



The Pakistan Credit Rating Agency Limited

# MAPLE LEAF CEMENT FACTORY LIMITED

	NEW [Nov-16]	PREVIOUS [Nov-15]
<b>Entity</b>		
Long Term	A+	A
Short Term	A1	A1
<b>Outlook</b>	Stable	Stable

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NOVEMBER 2016

**Profile**

- Maple Leaf Cement Company Limited – a Kohinoor Maple Leaf Group (KMLG) Company – established in 1956; listed on Pakistan Stock Exchange
- Engaged in manufacturing and sale of Grey and White Cement
- With a production facility located in Dadukhel (District Mianwali), Maple Leaf operates with a cement capacity of ~3.4mln tpa; market share: 7.4%

**Ownership**

- KMLG holds majority stake (~55%) in the company through Kohinoor Textile Mills Limited; rest is widely spread among FIs and general public
- KMLG – a medium sized group – mainly maintains interests in cement and textile sectors

**Governance & Management**

- Overall control vests in eight members board; Board includes five Saigol family members including the CEO, Mr. Sayeed Saigol, a group executive director and two independent directors
- Good governance quality; board members carry sound business acumen and technical stature
- Mr. Sayeed Saigol – associated with the company since 2005 – ably spearheading the company. He is supported by a team of professionals with relevant experience

**Systems & Controls**

- Sound operational infrastructure; European technology
- Oracle based ERP solution; comprehensive MIS reporting framework
- Power requirement is of 50MW, which is met through multiple sources including WHR (15.5MW), FO-based generators (14MW), and remaining through WAPDA(20.5)

**Business Risk**

- Revenues maintained growth trajectory (FY16: 13%, FY15: 9%). Local dispatches surged by 17% - in line with industry trend – while exports increased by 13% as against overall decline in sector exports
- Margins improved – a factor of lower fuel and power costs; EBITDA margin remained robust (FY16: ~43%, FY15: 37%)
- Finance costs significantly reduced YoY on account of lower benchmark rates and early retirement of debt
- Other income, mainly comprising interest income, augmented the bottom-line. During FY16, Maple Leaf posted 41% YoY increase in profits to ~PKR 5bln
- Maple Leaf investment portfolio, 5% of equity base at end-Sep16, mainly comprises investment (~PKR 1.2bln) in wholly owned subsidiary - Maple Leaf Power Limited.
- Going forward, the company has planned two projects 1) Production capacity expansion of 2.1mln tpa (in line with other industry players) – expected CoD Jan19 – with an estimated cost of PKR 20bln and debt: equity of 40:60, 2) Maple Leaf Power Limited – a coal based power plant – expected CoD: Sep17

**Financial Risk**

- Working capital requirements – function of inventory and receivables – reduced significantly; Cash cycle maintained on YoY basis. Current ratio remained strong (end-Sep16: 1.9x)
- Significant debt repayment augmented debt service coverage. Going forward, incorporating debt driven expansion, coverages are expected to remain strong
- Low leveraged capital structure (debt to debt plus equity: ~14% at end-Sep16). In pursuit of expansion, leveraging is bound to increase; however expected to remain range bound

**RATING RATIONALE**

The ratings reflect Maple Leaf’s strong business profile characterized by recognized brand, sizable market share, and robust profitability. Efficient supply chain management coupled with lower energy costs resulted in improvement in EBITDA margins in recent years. Moreover, favourable sector dynamics, on the back of rising local infrastructure activity, has continued to support the volumetric cement dispatches. Hence, capacity utilization, while showing an increase [FY16: 99%, FY15: 89%], has reached optimal level for existing capacity. The entity’s financial risk profile has witnessed notable improvement. The company has reduced its leveraging through early retirement of major debt, thereby enhancing risk absorption capacity. In anticipation of positive demand outlook, Maple Leaf has announced capacity expansion of 2.1mln tpa. The project, with an estimated cost of PKR 20bln is to be partially debt financed; expected CoD: Jan19. At the same time, progress on coal power plant (40MW) is underway and expected to come online as planned in Sep17. Going forward, the financial risk is expected to remain fairly low on the back of healthy internal cash generation. The ratings recognize the company's seasoned management team, having sound technical stature and quality support infrastructure.

**KEY RATING DRIVERS**

The ratings are dependent on the management's ability to sustain sales volumes along with its healthy business margins. Any significant deterioration in the company's cashflows, due to demand fluctuation or pricing pressure, impacting financial risk would be rating negative.



