



The Pakistan Credit Rating Agency Limited

Rating Report

Pioneer Cement Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-Jun-2024	A	A2	Stable	Maintain	-
07-Jun-2023	A	A2	Stable	Maintain	-
24-Jun-2022	A	A2	Negative	Maintain	-
25-Jun-2021	A	A2	Negative	Maintain	-
29-Jun-2020	A	A2	Negative	Downgrade	-
27-Sep-2019	A	A1	Negative	Maintain	-
29-Mar-2019	A	A1	Stable	Maintain	-
18-Dec-2018	A	A1	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Pioneer Cement Limited, established in February 1986 and operational since November 1994, is a publicly listed company. It operates three manufacturing lines in the northern region, boasting a total capacity of 5.2mln MT. The Company carries a strong brand name, which is well received by the market. Pioneer Cement's production volume stood at 1.82mln MT during 9MFY24. There was a dip in the volume compared to previous fiscal year, attributed to market conditions in general and the Company's strategy in particular. The management's focus is higher retentions due to shift to premium markets despite volumetric decline hence to improve the profit margins. Pioneer Cement holds a strong presence in the north region, which provides related advantages. The Company's net revenue for 9MFY24 amounted to PKR 27.3bln, compared to PKR 27.8bln in 9MFY23. As a corollary of the aforementioned approach, Pioneer Cement observed a positive trend in margins, with gross margins for the period increasing to 32.4%, rising from 25.8% margin recorded last year. This was on account of various efficiency measures taken by the Company, including shifting of major portion of foreign coal with local one. Now a pre-dominant reliance is being placed on local coal which offers multiple advantages. The Company is also switching its reliance from national grid to captive generations that provides further cost advantages, collectively led to higher profitability. Further, in anticipation of increase in craft paper prices, the Company has proactively improved its poly to paper mix, which has limited the rise in packing costs. The Company's ratings were reinforced due to its improved cash flow position and capital structure, with leverage improving to 21.3% in 9MFY24 from 30% in FY23 due to early settlements in addition to regular repayments. Further, the Company has also settled its debts with new cheaper loan, consequently reducing finance cost. Net Profit Margins for 9MFY24 stood at 14%, showing improvement from 9.8% recorded same period last year. As of Mar'24, the total installed capacity of the cement industry in Pakistan stands at ~99mln MT. In 9MFY24, the industry experienced a modest growth of around 2.7%, with volumes reaching 34.5mln MT, up from 33.6mln MT in 9MFY23. However, local dispatches saw a decline of about 3.8%, dropping to 29.4mln MT from 30.6mln MT in the same period last year on account of depressed economic environment. On the other hand, export dispatches witnessed a significant increase of around 68% to reach 5.1mln MT during 9MFY24, mainly attributed to the favorable profit margins resulting from the depreciation of the local currency and cost competitiveness.

The ratings continue to rely on maintaining the Company's market position, sustaining business volumes, margins, and achieving optimal utilization of production capacities. Pioneer's ability to sustain the competition in the current challenging economic environment, particularly amidst demand uncertainties, remains crucial for its ratings. Going forward, continuation of current performance will contribute positively to the ratings.

Disclosure

Name of Rated Entity	Pioneer Cement Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jul-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-24)
Related Research	Sector Study Cement(Apr-24)
Rating Analysts	Ali Arslan Malik Ali.Arslan@pacra.com +92-42-35869504

Profile

Legal Structure Pioneer Cement is a listed Company with its shares traded on Pakistan Stock Exchange Limited (PSX). The Company's shares are quoted under the Cement Sector.

Background Pioneer Cement was incorporated in 1986. It's headquartered in Lahore, Pakistan and the manufacturing facility is located at Chenki-District Khushab. Its location in central Punjab allows easy and fast approach to market. The main markets of the Company are Punjab and Khyber-Pakhtunkhwa. Pioneer operates with three production lines having a combined capacity of 17,300 tpd (CoD: Line I - 1994, Line II - 2006, Line III - 2020).

Operations Pioneer Cement is engaged in the manufacturing and sale of Ordinary Portland Cement.

Ownership

Ownership Structure Vision Holding Middle East Limited (VHME) holds majority stake (47%) in Pioneer Cement and remaining shares of the Company are held by investment house and listed companies and general public.

Stability Ownership structure of the Company is seen as stable as no ownership changes are expected in near future. Majority stake will rest with the VHME.

Business Acumen VHME is 100% beneficiary of Mr. M Habibullah Khan – a renowned entrepreneur. Apart from Cement, trust maintains interest in several sectors. The sponsors having a diversifiable universe of investments, is considered to be a positive sign.

