



Rating Action

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Analyst

Saira Rizwan
(+92-42-35869504)
saira.rizwan@pacra.com
www.pacra.com

Applicable Criteria and Related Research

- Corporate Rating Methodology

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PACRA Assigns Entity Ratings to Gharibwal Cement

PACRA has assigned long-term and short-term entity ratings of "A-" (Single A Minus) and "A2" (A Two), respectively to Gharibwal Cement Limited. These ratings denote a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

The ratings reflect Gharibwal Cement's improving business profile supplemented by (i) gradual increase in sales volume, and (ii) healthy EBITDA margins. The company focuses on geographies closer to the plant location (Chakwal) for sales - hence, capacity utilization at par with local industry (FY16: 73%, FY15: 60%) - strong local demand benefits in managing distribution costs at lower level as compared to peers. Post FY13, the financial risk has shown steady, yet notable, improvement. This is on the back of efficient financial management post-restructuring causing moderate working capital requirements, and strong coverages. CAPEX plan is being implemented in phases; number of efficiency projects are underway. These includes installation of 20MW Waste Heat Recovery Plant with an estimated cost of PKR 2.3bln (expected CoD: Nov16), and setting up of Down Hill Conveyor Belt with a capacity of 1,200tph (cost: PKR 625mln, expected CoD: Oct16).

The company has lately announced capacity expansion by setting up 2.4mln tpa of new production line - a brown-field project. The project cost of ~PKR 13bln will be financed by debt:equity of 40:60. Operational modalities have been finalized with Chinese supplier and the management is eyeing new plant commissioning by Dec18. Owing to demand potential in local market, the profitability of the company is likely to remain strong in the medium term. Continuation in demand trend and Gharibwal Cement's ability to build requisite efficient supply chain post expansion remains important. Although, leveraging will increase on account of debt driven expansion, financial coverages are likely to remain healthy. The ratings draw comfort from business prospects that strongly correlate to buyout cement sector fundamentals.

The ratings are dependent on the management's ability to timely commission on-going projects to achieve desired efficiencies in margins while upholding its business profile. At the same time effective management of the planned expansion including financial risk remains important.

About the Company: Gharibwal Cement Limited, commenced operations in 1965, and is listed on PSX. Gharibwal Cement is engaged in the manufacturing, marketing, and sale of Ordinary Portland Cement. The company has an installed cement capacity of 2.1mln tpa (market share: 4.6%). The company (since 1992) is majority owned by Mr. Tausif Peracha (~58%), founder of Gharibwal Group, followed by Rafique Family (~33%) having interest in real estate business abroad. Gharibwal Group has interests in glass manufacturing, lubricants, and real estate projects locally and shipping and truck manufacturing in Nigeria.

The overall control of the company vests with nine member BoD, including an independent director. Peracha family has five representatives, including CEO. The Chairman, and two other directors represent Rafiq family on board. Mr. Tousif Peracha, the CEO, is supported by a team of experienced individuals.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity.

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