln) from UBL & UBL Insurer – the associated companies – further augmented the revenue stream. Finance costs reduced to PKR 600mln (FY17: PKR 831mln) driven by significant decline in long term debt. The company secured net profit at PKR 13.2bln (FY17: PKR 13.2bln). During 1HFY19, the company recorded revenue of PKR 27.7bln with major contribution of domestic market.

**Margins** In recent years, there has been an uptick in coal prices – average FY18: USD ~89/ton, FY17 (ex-Richards Bay): USD ~77/ton, average FY16 (ex-Richards Bay): USD ~53/ton along with fluctuation in cement prices resulted in decrease in the company's margins; gross and EBITDA margin declined to 36% (FY17: 44%) and 35% (FY17: 42%) respectively. However, this has been an industry wide trend effecting margins of all cement players. During 1HFY19, gross and EBITDA margin reduced further to ~33% and ~33% respectively on account of same aforementioned reasons.

**Sustainability** Going forward, owing to the new capacities coming online by many industry players company's focus will be on the growth of volumetric sales, to secure its margins.

## Financial Risk

**Working Capital** During FY18, Bestway Cement's working capital requirements, represented by net cash cycle (net working capital days) – a function of inventory, receivables and payables – slightly increased as 17days at end-Dec18 (end-Jun18: 13days, end-Jun17: 16days). This is on account of higher inventory days primarily increased work in process. The company meets working capital requirements through a mix of internal cashflows and STBs. The quantum of STBs stood at PKR 12.2bln at end-Jun18 (end-Sep18: PKR 12bln, end-Jun17: PKR 4.8bln).

**Coverages** Interest coverage slimmed down to 12x (end-Jun18: 25x, end-Jun17: 21x) and Core coverage ratio reduced to 2.3x at end-Dec18 (end-Jun18: 2.7x, end-Jun17: 20.9x) primarily due to higher STBs and CMLTD. .

**Capitalization** During the year, long-term debt remained at same level to PKR 8.4bln (including CMLTD) (FY18: PKR 10bln)- debt related to Pakcem. The company's equity base augmented to PKR 57.2bln (end-Jun18: PKR 53.3bln) has strong capacity to absorb economic shocks in the medium term. Debt to debt plus equity ratio remained range bound to ~27% ( FY18: 29%). Leveraging is expected to improve as no debt driven projects are in pipeline.

