The Pakistan Credit Rating Agency Limited

BESTWAY CEMENT LIMITED

	NEW [APR-17]	PREVIOUS [NOV-16]
Entity		
Long Term	AA-	AA-
Short Term	A1+	A1+
Outlook	Stable	Stable

REPORT CONTENTS

APRIL 2017

Profile & Ownership

- Incorporated in Dec 1993, Bestway Cement is listed on PSX
- Engaged in manufacturing and sale of cement and cement aggregates
- Amalgamation of Pakcem Limited – 88% owned subsidiary – with and into Bestway
- Post-merger, Bestway Cement has become the largest local cement player (18% market share): ~8.5mln tpa installed cement capacity (clinker: 8.1mln tpa)
- Announced capacity expansion 1.8mln tpa (expected CoD: Jun-19); Also, process of probable acquisition of Northern Plant of Dewan Cement (Capacity: 1.1mln tpa) is underway
- Bestway Group (BWG) – UK based conglomerate, majority owned by Sir Mohammed 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 eight members including CEO dominated by BWG having six representatives including two EDs and two independent members
- Strong business acumen of board members due to local and international business exposure
- Chairman Sir Mohammed Anwar Pervez and CEO, Mr. Zameer Mohammed Choudrey (also Group CEO), is associated with BWG since 1984
- Experienced management team with multi-tier organizational structure. Following the merger, consolidation of departments has been completed.

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 (WHRPP), WAPDA and gas-based generators to meet power requirements
- Oracle-based ERP system; same lately deployed at Pakcem. Comprehensive MIS reporting to department heads

Business Risk

- Bestway Cement's revenues (IHFY17: PKR 25.8bln, 1HFY16: PKR 21.2bln) witnessed a surge on the back of volumetric increase in local sales brought about by (i) addition of capacity (Pakcem), and (ii) favorable local demand dynamics
- In line with industry, revenue contribution remained tilted towards local sales (Local: ~91%, Exports: 9%), however, marginal improvement was witnessed in exports. Total capacity utilization improved to 90% (FY16: 88%)
- Though an increase in absolute value of EBITDA to PKR 11.1bln (1HFY16: PKR 8.6bln), EBITDA margin increased to 43% (1HFY16: 41%); owing to reduced cost of sales backed by reduced energy costs and higher sales volume
- Bottom-line clocked-in at PKR 7.1bln (1HFY16: ~PKR 5.2bln) taking additional support (PKR 1.0bln) from share in profit of subsidiary
- Going forward, management is focused on sustaining its cost leadership and performance uptrend, while comfortably servicing long-term debt

Financial Risk

- In 1HFY17, the company met its core working capital requirements primarily through internal generation on account of robust cashflows (FCFO: PKR 9.1bln)
- Strong debt service coverage
- Strong cash flows enabled prepayments of debt (drawn for acquisition of Pakcem) installments; At end-Dec16 outstanding debt amounts to PKR 11.0bln, with leveraging down to ~22%; retirement of debt scheduled in Apr20
- Going forward, debt levels will rise with upcoming capacity expansion and planned acquisition. However, expected to remain within comfortable range.

RATING RATIONALE

Bestway Cement's (the Company) ratings reflect its established position emanating from its leading market share (18%), cost-efficient operational framework resulting in strong EBITDA, and robust profitability. The Company has lately announced capacity expansion (1.8mln tpa). The Company has signed a non-binding MoU with Dewan Cement for acquisition of its northern plant (1.1mln tpa). This will assist the Company in holding its market share amidst the industry wide significant expansion trend. In addition to the robust local demand, the company's business profile is further strengthened by an established and dependable income source from its strategic investment in UBL (United Bank Limited ~8% stake; ~PKR 2bln dividend each year). The Company's financial risk, mainly reflected from strong coverages and low leveraged capital structure, remains low. Planned acquisition and expansion would lead to new borrowings. However, the impact would be manageable due to a) immediate availability of cashflows from acquisition, b) dispersed borrowing pattern (around 3 years) for expansion, and c) strong internal cashflows. The ratings derive 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.

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 particularly any unfavorable change in demand and expansion matrix, thereby exerting pressure on prices, may negatively impact the ratings.

PKR mln

Bestway Cement Limited

BALANCE SHEET	30-Dec-16	30-Jun-16	30-Jun-15
	1H	Annual	Annual
Non-Current Assets	**53,169**	**54,112**	**56,559**
Investments (Incl. Associates)	**11,549**	**11,593**	**10,983**
Equity	11,549	11,593	10,983
Debt Securities	-	-	-
Current Assets	**14,214**	**11,765**	**11,974**
Inventory	2,299	2,532	3,030
Trade Receivables	1,882	1,176	863
Others	10,033	8,057	8,080
Total Assets	**79,282**	**77,820**	**79,861**
Debt	**12,597**	**18,941**	**29,226**
Short-Term	1,597	2,441	2,053
Long-term (Incl. Current Maturity of Long-Term Debt)	11,000	16,500	27,174
Other Short-Term Liabilities	10,796	7,294	6,569
Other Long-Term Liabilities	10,525	9,602	7,622
Shareholder's Equity	**45,364**	**41,983**	**36,443**
Total Liabilities & Equity	**79,282**	**77,820**	**79,861**
INCOME STATEMENT			
Turnover	**25,841**	**45,721**	**32,693**
Gross Profit	11,811	21,148	12,793
Other Income	416	1,394	1,298
Financial Charges	(473)	(1,823)	(457)
Net Income	**7,105**	**11,880**	**9,621**
Cashflow Statement			
EBITDA	11,072	20,776	12,191
Free Cashflow from Operations (FCFO)	9,071	16,756	10,188
Net Cash changes in Working Capital	1,575	580	(222)
Net Cash from Operating Activities	11,133	16,566	10,932
Net Cash from InvestingActivities	(364)	(1,531)	(27,214)
Net Cash from Financing Activities	(8,779)	(17,528)	19,390
Net Cash Generated during the period	1,989	(2,493)	3,108
Ratio Analysis			
Performance			
Turnover Growth (same period last year)	22.1%	39.8%	12.9%
Gross Margin	45.7%	46.3%	39.1%
Net Margin	27.5%	26.0%	29.4%
ROE	15.8%	30.3%	29.6%
Coverages			
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	52.3	9.2	2.4
Interest Coverage (x) (FCFO/Gross Interest)	52.3	9.2	22.3
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Term Borrow	0.3	1.1	2.8
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	8	16	19
Capital Structure (Total Debt/Total Debt+Equity)	22%	31%	45%

CREDIT 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.
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 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.

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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information

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Regulatory and Supplementary Disclosure

Name of Entity Bestway Cement Limited
Sector Cement
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
05-Apr-17	AA-	A1+	Stable	Maintain
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: Corporate Rating Methodology - Jun16
Sector Research: Sector Study | Cement - Sep16

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Rating Team Statement

Rating Procedure
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.

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Probability of Default (PD)

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