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
28-Aug-2019	A-	A2	Stable	Maintain	-
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 as the government's initiatives towards indigenous coal-based power plants 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 bottom-line level. The pricing structure provides an inbuilt hedge against foreign obligations. The 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, company’s ability to improve its margins and profitability. Optimal utilization of the capacity and improvement in margins is considered important. Self-sufficiency in meeting debt obligations is the key factor, which may be supplemented by extended support if need be. Excessive borrowings and/or downturn in margins would impact the ratings.

Disclosure

Name of Rated Entity	Pakistan International Bulk Terminal Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Crtieria_LT ST Relationship_FY19(Jun-19)
Related Research	Sector Study | Shipping(May-19)
Rating Analysts	Muhammad Usman | muhammad.usman@pacra.com | +92-42-35869504

Profile

Legal Structure Pakistan International Bulk Terminal Limited is a Public Listed Company incorporated in 2010. It got listed on the Pakistan Stock Exchange 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 (PICT) when PICT stake was sold to an International Terminal Company and PIBT shares were offered as specie dividend to PICT former owners. 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 the capacity to handle ~12mln tons of coal import and ~4mln tons of cement/clinker export. During 9MFY19, PIBT successfully handled ~6.8mln 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, Jahangir Siddiqui & Company Limited and International Finance Corporation are the major shareholders of the company and hold ~43.30%, ~8.6%, and ~9.5% shares respectively. General public holds ~25.4% of shares of the company. Premier Mercantile Services (Private) Limited is the investment arm of the 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 logistics group in Pakistan. The group has been in business since 1964. Considering its operating history and experience in a 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 5 decades. He is also the Chairman of Marine Group of Companies. Capt. Haleem Ahmad Siddiqui has 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 subcommittees on the Board exist; (i) Audit Committee & (ii) HR & Remuneration Committee. Attendance recorded during the board and its sub-committees' meetings was good and minutes have been properly documented. Both committees are headed by the Independent director - Mr. Syed Nizam A. Shah.
Financial Transparency 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 2 decades. 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 13-16mln MT per annum and is majorly generated from the power plants and cement sector that depend on imported coal. The lately undertaken capacity expansions by cement players are expected to come into play and improve the imports due to the government's initiatives towards developmental projects, albeit any shift towards locally supplied coal as the government has also started taking the initiatives towards locally extracted coal-based power plants.
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 its operations in July 2017. Turnover was recorded at PKR ~6,109bln for 9MFY19 as compared to PKR ~1,016mln for the same period last year, showed an increase of ~501%. Majority of the revenue is being generated from coal handling as the volume of clinker handling at the terminal is currently low.
Margins Gross profit for 9MFY19 clocked in at PKR~1,784mln as compared to the loss of PKR ~746mln. Gross profit was ~29.2% during 9MFY19 as compared to ~-73.4% of the same period. The company posted a net loss of PKR~996mln during 9MFY19 out of which PKR~1,199mln pertained to exchange loss (9MFY19: PKR~545mln). 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. The company's cash cycle is small as overall working capital management is strong. The Company’s net cash cycle didn't show any significant change YoY (9MFY19: 22days, 9MFY18: 18 days) due to the better management of its trade creditors and trade debtors. Furthermore, comfort can be drawn from nil short term borrowings.
Coverages Free Cash Flow From Operations (FCFO) increased to PKR~1,018 million during 9MFY19 as compared to PKR ~-74mln of the same period last year. This massive increase in operational cash flows is due to lower deferred tax during the period. The interest coverage ratio was 1.8x for the 9MFY19 as compared to 0x last year while core debt coverage also showed improvement to stand at 0.5x (9MFY18: 0x) as the company become actively operation during the period. 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. Going forward, coverages are likely to get better once the company's coal handling capacity is completely utilized.
Capitalization The capital structure remains comfortable, as cushioned by timely equity enhancements in the past. The company's gearing ratio stood at ~50%, mainly comprising long-term borrowing for the financing of heavy infrastructure and equipment. The company has no further plans of availing any external funding, this ratio is expected to decline gradually. PIBT's borrowings are a mix of local and foreign currency debts. Total long term borrowings and equity as of Mar-19 clocked in at PKR~13bln and PKR~14.3bln respectively.

