The Pakistan Credit Rating Agency Limited

PIONEER CEMENT LIMITED
RATING REPORT

	NEW [NOV-17]	PREVIOUS [JUN-17]
Entity		
Long Term	A	A
Short Term	A1	A1
Outlook	Stable	Stable

REPORT CONTENTS

NOVEMBER 2017

Profile & Ownership

- Pioneer Cement Limited, a public limited company incorporated in 1986, commenced operations in 1994; listed on Pakistan Stock Exchange
- Engaged in manufacturing and sale of Grey cement
- Production facility located in Chenki, District Khushab; two production lines with combined cement capacity of 2.1mln tpa; market share: 4.5%
- Pioneer Cement is an affiliate of Mega group. The group owns 47% stake in Pioneer through Vision Holding Middle East Limited. The group, led by Mr. Habibullah Khan, has key interest in shipping and logistics business, in addition to exposure in real estate, ports (terminal), food, and energy sectors

Governance & Management

- Eight members BoD; Four non-executive directors represent Mega Group, three are independent, while remaining two are executive directors, including the Managing Director
- Board members carry good mix of skill set with varied experience; adequate participation in BoD meetings
- Syed Mazhar Iqbal, Managing Director since Mar10, is a seasoned Chartered Accountant and is supported by an experienced management team

System & Controls

- Plant is of European technology. Deploys oracle based ERP; comprehensive MIS reporting
- Pioneer Cement is dependent of WAPDA and WHRPP (12MW) to meet its energy requirements of 25MW

Business Risk

- During FY17, the company recorded revenues of PKR 10.6bln, up 13%YoY primarily on account of strong cement sector dynamics
- Sales mix remained skewed towards domestic market due to 1) the company's plant location whereby domestic sales secure higher margins 2) industry wide trend of increase in local dispatches
- Gross margin (1QFY18: 34%, FY17: 42%, FY16: 43%) have witnessed a drop on the back of increasing trend in fuel costs (international coal prices)
- The company maintains higher EBITDA margin (1QFY18: 38%, FY17: 45%, FY16: 46%), in comparison to some peers, reflecting management's strategy of targeting sales in areas close to plant's location; key markets, over last few years, include Faisalabad, Sargodha, and Lahore
- Finance costs increased to PKR 35mln (FY16: PKR 17mln) on the back of increase in leveraging
- Higher revenues with support other income of PKR 233mln for FY17 supported the bottom-line. Hence, Pioneer cement reported net profit of PKR ~2.9bln
- During FY17, capacity utilization levels (clinker) has improved to 78% (FY16: 59%) mainly attributable to higher clinker sales primarily because Pioneer Cement has overcome grinding capacity constraints by setting up a grinding mill
- Going forward, the company has announced three projects (i) Capacity expansion of ~8000tpd (ii) 12MW Waste Heat Recovery Power Plant and (iii) acquisition of 24MW Coal based Power Plant. The combined cost of all three projects is estimated to be PKR 25bln. The expected debt equity proportion will be 72:28 with expected timeline of commencement to be Jun-19

Financial Risk

- Working capital requirements, a function of receivables and inventory, are met through a mix of internal generation and short term borrowings. During FY17, Net cash cycle witnessed improvement (FY17: 12 days, FY16: 16 days)
- Coverages remained strong - correlated with low leveraging and high profitability
- Leveraging increased due to debt acquisition for upcoming aforementioned projects. Going forward, it is likely to increase further however, expected to remain range bound. Thus, optimal utilization of existing lines remain critical

RATING RATIONALE

The ratings reflect Pioneer Cement's healthy business profile supplemented by strong EBITDA margins and improved revenue stream. Pioneer Cement's sales are majorly driven by local market fundamental - a factor of plant location whereby local sales are feasible versus exports. The factors like i) sales focus on nearby geographies - thereby reducing distribution expense and ii) achieving higher capacity utilization level has benefited the Company's EBITDA. The upcoming energy projects (12MW WHRPP and 24MW coal power plant) are likely to assist bottom-line in future through significant power cost savings. The financial risk profile of the company is strong on account of low leveraged capital structure along with healthy coverages and is expected to remain low in medium term. The ratings draw comfort from sponsor's financial strength.

KEY RATING DRIVER

The ratings are dependent on the management's ability to (i) uphold margins, and (ii) optimal utilization of existing lines. 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

Pioneer Cement Limited

BALANCE SHEET	30-Sep-17	30-Jun-17	30-Jun-16
	1QFY18	Annual	Annual
Non-Current Assets	**13,038**	**12,281**	**10,431**
Investments (Incl. associates)	**2,585**	**2,694**	**2,425**
Equity	-	-	-
Debt	2,514	2,623	2,356
Investment Property	71	71	69
Current Assets	**3,220**	**2,785**	**1,911**
Inventory	351	236	181
Trade Receivables	339	225	108
Others	2,530	2,324	1,621
Total Assets	**18,843**	**17,760**	**14,768**
Debt	**2,462**	**2,307**	**645**
Short-term	962	807	645
Long-term (Inlc. Current Maturity of long-term debt)	1,500	1,500	-
Other shortterm liabilities	2,068	802	1,108
Other Longterm Liabilities	2,409	2,404	2,345
Shareholder's Equity	**11,904**	**12,248**	**10,670**
Total Liabilities & Equity	**18,843**	**17,760**	**14,768**
INCOME STATEMENT			
Turnover	**2,421**	**10,631**	**9,367**
Gross Profit	817	4,428	4,005
Other Income	262	254	118
Financial Charges	(20)	(35)	(17)
Net Income	**417**	**2,918**	**2,519**
Cashflow Statement			
EBITDA	910	4,769	4,314
Free Cashflow from Operations (FCFO)	684	2,915	2,667
Net Cash changes in Working Capital	66	(1,164)	483
Net Cash from Operating Activities	692	1,743	3,124
Net Cash from InvestingActivities	(879)	(2,429)	(2,729)
Net Cash from Financing Activities	155	335	(1,826)
Net Cash generated during the period	(32)	(351)	(1,431)
Ratio Analysis			
Performance			
Turnover Growth	-77.2%	13.5%	11.2%
Gross Margin	33.7%	41.7%	42.8%
Net Margin	17.2%	27.4%	26.9%
ROE	3.6%	26.0%	25.9%
Coverages			
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Unc	11.0	19.8	152.6
Interest Coverage (x) (FCFO/Gross Interest)	34.6	84.0	152.6
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short	0.6	0.5	0.0
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Da	6	12	16
Capital Structure (Total Debt/Total Debt+Equity)	17.1%	15.8%	5.7%

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