



The Pakistan Credit Rating Agency Limited

BESTWAY CEMENT LIMITED

	NEW [Nov-16]	PREVIOUS [Nov-15]
Entity		
Long Term	AA-	AA-
Short Term	A1+	A1+
Outlook	Stable	Stable

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1. RATING ANALYSES
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NOVEMBER 2016

Profile & Ownership

- Incorporated in Dec 1993, Bestway Cement is listed on PSX
- Engaged in the manufacturing and sale of white cement
- Amalgamation of Pakcem Limited – 88% owned subsidiary – with and into Bestway Cement
- Post-merger, Bestway Cement has become the largest local cement player (18% market share): ~8.5mln t.p.a. installed cement capacity (clinker: 8.1mln t.p.a.)
- Bestway Group (BWG) – UK based conglomerate, majority owned by Sir Anwar Pervez (founder) & family – is the majority shareholder (~76%) of Bestway Cement. Strong financial muscle of the group
- BWG has interests in banking, real estate, cement, trading, and cash & carry businesses

Governance & Management

- Board comprises seven members including CEO dominated by BWG having six representatives including two EDs; only one independent director
- Strong business acumen of board members due to local and international business exposure
- The Chairman is Sir Anwar Pervez. The CEO, Mr. Zameer Choudrey (also Group CEO), is associated with BWG since 1984
- Experienced management team with multi-tier organizational structure. Following the merger, consolidation of departments is underway

Systems & Controls

- Geographically spread plant locations: Chakwal (3) and Hattar (2); equipped with state-of-the-art technology infrastructure
- Diversified sources including Waste Heat Recovery Plants (WHR), WAPDA and gas-based generators to meet power requirements (122MW)
- Oracle-based ERP system; same to be deployed at Pakcem. Comprehensive MIS reporting to department heads

Business Risk

- Bestway Cement’s revenues (FY16: PKR 46bln, FY15: PKR 33bln) witnessed a surge on the back of volumetric increase in local sales brought about by (i) addition of capacity (Pakcem), and (ii) bullish local demand
- In line with industry, Bestway Cement’s local dispatches witnessed continuous YoY growth whereas exports have decreased; dispatches were predominantly concentrated in the local market. Total capacity utilization improved to 83% (FY15: 74%)
- Improvement in fuel and power cost management (subdued coal prices, and inauguration of WHR on Hattar plants – 12.5MW – adding to existing WHR capacities), resulted in higher EBITDA margin (FY16: 45%, FY15: 37%), one of the highest in the industry
- Bottomline rose to PKR 12bln (FY15: 10bln) taking additional support from reliable dividend stream from United Bank Limited (associate company)
- Going forward, management is focused on sustaining its cost leadership and performance uptrend, while comfortably servicing long-term debt
- Given the announced sector expansions (coming online mainly by FY20), the company may face challenge in maintaining market share.

Financial Risk

- In FY16, the company met its core working capital requirements primarily through internal generation on account of robust cashflows (FCFO: PKR 17bln). At end-Jun16, the company reported excess STBs when compared with trade assets, but adequately covered when compared to total current assets. Current ratio remains in a comfortable range
- Strong debt service coverage
- During FY16, strong cash flows enabled prepayments of debt (drawn for acquisition of Pakcem) installments; two prepaid instalments of PKR 2.8bln each. At end-Jun16 outstanding debt amounts to PKR 16.5bln, with leveraging down to 31%; retirement of debt scheduled in Oct19

RATING RATIONALE

Bestway Cement’s ratings reflect its established position emanating from its leading market share (18%) – fortified by acquisition of Pakcem in Apr15 – cost-efficient operational framework resulting in robust EBITDA margins, and healthy profitability. The company’s business profile is further strengthened by an established and dependable dividend stream from its strategic investment - United Bank Limited (~8% stake) - augmenting its cashflows. The entity’s financial risk, mainly reflected from strong coverages and moderately leveraged capital structure, remains low despite sizeable debt-driven acquisition. The ratings derive benefit/comfort from (i) the company’s association with Bestway Group (UK), and (ii) strong local cement demand on the back of rising economic and infrastructure activity. In line with its plan, Bestway Cement has lately announced the merger of Pakcem (88% owned) with and into Bestway Cement effective Jan. 1, 2016. Although overall business landscape remains the same, the company is likely to benefit from management and operational synergies by consolidating its operations. Nevertheless, building team cohesiveness remains important. In view of positive sector demand, sizable expansions have been announced by the industry players. This may challenge Bestway Cement’s existing market share.