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Financial Summary
PKR mln

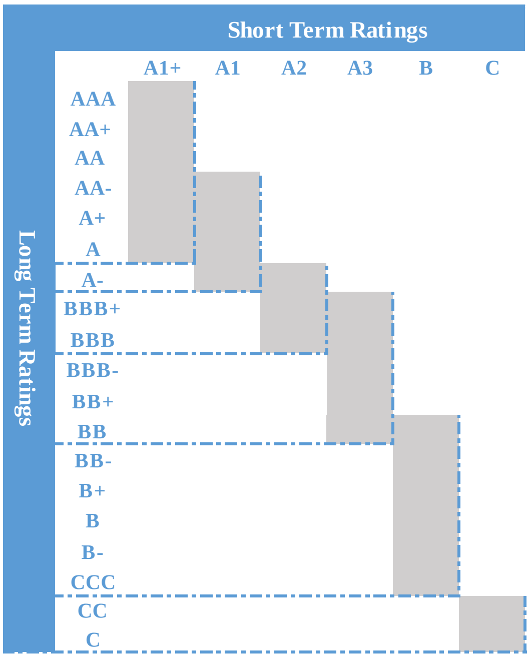
Aug-19	Mar-19	Jun-18	Jun-17	Jun-16
##	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	26,994	27,754	25,489	16,871
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	3,723	1,404	3,037	2,427
a Inventories	-	-	-	-
b Trade Receivables	*1,012*	*260*	-	-
5 Total Assets	30,717	29,158	28,526	19,298
6 Current Liabilities	2,237	2,493	102	487
a Trade Payables	*125*	*170*	*57*	-
7 Borrowings	14,114	14,316	13,122	5,072
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	38	27	345	962
10 Net Assets	14,327	12,322	14,957	12,777
11 Shareholders' Equity	14,327	12,322	14,957	12,777
B INCOME STATEMENT				
1 Sales	6,109	1,961	-	-
a Cost of Good Sold	*(4,326)*	*(2,777)*	-	-
2 Gross Profit	1,784	(817)	-	-
a Operating Expenses	(328)	(315)	(81)	(56)
3 Operating Profit	1,456	(1,132)	(81)	(56)
a Non Operating Income or (Expense)	*(994)*	*(817)*	*129*	*112*
4 Profit or (Loss) before Interest and Tax	462	(1,949)	48	56
a Total Finance Cost	*(1,364)*	*(1,265)*	-	-
b Taxation	*(93)*	579	*(22)*	*(21)*
6 Net Income Or (Loss)	(996)	(2,635)	27	35
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*2,001*	*(10)*	*(163)*	*(31)*
b Net Cash from Operating Activities before Working Capital Changes	*459*	*(531)*	*(163)*	*(31)*
c Changes in Working Capital	*(1,959)*	*113*	*(1,018)*	*247*
1 Net Cash provided by Operating Activities	(1,500)	(418)	(1,182)	215
2 Net Cash (Used in) or Available From Investing Activities	(181)	(1,152)	(8,503)	(10,582)
3 Net Cash (Used in) or Available From Financing Activities	2,676	(192)	9,481	11,153
4 Net Cash generated or (Used) during the period	995	(1,762)	(203)	787
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	315.5%		N/A	N/A
b Gross Profit Margin	29.2%	-41.7%	N/A	N/A
c Net Profit Margin	-16.3%	-134.4%	N/A	N/A
d Cash Conversion Efficiency (EBITDA/Sales)	40.9%	6.9%	N/A	N/A
e Return on Equity (ROE)	-10.0%	-19.3%	N/A	N/A
2 Working Capital Management				
a Gross Working Capital (Average Days)	28	48	N/A	N/A
b Net Working Capital (Average Days)	22	27	N/A	N/A
c Current Ratio (Total Current Assets/Total Current Liabilities)	1.7	0.6	29.7	5.0
3 Coverages				
a EBITDA / Finance Cost	1.8	0.1	N/A	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	0.9	0.0	-0.2	N/A
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	16.6	-12.1	-80.4	-162.3
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	49.6%	53.7%	46.7%	28.4%
b Interest or Markup Payable (Days)	0.0	0.0	N/A	N/A
c Average Borrowing Rate	12.8%	9.2%	0.0%	0.0%

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.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(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)

Independence & Conflict of interest
(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 | 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)
Proprietary Information