Financials (Summary) in PKR mln
*PKR mln*

**Bestway Cement Limited**
**Listed Public Limited**

| | | Dec-18 | Jun-18 | Jun-17 | Jun-16 |
|---|---|---|---|---|---|
| **A** | **BALANCE SHEET** | **6M** | **12M** | **12M** | **12M** |
| **1** | **Non-Current Assets** | **65,638** | **64,035** | **54,129** | **54,112** |
| **2** | **Investments** | **11,784** | **11,633** | **12,102** | **11,943** |
| a | Equity Instruments | 11,784 | 11,633 | 12,102 | 11,943 |
| b | Debt Instruments | - | - | - | - |
| **3** | **Current Assets** | **19,362** | **19,303** | **15,534** | **11,765** |
| a | Inventory | 4,900 | 4,358 | 3,491 | 2,532 |
| b | Trade Receivables | 1,829 | 1,786 | 1,462 | 1,176 |
| c | Others | 12,633 | 13,159 | 10,581 | 8,057 |
| **4** | **Total Assets** | **96,785** | **94,971** | **81,765** | **77,820** |
| **5** | **Borrowings** | **20,594** | **22,152** | **14,888** | **18,941** |
| a | Short-Term | 12,180 | 12,152 | 4,888 | 2,441 |
| b | Long-Term (Incl. CMLTB) | 8,414 | 10,000 | 10,000 | 16,500 |
| 6 | Other Short-Term Liabilities | 9,984 | 9,900 | 8,638 | 7,294 |
| 7 | Other Long-Term Liabilities | 9,015 | 9,609 | 10,470 | 9,602 |
| **8** | **Shareholder's Equity** | **57,192** | **53,310** | **47,769** | **41,983** |
| **9** | **Total Liabilities & Equity** | **96,785** | **94,971** | **81,765** | **77,820** |
| **B** | **INCOME STATEMENT** | | | | |
| **1** | **Sales** | **27,709** | **52,884** | **51,623** | **45,721** |
| **2** | **Gross Profit** | 9,103 | 18,955 | 22,533 | 21,148 |
| 3 | Non Operating Income | 310 | 300 | 926 | 1,394 |
| 4 | Total Finance Cost | (693) | (600) | (831) | (1,823) |
| **5** | **Net Income** | **6,881** | **13,158** | **13,293** | **11,880** |
| **C** | **CASH FLOW STATEMENT** | | | | |
| 1 | Free Cash Flow from Operations (FCFO) | 8,040 | 13,910 | 16,777 | 16,353 |
| 2 | Total Cashflows (TCF) | 8,539 | 15,155 | 18,020 | 17,596 |
| 3 | Net Cash changes in Working Capital | 220 | (919) | (2,160) | 580 |
| 4 | Net Cash from Operating Activities | 8,172 | 13,284 | 14,927 | 16,163 |
| 5 | Net Cash from InvestingActivities | (3,197) | (13,329) | (4,192) | (1,542) |
| 6 | Net Cash from Financing Activities | (4,669) | (7,138) | (13,357) | (17,528) |
| 7 | Net Cash generated during the period | 306 | (7,182) | (2,621) | (2,908) |
| **D** | **RATIO ANALYSIS** | | | | |
| **1** | **Performance** | | | | |
| a | Net Sales Growth (for the period) | 5% | 2% | 13% | 543% |
| b | Gross Profit Margin | 33% | 36% | 44% | 46% |
| c | Net Profit Margin | 25% | 25% | 26% | 26% |
| d | Return of Equity | 25% | 26% | 30% | 34% |
| **2** | **Working Capital Management** | | | | |
| a | Gross Working Capital (Inventory Days + Receivable Days) | 42.4 | 38.3 | 30.6 | 25.1 |
| b | Net Working Capital (Inventory Days + Receivable Days - Payable Days) | 17.2 | 13.2 | 9.3 | 11.4 |
| **3** | **Coverages** | | | | |
| a | Debt Service Coverage (FCFO / Finance Cost+CMLTB+Excess STB) | 1.6 | 1.8 | 20.9 | 9.9 |
| b | Interest Coverage (FCFO / Finance Cost) | 12.3 | 24.6 | 20.9 | 9.9 |
| c | Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost) | 0.8 | 1.0 | 0.6 | 1.1 |
| **4** | **Capital Structure (Total Debt/Total Debt+Equity)** | | | | |
| a | Capital Structure (Current Borrowings / Total Borrowings) | 17 | 13 | 9 | 11 |
| b | Capital Structure (Total Borrowings / Total Borrowings+Equity) | 26% | 29% | 24% | 31% |

# Rating Scale

## Credit Rating Scale & Definitions

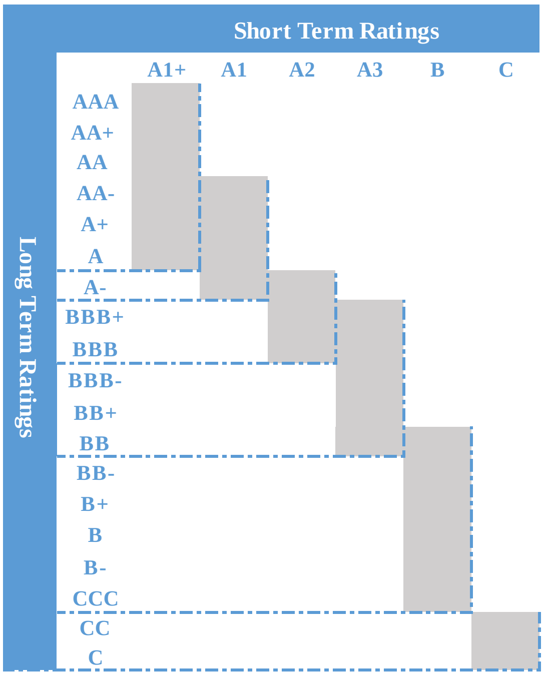
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

### Long Term Ratings

| | |
|---|---|
| AAA | **Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments |
| AA+<br>AA<br>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+<br>A<br>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+<br>BBB<br>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+<br>BB<br>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+<br>B<br>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<br>CC<br>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 Ratings

| | |
|---|---|
| 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. |
| B | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. |
| C | An inadequate capacity to ensure timely repayment. |




**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 surveill the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

## 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.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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

**Monitoring and review**
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
**Probability of Default**
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
**Proprietary Information**