KEY RATING DRIVERS

The ratings are dependent on upholding of the company’s business vis-à-vis financial risk profile. Any significant deterioration in the sector’s outlook, thereby exerting pressure on prices, may negatively impact the ratings.



Cement

The Pakistan Credit Rating Agency Limited

Financials (Summary)

Bestway Cement Limited

BALANCE SHEET

	Consolidated		Standalone	
	30-Jun-16 Annual	30-Jun-15 Annual	30-Jun-15 Annual	30-Jun-14 Annual
Non-Current Assets	54,112	56,559	24,781	24,355
Investments (Incl. Associates)	11,593	10,983	27,805	1,863
Equity	11,593	10,983	27,805	1,863
Debt Securities	-	-	-	-
Current Assets	11,765	11,974	9,309	8,231
Inventory	2,532	3,030	2,049	2,766
Trade Receivables	1,176	863	746	572
Others	8,057	8,080	6,513	4,893
Total Assets	77,820	79,861	62,240	34,795
Debt	18,941	29,226	25,836	2,374
Short-Term	2,441	2,053	836	2,374
Long-term (Incl. Current Maturity of Long-Term Debt)	16,500	27,174	25,000	-
Other Short-Term Liabilities	7,294	6,569	6,328	5,072
Other Long-Term Liabilities	9,602	7,622	4,664	4,805
Shareholder's Equity	41,983	36,443	25,412	22,544
Total Liabilities & Equity	77,820	79,861	62,240	34,795

INCOME STATEMENT

Turnover	45,721	32,693	30,510	28,951
Gross Profit	21,148	12,793	12,554	11,380
Other Income	1,394	1,298	564	525
Financial Charges	(1,823)	(457)	(387)	(462)
Net Income	11,880	9,621	8,668	7,872

Cashflow Statement

EBITDA	20,776	12,191	11,999	10,886
Free Cashflow from Operations (FCFO)	16,756	10,188	10,046	10,177
Net Cash changes in Working Capital	580	(222)	155	(245)
Net Cash from Operating Activities	16,566	10,932	11,301	10,479
Net Cash from Investing Activities	(1,531)	(27,214)	(27,390)	(1,960)
Net Cash from Financing Activities	(17,528)	19,390	19,780	(10,047)
Net Cash Generated during the period	(2,493)	3,108	3,691	(1,528)

Ratio Analysis

Performance				
Turnover Growth (same period last year)	39.8%	12.9%	5.4%	20.3%
Gross Margin	46.3%	39.1%	41.1%	39.3%
Net Margin	26.0%	29.4%	28.4%	27.2%
ROE	27.9%	35.0%	43.8%	32.5%
Coverages				
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	9.2	2.4	3.0	22.0
Interest Coverage (x) (FCFO/Gross Interest)	9.2	22.3	26.0	22.0
Debt Payback (Years) (Total Lt. Debt (excluding Covered Short Term Borrowings) / FCI)	1.1	2.8	2.6	0.0
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	16	19	19	29
Capital Structure (Total Debt/Total Debt+Equity)	31.1%	44.5%	50.4%	9.5%

Bestway Cement Limited

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
AAA AA+ AA AA- A+ A A-	<p>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.</p> <p>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.</p> <p>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.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
BBB+ BBB BBB-	<p>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.</p>	
BB+ BB BB-	<p>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.</p>	
B+ B B-	<p>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.</p>	
CCC CC C	<p>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.</p>	
D	<p>Obligations are currently in default.</p>	

<p>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.</p>	<p>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’.</p>	<p>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.</p>	<p>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.</p>
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Name of Entity
Sector
Type of Relationship
Purpose of the Rating

Bestway Cement Limited
 Cement
 Solicited
 Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
19-Nov-16	AA-	A1+	Stable	Maintain
19-Nov-15	AA-	A1+	Stable	Upgrade
19-May-15	A+	A1	Stable	Maintain
16-Sep-14	A+	A1	RW	Maintain
03-Jun-14	A+	A1	Stable	Initial

Related Criteria and Research

Rating Methodology
 Sector Research

Corporate Rating Methodology - Jun16
 Sector Study | Cement - Sep16

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[Rating Team Statement](#)

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Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)

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[Probability of Default \(PD\)](#)

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