The Pakistan Credit Rating Agency Limited

Rating Report

Pakistan International Bulk Terminal Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Mar-2019	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings draw strength from the Pakistan International Bulk Terminal Limited's (PIBT) distinguished position in its operating segment. The company operates on a "build, operate and transfer" (BOT) model at Port Qasim Authority for the provision of terminal handling services for Coal, Clinker and Cement. Major demand, therefore, vests in the domestic cement landscape followed by power producers that are dependent on imported coal. Sponsors' extensive association with the related business "Marine Group of Companies" is a consideration. With a fully mechanized infrastructure,the company's annual capacity hovers around 12 million MT for inbound coal handling and 4 million MT of outbound clinker and cement handling. Lately, reduced competition in the market has reaped benefits to the company in enhancing its business volumes speedily. Changing demand dynamics for imported coal and reinstigated competition are, however, critical to the business prospects. The company's financial risk profile is reflective of its initial years of operations, depicting an uptick in business volumes but losses at the bottomline level. Cash flows sustainability is achieved. The pricing structure provides an inbuilt hedge against foreign obligations. Capital structure remains comfortable despite hefty long term borrowings to fund CAPEX, duly cushioned by equity enhancements on a timely basis.

The ratings are dependent upon upholding of strong business profile amidst unforeseen changes in the competitive landscape. Self sufficiency in meeting debt obligations is the key factor, which may be supplemented by extended support, if need be.

Disclosure

Name of Rated Entity	Pakistan International Bulk Terminal Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-18),Methodology | Criteria | Rating Modifier(Jun-18),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study | Cement(Nov-18)
Rating Analysts	Nadeem Sheikh | nadeem.sheikh@pacra.com | +92-42-35869504

Profile

Legal Structure Pakistan International Bulk Terminal Limited ("PIBT" or "the company") is a Public Listed Company, incorporated in 2010. The Company got listed on the Pakistan Stock Exchange (PSX) in 2013.

Background PIBT was incorporated under the Companies Ordinance, 1984 (now "Companies Act, 2017") in March, 2010 as a wholly owned subsidiary of Pakistan International Container Terminal Limited. The Company is a part of the "Marine Group of Companies" that has a network of 15 related companies under its umbrella. Premier Mercantile Services (Pvt.) Ltd. (PMS) is the flagship company of the group.`

Operations In 2010, the company entered into a Built Operate Transfer (BOT) contract with Port Qasim Authority ("PQA") for the construction, development, operations and management of a coal and clinker/cement terminal at Port Muhammad Bin Qasim. The contract is for a period of thirty years. The company commenced its commercial operations in July-2017. PIBT has a capacity to handle ~12mln tons of coal import and ~4mln tons of cement/clinker export. In FY18, PIBT successfully handled ~2.6mln tons of coal and ~96,370 tons of clinker translating into ~22% and ~2% capacity utilization respectively.

Ownership

Ownership Structure Premier Mercantile Services (Private) Limited (PMS), Jahangir Siddiqui & Company Limited and International Finance Corporation are the major shareholders of the company and hold ~43.30%, ~10.35% and ~11.4% shares respectively. General public holds ~25% of shares of the company. Premier Mercantile Services (Private) Limited is the investment arm of Marine Group of companies.

Stability Initially, the company was a wholly owned subsidiary of Pakistan International Container Terminal Limited (PICT). PICT was at that time owned by Marine group and other companies. The company's shareholding has evolved over the period, and is expected to remain stable, going forward.

Business Acumen Marine group of companies is a large and diversified cargo handling and logistic group in Pakistan. The group has been in business since 1964. Considering its operating history and experience in relevant business, sponsors' understanding of the terminal handling business is considered strong.

Financial Strength Premier Mercantile Services - the major shareholder, is an investment wing of Marine group. It has investments in other group companies too.

Governance

Board Structure Board of Directors consists of seven members, out of which two are Independent, three Non-Executive and two are Executive directors.

Members' Profile Capt. Haleem Ahmad Siddiqui is a seasoned professional of the industry. He has an experience of over 50 years. He is also the Chairman of Marine Group of Companies. He has also served in Pakistan Flag Vessel and was instrumental in establishing Marine group of Companies. Other members are also highly qualified professionals and have sufficient experience in managing the company's affairs.

