The Pakistan Credit Rating Agency Limited

Rating Report

Fecto Cement Limited

Report Contents
1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Mar-2024	A-	A2	Stable	Maintain	Yes
24-Mar-2023	A-	A2	Stable	Maintain	Yes
25-Mar-2022	A-	A2	Stable	Maintain	Yes
02-Apr-2021	A-	A2	Stable	Maintain	Yes
22-Apr-2020	A-	A2	Stable	Maintain	Yes
27-Sep-2019	A-	A2	Stable	Maintain	-
30-Mar-2019	A-	A2	Stable	Maintain	-
18-Dec-2018	A-	A2	Stable	Maintain	-
07-May-2018	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Fecto Cement Limited (FCL) has been operating in the local cement industry for over three decades, ensuring the sponsors commitment towards the Company’s sustainability. With its single manufacturing facility, the Company is categorized amongst the small players occupying ~1% market share in terms of its dispatches. Over the previous fiscal year, the local cement industry witnessed a decline of ~15.7% in cumulative dispatches resulting from the economic constraints which hindered developmental activity. Furthermore, the soaring inflation in the country adversely impacted the demand. Similarly, the Company’s total dispatches declined by ~9.92% (FY23: 0.642mln MT, FY22: 0.713mln MT). Both local and export sale volumes of the Company registered a decline during the period. Despite the decline in volumes, the Company recorded Net Revenues of PKR 8,682mln, registering a growth of ~28% stemming from higher pricing. However, the Gross Profit Margins declined to 4% reflecting increase in the cost of goods manufactured that was not entirely passed on to the customer. The capacity utilization of the plant stood at around ~68% during FY23 to meet the demand. The transition into 1HFY24 proved to be fruitful for the Company as it reported superior growth of 23% in dispatches as compared to the industry’s growth of 10%. Subsequently, the reported Net Revenues also grew by 38% as compared to the same period previous year. Moreover, during the 1HFY24, the management was able to cut down cost through efficient capacity utilization along with suitable coal mix. As a result, Gross Profit Margins improved to 13%. The Company maintains a moderately leveraged structure to support its working capital needs. The Company has an adequate cash flow position to meet its interest cost. With slight growth expected during FY24, the management is focused towards optimum capacity utilization to boost the profitability. The Company’s mining license was revoked back in 2015 that allowed FCL to carry out crushing activities in the area to source limestone. To cater this risk, the Company obtains the required raw material from local vendors.

The ratings are dependent on the sustainability of the margins along with holding the market share in the local cement industry. Furthermore, positive cashflows to meet finance cost remains vital for the Company.

Disclosure

Name of Rated Entity	Fecto 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-23)
Related Research	Sector Study | Cement(Mar-23)
Rating Analysts	Hashim Yazdani | hashim.yazdani@pacra.com | +92-42-35869504

Profile

Legal Structure Fecto Cement Limited ("the Company") is a public limited company incorporated on February 28th, 1981 under the repealed Companies Act 1913. The shares of the Company are quoted on Pakistan Stock Exchange Limited.

Background After its establishment in 1981, the Company commenced its operations and production on 1st January 1990. Mr. Mohammed Yasin Fecto and Mr. Asad Fecto took over the control of the Company during the mid-nineties. Since then, they have been actively involved in the Company's operations.

Operations Fecto Cement Limited is engaged in the production and sale of ordinary Portland cement. The Company's manufacturing facility is situated at Sangjani village, Islamabad. The Company has an installed capacity of producing 1.0mln MT of cement per annum.

Ownership

Ownership Structure Fecto Group hold majority stake (75%) in Fecto Cement through Mr. Yasin Fecto. The remaining stake is spread amongst corporates, mutual funds and general public.

Stability The ownership structure is expected to remain stable in the future with Mr. Yasin as the ultimate majority shareholder.

Business Acumen Ghulam Muhammad A. Fecto who was initially involved in trading of electrical goods, wires and appliances before partition. the group started to diversify from trading to industrial activities including Cement, Sugar, Tractors, Paper sack and medium density Fiberboard. To cope up with the complex requirements of the business and corporate sector, the founder segmented the businesses amongst his children.

Financial Strength The financial strength of the group is considered adequate with accumulated equity of PKR 3,775mln as at end Dec'23.

Governance

Board Structure The overall control of the company vests in seven-member board of directors (BoD), including the CEO. The BoD comprises four independent, two non-executive and one executive director.

Members' Profile Fecto's board members carry necessary technical stature which is required for effective decision making. Mr. Aamir Ghani is the Chairman of the BoD. Apart from this, he is involved in his family business in the textile sector. Over a period of more than 25 years in his family business, he spearheaded many new initiatives.