Financial Strength Given that Pioneer amongst a flagship entity of the sponsor, willingness to support the Company in case the needs arises is considered high; also supplemented by access to capital markets

Governance

Board Structure The overall control of the Company vests in eight member board of directors (BoD), including the CEO and three independent directors. Mr. M Habibullah Khan is the Chief Executive Officer of the Company since July 01, 2023.

Members' Profile Board members carry requisite technical skills which is abetted by diversified professional background of board members. Board meeting minutes are formally maintained and the attendance is considered good which bodes well for overall governance framework of the Company.

Board Effectiveness The board has two committees to oversee the Company's financial and other regulatory matters. These committees include: 1) Audit, and 2) Human Resource & Remuneration (HR&R). This is in compliance with the Code of Corporate Governance.

Financial Transparency M/s KPMG Taseer Hadi & Co. conducted the external audit services for Pioneer. They are in 'A' category of SBP list of external auditors and have a QCR rating. They have expressed unqualified opinion on the financial statements for the year ended June 30, 2023.

Management

Organizational Structure Pioneer Cement has a lean organization structure with the Company's operations grouped under nine key functions. These include i) Administration, ii) Corporate Affairs, iii) Finance, iv) Human Resource, v) Information Technology, vi) Marketing, vii) Operations, viii) Supply Chain and ix) Internal Audit. All functional heads report to the CEO except for internal audit, which reports directly to the Audit committee of the board (in compliance with the requirement of law for listed companies).

Management Team Mr. M Habibullah Khan - Founder and Chairman of Mega Conglomerate is serving as the CEO of Pioneer Cement Limited.

Effectiveness The CEO is supported by experienced professionals at key management positions having a long-term association with the company.

MIS Pioneer has deployed an oracle based ERP solution. The company's current operational modules include i) Inventory, ii) Purchasing, iii) Payables, iv) Receivables, v) Cash Management, vi) Fixed Assets, vii) General Ledger, and viii) Order Management.

Control Environment Pioneer's plant comprises of three lines wherein, Line I is a European technology (FLSmidth), and Line II and III are mix of European and Chinese technology. Accredited with ISO 9001: 2008 and ISO 14001:2004 certification, Pioneer deploys advance technology to ensure production of quality cement.

Business Risk

Industry Dynamics During, 9MFY24, the industry volumes increased by ~2.7% to 34.5mln MT from 33.6mln MT during 9MFY23. Local dispatches decreased by ~3.8% to 29.4mln MT as compared to 30.6mln MT during 9MFY23. However, Export dispatches increased by 2.06mln MT (~68%) to stand at 5.1mln MT during 9MFY24. The increase is mainly on account of surge in cement exports due to rationalization of profit margins resulting from depreciation of local currency and cost competitiveness. However, in the domestic market the cement offtake has declined by 3.80% and 12.91% during nine-month period and third quarter respectively.

Relative Position Pioneer Cement operates three manufacturing lines in the northern region, boasting a total capacity of 5.2mln MT. The Company carries a strong brand name, which is well received by the market.

Revenues The Company produced 1.82mln tons volume of cement compared to 2.11mln in 9MFY23 showing decrease of ~13.75% (FY23: 2.74mln tons). However owing to better retention prices, the topline of the Company reported to PKR 27.3bln (9MFY23: PKR 27.8bln, FY23: PKR 36.2bln), showing a slight PTP decrease of 1.5%.

Margins Gross margins for the current period under review witnessed a growth and clocked at PKR: 8.9bln (32.4% of net sales) in comparison to corresponding reported to PKR: 7.2bln (25.8% of net sales). The margins for the period under review improved on account of various efficiency measures taken by the management including major shifting of foreign coal with the inexpensive local coal. During the period PAT stood at PKR 3.8bln (14%) against PAT of PKR 2.7bln in 9MFY23 (9.8%) owing to better cost control and efficient financial management leading to decrease in finance costs to PKR 2.2bln (9MFY23: PKR 2.6bln, FY23: PKR 3.2bln).

Sustainability The Company is managing the profitability by maximizing the production from latest efficient line and maintaining the optimal level of production that helps the management to keep the cost at lowest level. The Company has also shifted from imported coal to the local inexpensive coal, further the Company has switching its reliance from national grid to other sources that bode well for its stability.

