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
25-Feb-2020	A-	A2	Stable	Maintain	-
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 those power producers that are dependent on imported coal. Sponsors' 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, PIBT's exclusivity as the only coal handling terminal has been reinstated, which is considered positive for the way forward. Changing demand dynamics - as is witnessed through government initiatives towards use of indigenous coal are, however, still critical to the business prospects, keeping in view the USD based pricing mechanism of PIBT. The company's financial risk profile is reflective of improvement, depicting an uptick in business volumes and recent profits 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 in the past.

The ratings are dependent upon upholding of strong business profile and improved profitability margins. Meanwhile, observing rationalism, whilst reaping benefits of exclusivity rights is imperative.

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-19),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-19)
Related Research	Sector Study | Pipeline Networks(May-19)
Rating Analysts	Raniya Tanawar | raniya.tanawar@pacra.com | +92-42-35869504

Profile

Legal Structure Pakistan International Bulk Terminal Limited, herein referred to as "PIBT" or "the Company", was incorporated in 2010. It was listed on the Pakistan Stock Exchange in 2013.

Background PIBT was incorporated under the Companies Ordinance, 1984 (now the Companies Act, 2017) in March 2010 as a wholly-owned subsidiary of Pakistan International Container Terminal Limited (PICT). 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 annual capacity to handle ~12mln tons of coal import and ~4mln tons of cement/clinker export. During 6MFY20, PIBT successfully handled ~4.4mln tons of coal, representing a ~73% biannual capacity utilization. No handling of cement or clinker took place in 6MCY20.

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 ~43.3%, ~8.6%, and ~9.5% shares respectively. General public holds ~27.1% of the shareholding 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 PICT, which at that time was owned by the Marine Group and other companies. The company's shareholding has evolved over the period, and is expected to remain stable, going forward.

Business Acumen The 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 the business, sponsors' understanding of the terminal handling business is considered strong.

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

Governance

Board Structure The Board of Directors consists of seven members, which include two independent, three non-executive and two executive directors.

Members' Profile Capt. Haleem Ahmad Siddiqui is a seasoned professional of the industry. He has an experience of over five decades. He is also the Chairman of Marine Group of Companies. Capt. Siddiqui has served in the Pakistan Flag Vessel and was instrumental in establishing the Marine Group of Companies. Other members of the Board 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. Adequate attendance was noted in the Board and its sub-committees' meetings while minutes have been properly documented. Both committees are headed by Mr. Syed Nizam A. Shah, an independent director.

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 part of the category A, as per the State Bank of Pakistan's panel of auditors. It expressed an unqualified opinion on the financial statements for FY19.

Management

Organizational Structure A 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 a Director Project and Chief Operating Officer at PICT 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 departments. Mr. Safdar Abbas manages the operations division, whereas engineering related matters are handled by Mr. Basit Alvi, GM Engineering. Mr. Arsalan Iftikhar Khan, a qualified Chartered Accountant, is the CFO of the company.

MIS Fully mechanized infrastructure with a 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 13mln MT to 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 increase demand of both local and imported coal. In light of the government's initiative to reduce the import bill, a shift towards locally supplied coal remains a risk.

Relative Position Following suspension of coal handling services at Karachi Port Trust (KPT), PIBT has 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. A recent dismissal, by the Supreme Court of Pakistan, of the review petition (dated 24th December 2019) regarding the suspension, bodes well for the long term outlook of the company.

Revenues The company started its operations in July 2017. Turnover in FY19 amounted to PKR~8,004mln (FY18: PKR~1,961mln) representing a substantial growth of 308%. Majority of the revenue is being generated from coal handling as the volume of clinker handling at the terminal is currently low. The topline in 6MFY20 clocked in at PKR~4,850mln, showcasing a growth of 42% compared to the corresponding period (6MFY19: PKR~3,412mln).

Margins Gross profit margins landed in a comfortable zone in line with the increase in capacity utlization (6MFY20: 31.3% FY19: 28.2% FY18: -41.7%). The same trend is noted in the net profit margins (6MFY20: 17.8%, FY19: -29.7% FY18: -134.4%). Exchange losses amounting to PKR~2,749mln during FY19 (FY18: PKR~866mln) put pressure on the bottomline. In contrast, an exchange gain of PKR~421mln in 6MFY20, contributed to the positive net margins. Foreign currency risk emanates from foreign borrowings. This risk is mitigated by an implied hedge, as the company's revenue stream is based on USD terms.

Sustainability With the current business environment and management cognizance, volumes are expected to remain sanguine 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 mainly emanates from financing trade receivables, for which it mostly relies on its internal cash flows. In Dec'19, the company obtained short term borrowing amounting to PKR~509mln, to further facilitate working capital management. The company's cash cycle is considered efficient as overall working capital indicators are deemed strong. During 6MFY20, the company's net cash cycle clocked in at 16 days (FY19: 12 days, FY18: 27 days).

Coverages Free Cash Flows From Operations (FCFO) in FY19 increased to PKR~2,392mln (FY18: ~-10mln) in line with the substantial rise in EBITDA. Following a similar trend the FCFO in 6MFY20 amounted to PKR~1,579mln (6MFY19: PKR 886mln). The interest coverages of the company have been under pressure due to considerable finance costs. In 6MFY20 the core debt coverage stood at 1.1x (FY19: 0.7x, FY18: 0.0x). Long term liabilities extend to a nine-year period, therefore, sound financial matrix to structure debt repayments amidst growth is critical. Going forward, coverages are expected to improve in line with the increase in the company's coal handling capacity utilization and growth in profits.

