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
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	-
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	-
19-Nov-2015	AA-	A1+	Stable	Upgrade	-
19-May-2015	A+	A1	Stable	Maintain	-
16-Sep-2014	A+	A1	Rating Watch	Maintain	-

Rating Rationale and Key Rating Drivers

Bestway Cement’s ratings reflect its leading position in the market emanating from its highest market share in north region. The Company's brown field expansion and successful mergers in the past assisted to maintain its position. Due to pandemic corona virus economic activities has slow down thus resulted in the drop of local demand, export is another avenue. Due to excess capacity from recent industry expansion resulted in depressed cement prices (especially in north region). Industry wide exports have gone up. During 9MFY20 the profitability of the company took a significant dip where margins deteriorated attributable to depressed prevailing cement prices along with muted local demand has affected the company's sales volume due to the aforementioned industry dynamics. Overall industry wide local dispatches increased significantly in July-20 as the government has taken steps towards public sector development projects and this will further improved in future as new projects are coming. 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 7.65%. The company’s financial risk is categorized by efficient working capital management in terms of both cashflows and short-term borrowing. The company is re-profiling its debt book by converting short term debt into long term debt which will not impact the leveraging ratio and have positive impacts on current ratio. The chance of recovery in near future depends on agreement on cement prices, energy prices (not expected to increase), and key policy rate that is expected inch down. These will give breathing space to sector.

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 | Corporate Ratings(Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Cement(Mar-20)
Rating Analysts	Saadat Mirza | saadat.mirza@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-Jun19 shareholders' equity: GBP 1.7bln, asset base: GBP 11.9bln) has business interests in the segments of wholesale segment, cement manufacturing, global banking, real estate, and pharmaceutical.

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, has given unqualified opinion on the company's financial statements for the year ended June, 2019.

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 31 years and has been associated with the group since 1996. Mr. Syed Kausar Hussain Shah joined the company in 2019 as Director HR & Administration.

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), Boilers, WAPDA and gas-based generators to meet power requirements.

Business Risk

Industry Dynamics Cement industry is divided into North and South region – majority (76%) operational capacity exists in North region. Industry has completed phase II of capacity expansion of around 18mln tons per annum. Industry dynamics significantly shifted attributable to supply glut which resulted in price war, on top of that Covid-19 global pandemic resulted in economic slowdown that has significantly impacted local demand and exports as well; situation has become real challenging for players operating in north region after halt in Indian exports. During FY20, total despatches recorded significant reduction during the month of March, April & May on avg. declining rate of 24.67% owing to economic slowdown due to globally declared pandemic Covid-19. However, Govt. efforts to stimulate economy by massive reduction in interest rates (~ 650bps cut since Jan-20), deferment facility on principal loan repayment and subsidized loans for salaries payment assisted the industry to pick up pace hence, total despatches during the period recorded an uptick of ~1.98% YoY. Going forward, the Govt. announced infrastructure projects include Diamir Bhasha Dam and reduced coal prices along with bottom hit oil prices will play in favor of cement players however, channeling of excess supply on account of recent expansions, restoration of cement prices and exchange rates fluctuation will remain crucial for the industry.

Relative Position Bestway Cement has operational capacity of 10.7mln tpa which translates into market share of 22.7% as at Jun-19 in the north region's operational cement industry.

Revenues During 9MFY20, the company's net revenue witnessed drop of 28.7% to stand at PKR 28.7bln (9MFY19: PKR 40.8bln). Volumetric analysis reveals downtrend of 5% (FY19: 8.1mln tons, FY18: 8.6mln tons). The company's dispatches remained tilted towards local market due to weak demand on the exports front - dispatches down by 7% - local-export dispatches mix (FY19: 92:08, FY18: 88:12) remained skewed towards domestic market. Total cement capacity utilization decreased to 76% (FY18: 101%). Gross profit witnessed downtrend to stand at PKR 1.27bln (9MFY19: PKR 12.9bln). Dividend income (9MFY20: PKR 1.2bln) from UBL & UBL Insurer – the associated companies – augmented the revenue stream. Finance costs increased to PKR 1.65bln (9MFY19: PKR 1.13bln) attributable to surge in key policy rate. Hence, the company secured net loss at PKR 19.9mln (9MFY19: PKR 9,537mln).

Margins Gross and EBITDA margin declined to 4.5% (9MFY19: 31.6%) and 9.2% (9MFY19: 32%) respectively attributable to fluctuation in cement prices and rupee depreciation - trend witnessed in majority players operating in north region.

Sustainability Going forward, the company will focus on holding its leadership position in the market along with achieving optimal capacity utilization levels.

Financial Risk

Working Capital During 9MFY20, Bestway Cement's working capital requirements, represented by net cash cycle (net working capital days) – a function of inventory, receivables and payables – increased to 19days (end-Jun-19: 16days) due to increase in receivable days. The company meets working capital requirements through a mix of internal cashflows and STBs. The quantum of STBs stood at PKR 18.31bln at end-Mar20 (end-Jun19: PKR 10.84bln). Current ratio stood at (end-Mar-20: 1.9x; end-Jun-19: 1.8x).