Financial Risk

Working Capital Pioneer's working capital requirements represented by net cash cycle (net working capital days) – a function of inventory, receivables and payables – increased to 21days (9MFY23: 1day, FY23: -6days). Whereas payable days slightly increased 9MFY24: 48days (9MFY23: 47days, FY23: 53days). The requirements were met through a mix of internal cash generation and short-term borrowings. As at end-Mar24, STBs stood at PKR2.6bln (9MFY23: 4.2bln, FY23: PKR 4bln) following decreasing trend.

Coverages In 9MFY24, Pioneer's revenues and profitability improve resulting FCFO stood at PKR 9.9bln (9MFY23: PKR 8.6bln, FY23: PKR 5.5bln). The coverage (EBITDA/Finance Cost) of the Company also showed the same trend and stood at 4.4x compared with last fiscal year FY23 at 1.7x, ensuring better position of paying its financial obligations. On account of timely and early repayment of long-term finance for projects and swapping of costlier debt with the cheaper one; finance cost has decreased.

Capitalization Pioneer has moderate level of leverage. For the period 9MFY24, the leverage [Total Borrowings/(Total Borrowings + Shareholders' Equity)] stood at 21.3% (FY23: 30.3%). The short-term borrowings vs. total borrowing stood at ~21% (FY23: 22.5%). Equity of the Company stood at PKR 44.3bln as at end 9MFY24 as compare to PKR 40.5bln in FY23.



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Financial Summary

PKR mln

Pioneer Cement Limited Cement	Mar-24 9M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	76,721	78,145	63,323	43,010
2 Investments	801	556	563	1,067
3 Related Party Exposure	-	-	-	-
4 Current Assets	8,845	8,452	8,103	7,404
a Inventories	1,806	1,632	534	659
b Trade Receivables	2,119	1,826	1,708	1,334
5 Total Assets	86,367	87,154	71,988	51,481
6 Current Liabilities	8,811	8,454	8,533	6,635
a Trade Payables	4,202	5,443	5,026	3,192
7 Borrowings	11,887	17,483	22,315	26,792
8 Related Party Exposure	126	129	-	350
9 Non-Current Liabilities	21,217	20,567	11,369	2,605
10 Net Assets	44,326	40,521	29,771	15,099
11 Shareholders' Equity	44,326	40,521	29,771	15,099
B INCOME STATEMENT				
1 Sales	27,375	36,165	31,879	21,818
a Cost of Good Sold	(18,492)	(26,756)	(24,676)	(17,700)
2 Gross Profit	8,883	9,409	7,203	4,118
a Operating Expenses	(360)	(388)	(254)	(247)
3 Operating Profit	8,522	9,021	6,950	3,871
a Non Operating Income or (Expense)	9	172	(349)	150
4 Profit or (Loss) before Interest and Tax	8,532	9,193	6,601	4,021
a Total Finance Cost	(2,256)	(3,198)	(2,656)	(1,818)
b Taxation	(2,447)	(3,121)	(2,894)	(229)
6 Net Income Or (Loss)	3,828	2,875	1,050	1,974
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	9,908	5,500	7,789	4,237
b Net Cash from Operating Activities before Working Capital Changes	7,016	2,134	5,225	1,534
c Changes in Working Capital	545	(1,687)	403	178
1 Net Cash provided by Operating Activities	7,561	447	5,628	1,712
2 Net Cash (Used in) or Available From Investing Activities	(698)	(1,247)	(544)	(1,861)
3 Net Cash (Used in) or Available From Financing Activities	(6,545)	(4,728)	(4,900)	120
4 Net Cash generated or (Used) during the period	318	(5,528)	184	(29)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	0.9%	13.4%	46.1%	247.0%
b Gross Profit Margin	32.4%	26.0%	22.6%	18.9%
c Net Profit Margin	14.0%	7.9%	3.3%	9.0%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	38.2%	10.5%	25.7%	20.2%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh	11.5%	7.8%	4.1%	13.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	69	47	36	48
b Net Working Capital (Average Days)	21	-6	-11	-1
c Current Ratio (Current Assets / Current Liabilities)	1.0	1.0	0.9	1.1
3 Coverages				
a EBITDA / Finance Cost	4.9	2.0	3.1	2.7
b FCFO / Finance Cost+CMLTB+Excess STB	1.4	0.5	0.7	0.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.2	7.4	4.3	10.5
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	21.3%	30.3%	42.8%	64.3%
b Interest or Markup Payable (Days)	77.1	109.1	107.9	116.1
c Entity Average Borrowing Rate	18.9%	15.8%	10.2%	6.7%

Credit Rating

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB	
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility.
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
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.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

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