The Pakistan Credit Rating Agency Limited

BESTWAY CEMENT LIMITED
RATING REPORT

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

REPORT CONTENTS

NOVEMBER 2017

Profile & Ownership

- Incorporated in Dec 1993, Bestway Cement is listed on PSX
- Engaged in manufacturing and sale of cement and cement aggregates
- Post-merger with Pakcem, Bestway Cement has become the largest local cement player (18% market share): ~8.6mln tpa installed cement capacity
- Announced capacity expansion 1.8mln tpa (expected CoD: Jul-19)
- 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 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; Comprehensive MIS reporting to department heads

Business Risk

- During FY17, Bestway Cement's revenues (FY17: PKR 51.6bln, FY16: PKR 45.7bln) witnessed increase of 13% YoY on account of increase in volumetric sales of 21% YoY; 1QFY18 revenues clocked-in at PKR ~13bln
- Sales mix remained skewed towards local sales (Local: 87%, exports: 13%) primarily due to bullish local demand; capacity utilization for FY17 improved to 98% (FY16: 72%)
- Margins declined (gross: 1QFY18: ~38%, FY17: 44%, FY16: 46%) on account of increase in input costs; EBITDA margins also declined to 37% during 1QFY18 (FY17: 42%, FY16: 45%) though remained in line with other large cement players
- Bottom-line clocked-in at PKR 13.2bln during FY17 (FY16: PKR 11.8bln), up 12% YoY; Dividend income (PKR 2.0bln) from UBL augmented the bottom-line
- Going forward, the company has announced an expansion of 1.8mln tpa. The company will finance the aforementioned brown-field expansion through internally generated cashflows. The targeted timeline for new line to become operational is by 1QFY19.

Financial Risk

- At end-Jun17, cash cycle increased to 18days (end-Jun16: 16days).
- EBITDA clocked-in at ~22bln at end-Jun17 (end-Jun16: ~21bln)
- Robust debt service coverage
- Low leveraged capital structure; debt to debt plus equity ratio at 24% (end-Jun16: 31%)
- Going forward, debt levels aren't going to rise as no debt-driven projects are in pipeline

RATING RATIONALE

Bestway Cement's ratings reflect its market leading position in industry emanating from hitherto largest market share (18%). The company has history of successful mergers, further fortified by cost-efficient operational framework, robust EBITDA margins and strong profitability. The Company has lately announced capacity expansion (1.8mln tpa) – entirely financed through internal cashflows – which is likely to commence operations in 1QFY19. This will assist the Company in holding its market share amidst the industry wide significant expansion trend. In addition to strong local demand, the company's business profile is further strengthened by an established dividend stream from its strategic investment - United Bank Limited (~8% stake) - augmenting its cashflows. The entity's financial risk, mainly reflected from sturdy coverages and low leveraged capital structure, remains fairly low. 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 which is likely to prevail in upcoming years.

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 and margins, may negatively impact the ratings.

PKR mln

Bestway Cement Limited

BALANCE SHEET	30-Sep-17	30-Jun-17	30-Jun-16	30-Jun-15
	1Q	Annual	Annual	Annual
Non-Current Assets	**56,451**	**54,129**	**54,112**	**54,112**
Investments (Incl. Associates)	**11,919**	**11,851**	**11,593**	**10,983**
Equity	11,919	11,851	11,593	10,983
Debt Securities	-	-	-	-
Investment Property	250	250	250	351
Current Assets	**16,229**	**15,534**	**11,765**	**11,974**
Inventory	3,092	4,646	2,532	3,030
Trade Receivables	1,686	1,462	1,176	863
Others	11,451	9,426	8,057	8,080
Total Assets	**84,848**	**81,765**	**77,720**	**77,420**
Debt	**14,089**	**14,888**	**18,941**	**29,226**
Short-Term	4,089	4,888	2,441	2,053
Long-term (Incl. Current Maturity of Long-Term Debt)	10,000	10,000	16,500	27,174
Other Short-Term Liabilities	11,535	8,638	7,294	6,569
Other Long-Term Liabilities	10,342	10,470	9,602	7,622
Shareholder's Equity	**48,883**	**47,769**	**41,983**	**36,443**
Total Liabilities & Equity	**84,848**	**81,765**	**77,820**	**79,861**
INCOME STATEMENT				
Turnover	**12,914**	**51,623**	**45,721**	**32,693**
Gross Profit	4,871	22,533	21,148	12,793
Other Income	216	926	1,394	1,298
Financial Charges	(171)	(831)	(1,823)	(457)
Net Income	**2,996**	**13,293**	**11,880**	**9,621**
Cashflow Statement				
EBITDA	4,721	21,640	20,776	12,191
Free Cashflow from Operations (FCFO)	3,442	16,777	16,756	10,188
Net Cash changes in Working Capital	548	(2,160)	580	(222)
Net Cash from Operating Activities	4,270	14,927	16,566	10,932
Net Cash from InvestingActivities	(3,276)	(4,192)	(1,531)	(27,214)
Net Cash from Financing Activities	(88)	(13,357)	(17,528)	19,390
Net Cash Generated during the period	907	(2,621)	(2,493)	3,108
Ratio Analysis				
Performance				
Turnover Growth (same period last year)	11.5%	12.9%	39.8%	12.9%
Gross Margin	37.7%	43.6%	46.3%	39.1%
Net Margin	23.2%	25.7%	26.0%	29.4%
ROE	6.1%	27.8%	28.3%	26.4%
Coverages				
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Unco	20.1	20.2	9.2	2.4
Interest Coverage (x) (FCFO/Gross Interest)	20.1	20.2	9.2	22.3
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short T	0.8	0.6	1.1	2.8
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Day	9	18	16	19
Capital Structure (Total Debt/Total Debt+Equity)	22%	24%	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