## Cement

The Pakistan Credit Rating Agency Limited

Financials (Summary)

PKR mln

### Maple Leaf Cement Factory Limited

BALANCE SHEET	30-Sep-16 1QFY17	30-Jun-16 Annual	30-Jun-15 Annual	30-Jun-14 Annual
<b>Non-Current Assets</b>	<b>22,708</b>	<b>22,884</b>	<b>23,782</b>	<b>24,764</b>
<b>Investments (Incl. associates)</b>	<b>1,173</b>	<b>883</b>	<b>37</b>	<b>7</b>
Equity	1,173	672	11	7
Debt		211	26	
<b>Current Assets</b>	<b>9,956</b>	<b>8,255</b>	<b>7,403</b>	<b>7,139</b>
Inventory	1,358	1,210	1,417	1,311
Trade Receivables	1,416	577	571	839
Others	7,182	6,468	5,416	4,988
<b>Total Assets</b>	<b>33,837</b>	<b>32,022</b>	<b>31,221</b>	<b>31,911</b>
<b>Debt</b>	<b>3,635</b>	<b>2,999</b>	<b>7,335</b>	<b>11,495</b>
Short-term	1,943	1,425	2,556	2,619
Long-term (Incl. Current Maturity of long-term debt)	1,692	1,574	4,779	8,876
Other shortterm liabilities	3,443	3,434	3,409	3,480
Other Longterm Liabilities	4,197	4,251	2,815	2,295
<b>Shareholder's Equity</b>	<b>22,561</b>	<b>21,337</b>	<b>17,663</b>	<b>14,641</b>
<b>Total Liabilities &amp; Equity</b>	<b>33,837</b>	<b>32,022</b>	<b>31,221</b>	<b>31,911</b>

### INCOME STATEMENT

<b>Turnover</b>	<b>5,556</b>	<b>23,433</b>	<b>20,720</b>	<b>18,969</b>
Gross Profit	2,381	10,022	7,496	6,523
Other Income	(145)	(623)	(217)	(117)
Financial Charges	(46)	(436)	(1,083)	(1,465)
<b>Net Income</b>	<b>1,223</b>	<b>4,885</b>	<b>3,454</b>	<b>2,830</b>

### Cashflow Statement

Free Cashflow from Operations (FCFO)	2,137	9,298	7,256	6,506
Net Cash changes in Working Capital	(1,656)	(1,326)	(684)	(555)
Net Cash from Operating Activities	426	7,502	5,464	4,304
Net Cash from Investing Activities	(797)	(1,710)	(716)	(755)
Net Cash from Financing Activities	447	(5,576)	(4,324)	(3,530)
<b>Net Cash generated during the period</b>	<b>75</b>	<b>216</b>	<b>424</b>	<b>20</b>

### Ratio Analysis

<b>Performance</b>				
Turnover Growth	11.9%	13.1%	9.2%	9.3%
Gross Margin	42.9%	42.8%	36.2%	34.4%
Net Margin	22.0%	20.8%	16.7%	14.9%
ROE	22.3%	23.1%	19.6%	19.2%
<b>Coverages</b>				
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	23.6	15.4	2.2	2.6
Interest Coverage (x) (FCFO/Gross Interest)	46.4	21.3	6.7	4.4
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Term Borrowings) / FCFO)	0.2	0.2	0.8	1.8
<b>Liquidity</b>				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	25.4	17.0	15.8	37.5
<b>Capital Structure</b> (Total Debt/Total Debt+Equity)	13.9%	12.3%	29.3%	44.0%

Maple Leaf Cement Factory Limited (Maple Leaf)

November 2016

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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		SHORT TERM RATINGS
<b>AAA</b>  <b>AA+</b> <b>AA</b> <b>AA-</b>  <b>A+</b> <b>A</b> <b>A-</b>	<p><b>Highest credit quality.</b> 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.</p> <p><b>Very high credit quality.</b> 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.</p> <p><b>High credit quality.</b> 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.</p>	<p><b>A1+:</b> The highest capacity for timely repayment.</p> <p><b>A1:</b> A strong capacity for timely repayment.</p> <p><b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>C:</b> An inadequate capacity to ensure timely repayment.</p>
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<p><b>Good credit quality.</b> 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.</p>	
<b>BB+</b> <b>BB</b> <b>BB-</b>	<p><b>Speculative.</b> 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.</p>	
<b>B+</b> <b>B</b> <b>B-</b>	<p><b>Highly speculative.</b> 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.</p>	
<b>CCC</b> <b>CC</b> <b>C</b>	<p><b>High default risk.</b> 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.</p>	
<b>D</b>	<p>Obligations are currently in default.</p>	

<p><b>Rating Watch</b> 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.</p>	<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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’.</p>	<p><b>Suspension</b> 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.</p>	<p><b>Withdrawn</b> 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.</p>
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**Name of Issuer**  
**Sector**  
**Type of Relationship**  
**Purpose of the Rating**

Maple Leaf Cement Factory Limited  
 Cement  
 Solicited  
 Independent Risk Assessment

**Rating History**

Date	Long Term	Short Term	Outlook	Action
25-Nov-16	A+	A1	Stable	Upgrade
27-Nov-15	A	A1	Stable	Upgrade
9-Jan-15	A-	A2	Stable	Upgrade
13-May-14	BBB	A3	Stable	Upgrade
29-Jan-13	BB	B	Stable	Initial
19-Sep-11	D	-	-	Downgrade

**Related Criteria and Research**

Rating Methodology  
 Sector Research

Corporate Rating Methodology  
 Cement Sector Overview - 2016

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[Rating Team Statement](#)

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