Board Effectiveness Two sub committees on the Board exist; (i) Audit Committee & (ii) HR & Remuneration Committee. During the year, four Audit Committee and two Human Resource and Remunerations Meetings were held. Attendance recorded during the board and its sub-committees' meetings was good and minutes of the meetings have been properly documented. Both committees are headed by the Independent director - Mr. Syed Nizam A. Shah.

Financial Transparency An effective Internal Audit department reporting to the Audit Committee is in place. The External Auditors of the company are M/s E.Y Ford Rhodes & Chartered Accountants, one of the big four firms. It is QCR rated and also a category "A" firm of the State Bank of Pakistan. They expressed an unqualified opinion on the financial statements of the company for FY18.

Management

Organizational Structure Well-defined yet lean organizational structure exists. The organization is split into three broad divisions; (i) Operations (ii) Engineering and (iii) Support. Among these divisions, functions are segregated into various departments wherein clear lines of responsibility are defined for each cadre. The company's head office is situated in Karachi city, while terminal is situated at Port Qasim. Responsibilities are clearly divided among different departments heads.

Management Team Mr. Sharique Azim Siddiqui - the CEO of the company, has an overall experience of more than ~20 years. He did his Masters of Arts in Economics from Tufts University, Boston, USA. He has also served as director project and Chief Operating Officer at Pakistan International Container Terminal and was in-charge of container terminal project planning, coordination and implementation. He is supported by an experienced and able management team.

Effectiveness All department heads are responsible for management of their relevant departments. Mr. Safdar Abbas manages the operations division, whereas all engineering related matters are being handled by Mr. Basit Alvi, General Manager Engineering. Mr. Arsalan Iftikhar Khan, a qualified Chartered Accountant, is the Chief Financial Officer of the company.

MIS Fully mechanized infrastructure with robust MIS to assist reporting needs of the management strengthens the control environment.

Control Environment The corporate structure of the company is diverged into various departments each having an effective Internal Control System. MIS and technological infrastructure is strong with a high degree of automation. Top management comprises qualified and renowned industry veterans, positively impacting the overall control environment of the company.

Business Risk

Industry Dynamics Total country demand for imported coal hovers in the range from 10 - 12 million MT per annum and is majorly generated from the cement sector as well as power plants that depend on imported coal. The lately undertaken capacity expansions by cement players are expected to come into play and improve the imports, albeit any shift towards locally supplied coal.

Relative Position Following suspension of coal handling services at Karachi Port Trust (KPT), PIBT takes the privilege of being the only commercial terminal operator for providing handling services to local coal importers. Hence, it is well poised to increase its market share, unless competition in the market is instigated.

Revenues The company started operations in July 2017 and reported a revenue of PKR~1,961mln for FY18. Majority of the revenue is being generated from coal handling as the volume of clinker handling at terminal is currently very low. Revenue for 1HFY19 is recorded at PKR~3,412mln as compared to PKR~603mln same period last year.

Margins Gross profit for 1HFY19 clocked in at PKR~801mln (1HFY17: PKR~544mln). Gross profit margin decreased to ~22% during 2QFY19 as compared to ~26% of 1QFY19. The company posted a net loss of PKR~1,463mln during 1HFY19 out of which PKR~1,126mln pertained to exchange loss (1HFY18: PKR~290mln). Foreign currency risk emanates from foreign long term borrowings although implied hedged as the company's revenue stream is based in USD terms.

Sustainability With the current business environment and management cognizance, volumes are expected to take a boom in the coming years, which is expected to transpire into self sufficiency in offloading debt obligations. PIBT envisages reaching a capacity utilization of more than ~90% in a couple of years. Having said this, any unforeseen shift in imported coal demand or resurgence in competition may impact the strategized growth.

Financial Risk

Working Capital PIBT's working capital requirement emanates from financing trade receivables for which the company relies on internal cash flows. As the company is in its initial years of operations, cash cycle is small and hence, overall working capital management is strong. Further, comfort has been drawn from nil short term borrowings.

Coverages Free Cash Flow From Operations (FCFO) increased to PKR~590 million during 1QFY19. FY18 was the first year of commercial operations, therefore, FCFO (a product of profitability) was NIL. Increased cashflows in 1QFY19 healed the debt servicing capacity to a limited level. All long term liabilities extend to a nine year period, therefore financial matrix to structure debt repayments amidst growth in the relevant business environment is critical.

Capitalization Capital structure remains comfortable, as cushioned by timely equity enhancements in the past. Gearing ratio stood at ~48%. With no further plans of availing external funding, this ratio expected to decline gradually. PIBT's borrowings are a mix of local and foreign currency debts. Total long term borrowings and equity as of Sep-18 clocked in at PKR~14.3bln and PKR~15.2bln respectively.