Board Effectiveness To improve the effectiveness, the board has formed two committees including Audit committee and HR and Remuneration Committee. Furthermore, the board conducts regular meetings throughout the fiscal year to discuss matters relating to the Company.

Financial Transparency M/s. Rahman Sarfaraz Rahim Iqbal Chartered Accountant conducted the external audit services for FCL. They're in 'A' category of SBP list of external auditors and have a QCR rating.

Management

Organizational Structure Fecto Cement has a lean organization structure with the company's operations grouped under eight key functions. These include 1) Procurement, 2) Production, 3) Sales & Marketing, 4) Information Technology, 5) Finance, 6) Corporate Affairs, 7) Human Resource, and 8) Internal Audit.

Management Team All departments, except internal audit, are headed by Executive Directors/ General Mangers (GMs), who, in turn, directly report to the CEO. The CEO, Mr. Yasin Fecto, is the son of Mr. Ghulam Muhammad Fecto and is associated with the company since 1990s. Mr. Yasin holds a master's degree and has experience of cement and packaging sectors.

Effectiveness The CEO is supported by a team of experienced individuals having long association with the company who are involved in the day to day decision making and operations.

MIS The Company has a core operating software. The implemented modules are integrated and include financial, purchase, inventory, sales and payroll. Fecto Cement generates comprehensive MIS reports which include Production, Dispatches, Power and fuel consumption (with year to date comparisons), and Receivable and Payable status on monthly basis.

Control Environment The board has set up an effective internal financial control system to ensure effective conduct of company's operations, safeguarding of all assets and compliance with applicable laws and regulations and reliable and timely financial reporting. The in house internal audit function is equipped with suitable and qualified staff to continuously review the internal control system and its effectiveness.

Business Risk

Industry Dynamics The country's total installed capacity of ~95mln MT is divided between North and South zones. During FY23, total industry volumes stood at 44.5mln MT (FY22: 52.8mln MT) reporting a decline of 15.7%. Local dispatches declined by 16.0% to 40.01mln MT during FY23 from 47.63mln MT in FY22. Similarly, Export volumes dwindled by 0.7mln MT during the period (FY23: 4.56mln MT, FY22: 5.25mln MT). The decline in overall volumes was a result of soaring inflation in the country that led to demand constraints. However, during 1HFY24 dispatches stood at 23.90mln MT (1HFY23: 21.76mln MT) witnessing a growth of 10% as a result of recovering demand.

Relative Position Fecto Cement Limited is amongst the small players in the local cement industry. Based on FCL's annual cement dispatches of 0.642mln MT during FY23, it occupies ~1% market share in the local cement industry.

Revenues During FY23, the Company reported Net Revenues of PKR 8,682mln (FY22: PKR 6,774mln) resulting from the sale 0.641mln MT of cement (FY22: 0.713mln MT). Although the overall dispatches of the Company declined by 10%, the revenues witnessed a growth of 28% resulting from price hikes during the period to counter inflationary environment and rise in cost of inputs specially coal, electricity and diesel. Subsequently, during 1HFY24, total sale volume increased by 22.84% and reached to 0.343mln MT as against 0.335mln MT during the same period last year. As a result Net Revenues increase by 38% on the back of stable pricing (1HFY24: PKR 5,721mln, 1HFY23: PKR 4,145mln).

Margins Cost of sales of the Company increased by 41.84% during FY23 mainly due to rise in prices of coal and power. As a result, the Gross Margins declined significantly to 3.6% as compared to 12.9% during FY22. The rising cost of inputs was not successfully passed on to the customers in the prices resulting in a major dip in the gross margins. Furthermore, the interest rate hike adversely impacted the profitability resulting in a loss during the period. Hence, the Company's Net Profit Margins turned negative during the period (FY23: -1.5%, FY22: 4.2%). The Company witnessed some relief in the margins during the 1HFY24 with gross margins of 12.9% and net margin of 3.1%. The improvement came as the industry witnessed recovering dispatches along with fall in prices of coal.

Sustainability The current economic slowdown in the country has led to various challenges for the cement sector. The Company is focusing on operating the plant at optimum capacity along with using the adequate coal mix to cut down costs and improve the profitability of the Company.

Financial Risk

Working Capital As at end Dec'23, FCL's working capital requirements represented by Net Cash Cycle Days (Net Working Capital Days) slightly decreased to 37 days (End June 2023: 38 days, End June 2022: 49 days). This was primarily due to the decrease in Inventory Days as a result of better demand in the industry. Furthermore, the Company has minor reliance on STB's to support its needs.

