The Pakistan Credit Rating Agency Limited

GHARIBWAL CEMENT LIMITED

	INITIAL [OCT-16]
Entity	
Long Term	A-
Short Term	A2
Outlook	Stable

REPORT CONTENTS

OCTOBER 2016

Profile

- Gharibwal Cement – a Gharibwal Group company – commenced operations in 1965; listed on Pakistan Stock Exchange
- Engaged in manufacturing and sale of Ordinary Portland Cement
- With a production facility located in District Chakwal, Gharibwal Cement operates with a cement capacity of 2.1mln tpa; market share: 4.6%

Ownership

- In 1992, in the wake of privatization of cement sector, majority stake was acquired by two families; Mr. Tausif Peracha, founder of Gharibwal Group, owns ~58% while Rafique Family has ~33% stake
- Tacit understanding between shareholding families necessitates formal documentation
- Gharibwal Group has interests in glass manufacturing, lubricants, and real estate projects locally and shipping and truck manufacturing in Nigeria

Governance & Management

- Nine member board including the Chairman, Mr. Abdur Rafiq Khan, and the CEO, Mr. Tousif Peracha. Five nominations from Peracha family including three family members, three from Rafiq family, and one independent member
- Board members carry adequate experience; though challenge to management decisions is limited
- Lean organizational structure; experienced management team

Systems & Controls

- Plant – a mix of European and Chinese technology
- Deploys Microsoft Dynamic G.P 2015 as operating software; quality of MIS reporting considered good
- Gharibwal Cement has dual fuel captive power generators and WAPDA backup to meet its power requirements (29MW)

Business Risk

- Revenue mix is predominantly skewed towards local sales (98%) mainly due to plant location; limited contribution margin on exports
- Significant improvement in performance post FY13; overall revenues maintained growth trajectory, mainly due to positive cement sector fundamentals
- Margins witnessed improvement – a factor of notable decline in international coal prices (fuel cost). EBITDA margin (FY16: ~41%, FY15: ~35%) remained healthy, in line with peers
- Benefitting from lower finance cost, attributable to declining benchmark rates, the company posted hefty profits (FY16: PKR 2.7bln, FY15: PKR 1.3bln)
- Announced expansion with annual capacity of 2.4mln tons. The project with an estimated cost of PKR ~13bln will be financed through debt:equity of 40:60; planned CoD: Dec18. This also includes installing cement grinding mill (capacity of 1.8mln tpd), expected to come online in Jun17
- Two other projects in progress: (i) a 20MW WHR (debt:equity of 45:55, cost: PKR 2.3bln, CoD: Nov16), and (ii) setting up of Down Hill Conveyer Belt with a capacity of 1,200tph. With an estimated cost of PKR 625mln (debt:equity 28:72), the project is likely to come online in Oct16. Sizable cost savings expected; hence, support to future profitability

Financial Risk

- Working capital requirements lately met through internal generation owing to healthy cashflows; Cash cycle at par with industry
- Current ratio, historically remained low, normalized at end-Jun16
- Coverages witnessed significant uptick on account of rise in operational cashflows; expected to remain healthy post expansion
- Moderately leveraged capital structure; with debt driven expansion, leveraging is expected to remain range bound

RATING RATIONALE

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 Conveyer 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 buyont cement sector fundamentals.

KEY RATING DRIVERS

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.

PKR mln

Gharibwal Cement Limited

BALANCE SHEET	30-Jun-16	30-Jun-15	30-Jun-14
	Annual	Annual	Annual
Non-Current Assets	**15,491**	**13,813**	**13,210**
Investments (Incl. associates)	**104**	**-**	**-**
Equity	-	-	-
Mutual Funds	104	-	-
Current Assets	**2,457**	**2,070**	**1,969**
Stores and Spares	746	671	558
Inventory	423	766	949
Others	1,288	633	461
Total Assets	**18,052**	**15,884**	**15,179**
Debt	**4,029**	**3,696**	**4,146**
Short-term	-	138	167
Long-term (Inlc. Current Maturity of long-term debt)	4,029	3,558	3,979
Other short-term liabilities	2,628	3,180	2,935
Other Long-term Liabilities	1,566	1,526	1,788
Shareholder's Equity	**9,828**	**7,482**	**6,310**
Total Liabilities & Equity	**18,052**	**15,884**	**15,179**

INCOME STATEMENT			
Turnover	**10,522**	**9,601**	**8,547**
Gross Profit	4,172	2,969	2,350
Net Income	352	2	3
Financial Charges	(266)	(505)	(635)
Net Income	**2,694**	**1,284**	**849**

Cashflow Statement			
Free Cashflow from Operations (FCFO)	4,075	3,163	2,459
Net Cash changes in Working Capital	(552)	(498)	(81)
Net Cash from Operating Activities	2,901	2,237	1,828
Net Cash from InvestingActivities	(2,544)	(1,299)	(175)
Net Cash from Financing Activities	(46)	(792)	(1,619)
Net Cash generated during the period	310	146	33

Ratio Analysis			
Performance			
Turnover Growth	9.6%	12.3%	37.2%
Gross Margin	39.7%	30.9%	27.5%
Net Margin	25.6%	13.4%	9.9%
ROE	28.1%	17.7%	14.5%
Coverages			
Core: (FCFO/Gross Interest+CMLTD+Uncovered STB)	5.4	1.2	0.9
Interest Coverage (x) (FCFO/Gross Interest)	15.3	6.3	3.9
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Term Borrowings) / FCF(	1.1	1.8	3.2
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	-5	0	18
Capital Structure (Total Debt/Total Debt+Equity)	29.1%	33.1%	43.2%

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STANDARD 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. This capacity is highly unlikely to be adversely affected by foreseeable events.
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-**	**Speculative.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ **B** **B-**	**Highly speculative.** Significant 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**	**High default 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.

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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled.

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'.

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, or e) the entity/issuer defaults.

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Name of Issuer	Gharibwal Cement Limited
Sector	Cement
Type of Relationship	Solicited
Purpose of the Rating	Independent Risk Assessment

Rating History

Notification Date	Long Term	Short Term	Outlook	Action
4-Oct-2016	A-	A2	Stable	Initial

Related Criteria and Research

Rating Methodology	Corporate Rating Methodology
Sector Research	Cement Sector Overview - 2016

Rating Analysts

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Rating Team Statement

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