PKR mln

The Pakistan Credit Rating Agency Limited

Pakistan International Bulk Terminal Limited

BALANCE SHEET	Sep-18 3M	Jun-18 12M	Jun-17 12M	Jun-16 12M
Non-Current Assets	**27,421**	**27,754**	**25,489**	**16,871**
Investments (Incl. Associates)	**-**	**-**	**-**	**-**
Equity	-	-	-	-
Fixed Income	-	-	-	-
Current Assets	**4,199**	**1,404**	**3,037**	**2,427**
Inventory	-	-	-	-
Trade Receivables	858	260	-	-
Others	3,341	1,145	3,037	2,427
Total Assets	**31,621**	**29,158**	**28,526**	**19,298**
Debt/Borrowings	**14,250**	**14,316**	**13,122**	**5,072**
Short-Term	-	-	-	-
Long-Term (Incl. Current Maturity of Long-Term Debt)	14,250	14,316	13,122	5,072
Other Short-Term Liabilities	2,121	2,493	102	487
Other Long-Term Liabilities	32	27	345	962
Shareholder's Equity	**15,218**	**12,322**	**14,957**	**12,777**
Total Liabilities & Equity	**31,621**	**29,158**	**28,526**	**19,298**

INCOME STATEMENT				
Turnover	**1,850**	**1,961**	**-**	**-**
Gross Profit	478	(817)	-	-
Net Other Income	(133)	(817)	129	112
Financial Charges	(299)	(1,265)	-	-
Net Income	**(105)**	**(2,635)**	**27**	**35**

CASH FLOW STATEMENT				
Free Cash Flow from Operations (FCFO)	590	(10)	(163)	(31)
Total Cashflows (TCF)	590	(10)	(163)	(31)
Net Cash changes in Working Capital	(997)	113	(1,124)	247
Net Cash from Operating Activities	(949)	(418)	(1,287)	215
Net Cash from InvestingActivities	(47)	(1,152)	(8,503)	(10,582)
Net Cash from Financing Activities	2,796	(191)	9,481	11,153
Net Cash generated during the period	1,801	(1,761)	(309)	787

RATIO ANALYSIS				
Performance				
Turnover Growth (vs SPLY)	3561%	N/A	N/A	N/A
Gross Margin	26%	-42%	N/A	N/A
Net Margin	-6%	-134%	N/A	N/A
ROE	-3%	-19%	N/A	N/A
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+Uncovered STB)	0.8	0.0	-0.2	N/A
Interest Coverage (X) (FCFO/Gross Interest)	2.0	0.0	N/A	N/A
Debt Payback (Years) (Total Debt (excluding Covered Short Term Borrowings) / FCFO)	12.2	-12.1	-80.4	-162.3
Capital Structure (Total Debt/Total Debt+Equity)				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	22	27	N/A	N/A
Capital Structure (Total Debt/Total Debt+Equity)	48%	54%	47%	28%

Rating Scale

Credit Rating Scale & Definitions

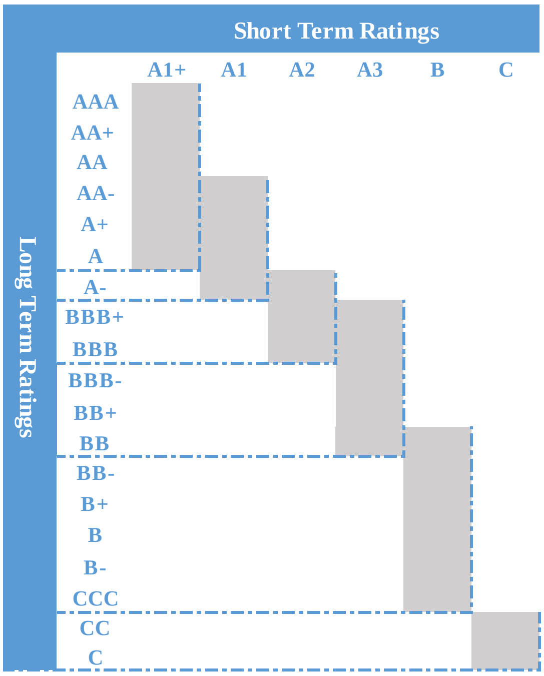
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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.

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

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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.

(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)

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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 | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(f-VII)

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