Coverages The rising policy rate during FY23 has adversely impacted the coverages. The FCFO during FY23 was under stress due to lower sales and rising costs. The Company reported FCFO of PKR 197mln during FY23 (FY22: 716mln), as a result of which Interest Coverage (FCFO/Finance Cost + CMLTB + Excess Borrowings) declined to 0.3x in FY23 from 2.0x during FY22. The rising policy rate also doubled the finance cost during the period. Alternatively, during the first half of FY24, the coverages showed improvement backed by better profitability. Interest coverage stood at 2.1x although the policy rate is at its peak.

Capitalization The Company has a moderately leveraged structure with its leveraging at 32.2% resulting from both long term and short term borrowings. The Company has obtained Long term financing to fund its BMR along with installation of the Solar Power Plant. Furthermore, the STB's are to support the operational needs of the Company.

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Financial Summary
PKR mln

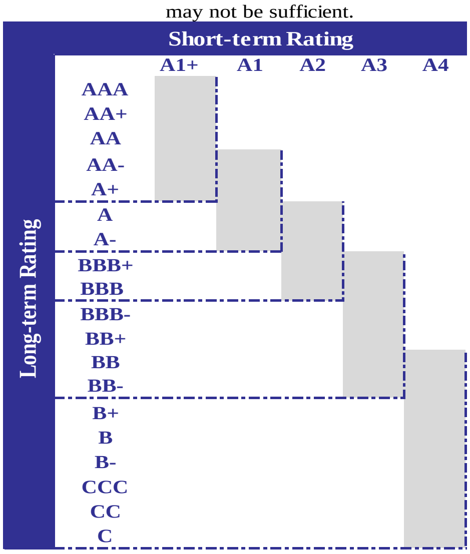
Fecto Cement Limited Infrastructure | Cement	Dec-23 6M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	2,740	2,918	3,195	2,418
2 Investments	102	102	-	-
3 Related Party Exposure	447	472	456	497
4 Current Assets	4,048	3,834	3,299	3,118
a Inventories	*1,878*	*1,801*	*1,294*	*1,623*
b Trade Receivables	*170*	*147*	*75*	*44*
5 Total Assets	7,338	7,327	6,950	6,033
6 Current Liabilities	1,642	1,460	1,329	926
a Trade Payables	*909*	*791*	*706*	*501*
7 Borrowings	1,790	2,129	1,652	1,545
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	131	141	218	95
10 Net Assets	3,775	3,597	3,751	3,467
11 Shareholders' Equity	3,775	3,597	3,751	3,467
B INCOME STATEMENT				
1 Sales	5,721	8,682	6,775	4,961
a Cost of Good Sold	*(4,981)*	*(8,370)*	*(5,901)*	*(4,674)*
2 Gross Profit	739	312	874	287
a Operating Expenses	(238)	(402)	(345)	(317)
3 Operating Profit	502	(90)	528	(29)
a Non Operating Income or (Expense)	*32*	*220*	*56*	*42*
4 Profit or (Loss) before Interest and Tax	533	130	584	12
a Total Finance Cost	*(130)*	*(303)*	*(155)*	*(76)*
b Taxation	*(225)*	*40*	*(142)*	*(4)*
6 Net Income Or (Loss)	179	(133)	287	(67)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*574*	*197*	*716*	*84*
b Net Cash from Operating Activities before Working Capital Changes	*441*	*(28)*	*586*	*84*
c Changes in Working Capital	*(21)*	*(392)*	*119*	*(343)*
1 Net Cash provided by Operating Activities	420	(420)	706	(259)
2 Net Cash (Used in) or Available From Investing Activities	(49)	42	(873)	(542)
3 Net Cash (Used in) or Available From Financing Activities	(250)	(12)	443	555
4 Net Cash generated or (Used) during the period	122	(390)	276	(246)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	31.8%	28.2%	36.5%	43.2%
b Gross Profit Margin	12.9%	3.6%	12.9%	5.8%
c Net Profit Margin	3.1%	-1.5%	4.2%	-1.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	9.7%	-2.2%	12.3%	-5.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	9.5%	-3.8%	8.2%	-1.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	64	70	82	123
b Net Working Capital (Average Days)	37	38	49	86
c Current Ratio (Current Assets / Current Liabilities)	2.5	2.6	2.5	3.4
3 Coverages				
a EBITDA / Finance Cost	5.3	0.9	4.9	1.5
b FCFO / Finance Cost+CMLTB+Excess STB	2.1	0.3	2.0	0.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.2	-11.6	2.3	68.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	32.2%	37.2%	30.6%	30.8%
b Interest or Markup Payable (Days)	43.0	66.2	44.0	63.6
c Entity Average Borrowing Rate	12.7%	14.2%	8.4%	4.7%

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.

Long-term Rating	
Scale	**Definition**
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 Rating	
Scale	**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
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 surveill 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

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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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(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(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).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(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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