Coverages During 9MFY20, EBITDA clocked in at PKR ~2.6bln; in terms of a competitive margin of 9% against industry average of 9% for 9MFY20. Core coverage ratio declined to 0.1x at end-Mar20 (end-Mar19: 1.8x). Going forward, with complete retirement of long term debt, coverages will remain in comfortable range.

Capitalization During the year, the Company's debt to debt plus equity ratio stands at ~28% (FY19: 22%). The company's equity base augmented to PKR 54bln (FY19: PKR 57.6bln) has strong capacity to absorb economic shocks in the medium term. Leveraging is expected to remain range bound as no debt driven projects are in plan.

PKR mln

Bestway Cement Limited Cement	Mar-20 9M	Jun-19 12M	Jun-18 12M	Jun-17 12M
A BALANCE SHEET				
1 Non-Current Assets	64,329	65,154	64,035	54,129
2 Investments	262	262	258	250
3 Related Party Exposure	12,827	12,512	11,375	11,851
4 Current Assets	16,338	15,054	19,545	15,534
a Inventories	*2,644*	*2,689*	*4,358*	*3,491*
b Trade Receivables	*1,806*	*2,102*	*1,786*	*1,462*
5 Total Assets	93,757	92,982	95,213	81,765
6 Current Liabilities	8,533	8,274	9,900	8,638
a Trade Payables	*2,786*	*2,514*	*3,826*	*3,453*
7 Borrowings	21,231	16,460	22,394	14,888
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	9,973	10,642	9,609	10,470
10 Net Assets	54,020	57,606	53,310	47,769
11 Shareholders' Equity	54,020	57,606	53,310	47,769
B INCOME STATEMENT				
1 Sales	28,674	53,602	52,884	51,623
a Cost of Good Sold	*(27,398)*	*(37,557)*	*(33,928)*	*(29,091)*
2 Gross Profit	1,277	16,045	18,955	22,533
a Operating Expenses	(1,063)	(2,050)	(3,690)	(3,964)
3 Operating Profit	213	13,994	15,265	18,569
a Non Operating Income or (Expense)	*1,283*	*750*	*300*	*926*
4 Profit or (Loss) before Interest and Tax	1,497	14,744	15,565	19,495
a Total Finance Cost	*(1,654)*	*(1,498)*	*(600)*	*(831)*
b Taxation	*137*	*(3,148)*	*(1,807)*	*(5,372)*
6 Net Income Or (Loss)	(20)	10,097	13,158	13,293
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,440*	*13,803*	*13,910*	*16,777*
b Net Cash from Operating Activities before Working Capital Changes	*1,065*	*13,371*	*14,204*	*17,088*
c Changes in Working Capital	*(127)*	*3,456*	*(919)*	*(2,160)*
1 Net Cash provided by Operating Activities	938	16,827	13,284	14,927
2 Net Cash (Used in) or Available From Investing Activities	(1,652)	(4,271)	(13,329)	(4,192)
3 Net Cash (Used in) or Available From Financing Activities	11,262	(123)	126	(8,469)
4 Net Cash generated or (Used) during the period	10,548	12,433	82	2,267
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-28.7%	1.4%	2.4%	12.9%
b Gross Profit Margin	4.5%	29.9%	35.8%	43.6%
c Net Profit Margin	-0.1%	18.8%	24.9%	25.7%
d Cash Conversion Efficiency (EBITDA/Sales)	9.2%	30.6%	34.7%	41.9%
e Return on Equity (ROE)	0.0%	18.2%	26.0%	29.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	44	37	38	31
b Net Working Capital (Average Days)	19	16	13	9
c Current Ratio (Total Current Assets/Total Current Liabilities)	1.9	1.8	2.0	1.8
3 Coverages				
a EBITDA / Finance Cost	1.6	11.2	32.4	27.0
b FCFO / Finance Cost+CMLTB+Excess STB	0.1	1.2	1.8	20.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-52.9	0.8	1.0	0.6
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	28.2%	22.2%	29.6%	23.8%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Average Borrowing Rate	11.5%	7.5%	3.0%	4.7%

Credit Rating

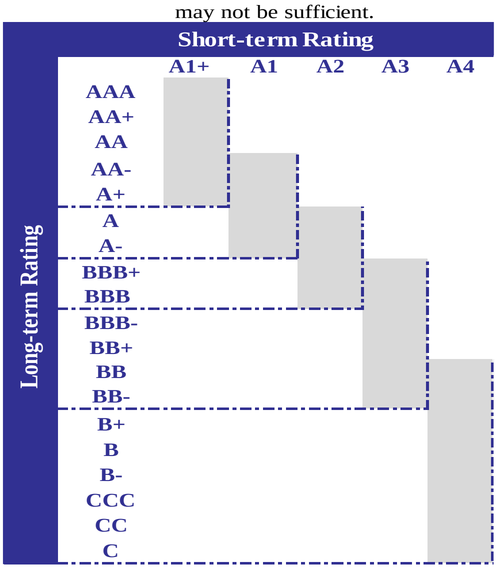
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk 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

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(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)
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