Capitalization The capital structure remains comfortable, as cushioned by timely equity enhancements in the past. As at End-6MFY20, the company's gearing ratio stood at 51.0%. Since the company has no immediate plans of availing further long term funding, this ratio is expected to decline gradually. PIBT's borrowings are a mix of local and foreign currency debts. Total borrowings and equity as at End-6MFY20 clocked in at PKR~14,362mln and PKR~13,776mln respectively.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Pakistan International Bulk Terminal Limited Logistics	Dec-19 6M	Jun-19 12M	Jun-18 12M	Jun-17 12M
A BALANCE SHEET				
1 Non-Current Assets	27,051	27,182	27,754	25,489
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	2,877	2,695	1,404	3,037
a Inventories	-	-	-	-
b Trade Receivables	*656*	*700*	*260*	-
5 Total Assets	29,928	29,877	29,158	28,526
6 Current Liabilities	1,746	1,820	2,493	102
a Trade Payables	*242*	*252*	*170*	*57*
7 Borrowings	14,362	15,110	14,316	13,122
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	44	35	27	345
10 Net Assets	13,776	12,911	12,322	14,957
11 Shareholders' Equity	13,776	12,911	12,322	14,957
B INCOME STATEMENT				
1 Sales	4,850	8,004	1,961	-
a Cost of Good Sold	*(3,332)*	*(5,747)*	*(2,777)*	-
2 Gross Profit	1,518	2,257	(817)	-
a Operating Expenses	(218)	(415)	(315)	(81)
3 Operating Profit	1,300	1,842	(1,132)	(81)
a Non Operating Income or (Expense)	*483*	*(2,512)*	*(817)*	*129*
4 Profit or (Loss) before Interest and Tax	1,783	(670)	(1,949)	48
a Total Finance Cost	*(675)*	*(1,823)*	*(1,265)*	-
b Taxation	*(243)*	*116*	*579*	*(22)*
6 Net Income Or (Loss)	865	(2,377)	(2,635)	27
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,579*	*2,392*	*(10)*	*(163)*
b Net Cash from Operating Activities before Working Capital Changes	*768*	*448*	*(531)*	*(163)*
c Changes in Working Capital	*116*	*(1,908)*	*113*	*(1,018)*
1 Net Cash provided by Operating Activities	884	(1,460)	(418)	(1,182)
2 Net Cash (Used in) or Available From Investing Activities	(539)	(352)	(1,152)	(8,503)
3 Net Cash (Used in) or Available From Financing Activities	(260)	2,011	(192)	9,481
4 Net Cash generated or (Used) during the period	85	199	(1,762)	(203)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	21.2%	308.3%	N/A	N/A
b Gross Profit Margin	31.3%	28.2%	-41.7%	N/A
c Net Profit Margin	17.8%	-29.7%	-134.4%	N/A
d Cash Conversion Efficiency (EBITDA/Sales)	41.0%	40.0%	6.9%	N/A
e Return on Equity (ROE)	13.0%	-18.8%	-19.3%	N/A
2 Working Capital Management				
a Gross Working Capital (Average Days)	26	22	48	N/A
b Net Working Capital (Average Days)	16	12	27	N/A
c Current Ratio (Total Current Assets/Total Current Liabilities)	1.6	1.5	0.6	29.7
3 Coverages				
a EBITDA / Finance Cost	2.9	1.8	0.1	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	1.1	0.7	0.0	-0.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	7.7	26.6	-12.1	-80.4
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	51.0%	53.9%	53.7%	46.7%
b Interest or Markup Payable (Days)	17.3	13.6	170.2	N/A
c Average Borrowing Rate	9.2%	12.4%	9.2%	0.0%

PACRA

Rating Scale | Corporate

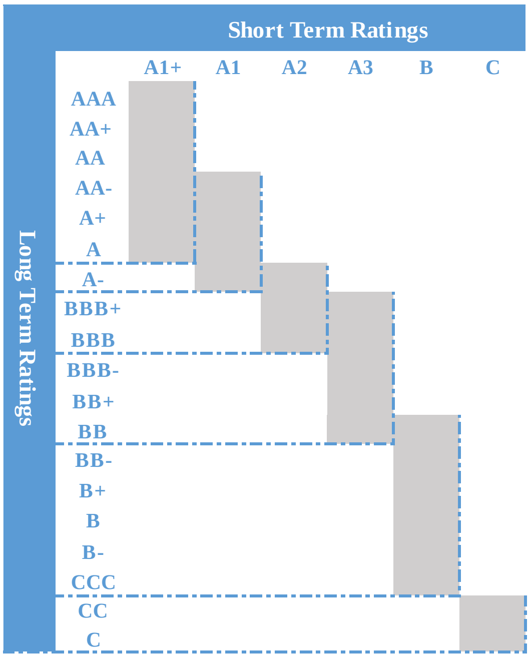
2019

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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(Credit Rating Companies Regulations,2016)

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2) **Conflict of Interest**
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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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