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-2021 | A | A2 | Stable | Upgrade | - |
| 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 comfort from sponsors' extensive association with the related business "Marine Group of Companies". The Pakistan International Bulk Terminal Limited's (PIBT) has secured a distinguished position in its operating segment due to its strategic importance in Power and Cement sector. 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 for a period of 30 years. Major demand vests in the domestic cement landscape followed by power producers that are dependent on imported coal for their operations. With a fully automated 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. Since reduced competition in the market because of suspension of coal handling at KPT boded well for the company causing significant enhancement in its business volumes. PIBT handled 8.6mln tons of coal cargo in FY20 (FY19 8.5mln tons, FY18 2.7mln tons) depicting improved performance. Changing demand dynamics for imported coal as the government's initiatives towards indigenous coal-based power plants and re-instigated competition are, however, critical for the ratings. Company's performance during FY20 exhibited strong performance by improving revenue, gross profit, EBITDA and achieving a positive figure in Bottom line i.e. ~PKR 1.1bln (FY19: loss of (2.4bln). The dollar based tariff structure provides an inbuilt hedge against foreign obligations. The capital structure remains comfortable despite hefty long term borrowings, duly cushioned by equity enhancements on a timely basis. The result of a pending litigation will be crucial for the business.

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.

**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-20),Methodology \| Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria \| Rating Modifier(Jun-20) |
| **Related Research** | Sector Study \| Coal Mining and Trading(Jul-20) |
| **Rating Analysts** | Bazah Tul Qamar \| bazahtul.qamar@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.

## Ownership

**Ownership Structure** Premier Mercantile Services (Private) Limited is the major shareholders of the company and hold ~43.3%. 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 Siddiquim the Chairman of the Board of Directors, 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.

**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 FY20.

## 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, 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. Covid-19 and its recessionary impact on the economy also poses a risk in the short term horizon.

**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 managed to record a turnover of PKR~9,459mln FY20 (FY19: PKR~8,004mln) representing a substantial growth of ~18.2%. The topline in 3MFY21 clocked in at PKR~2,604mln, showcasing a growth of ~10%. The increase was led on the backdrop of increased volumes supported by favorable competitive landscape. Most of the revenue is being generated from coal handling services and the portion of clinker and cement handling is low.

**Margins** Gross profit margins landed in a comfortable zone in line with the increase in topline (3MFY21: 33.3% FY20: 32.2% FY19: 27.9%). The same trend is noted in the net profit margins (3MFY21: 17.7%, FY20: -12.1% FY19: - 30%). Exchange losses amounting to PKR 159mln during FY20 (FY19: PKR 2,740mln) put pressure on the bottom line. In contrast, an exchange gain of PKR 110mln in 3MFY21, contributed positively to the net margins.

**Sustainability** PIBT's growth is dependent upon the upturn in the economy which is reeling from the impact of Covid-19. Any unforeseen shift in imported coal demand or resurgence in competition may also impact the growth prospects. In 1QFY20, an inquiry was initiated by the the Competition Commission of Pakistan (CCP) on the legality of the pricing mechanism of the company, after an application of one the cement customers alleging that exorbitant and discriminatory pricing measures were undertaken by PIBT, due to a lack of competition in the market. A final order in this regard is pending. An order against the company shall have an adverse effect on the future profitability outlook.

## 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. Company's Gross working capital days in 1QFY21 stood at 29 days (FY20: 31 days, FY19: 22days). The same has been adjusted with trade payable days and consequently net working capital days reduced to negative (FY20: 8 days, FY19: 12 days).

**Coverages** Free Cash Flows From Operations (FCFO) in FY20 increased to PKR~3,142mln (FY19: ~ 2,151mln) in line with the substantial rise in EBITDA. Following a similar trend the FCFO in 3MFY21 amounted to PKR 864mln. In 3MFY21 the core operating coverage stood at 1.2x (FY20: 1.1x, FY19: 0.6x).

**Capitalization** The capital structure remains comfortable, as cushioned by timely equity enhancements in the past. As at End-3MFY21, the company's gearing ratio stood at 49.5%.

The Pakistan Credit Rating Agency Limited

*'inancial Summary*
*PKR mln*

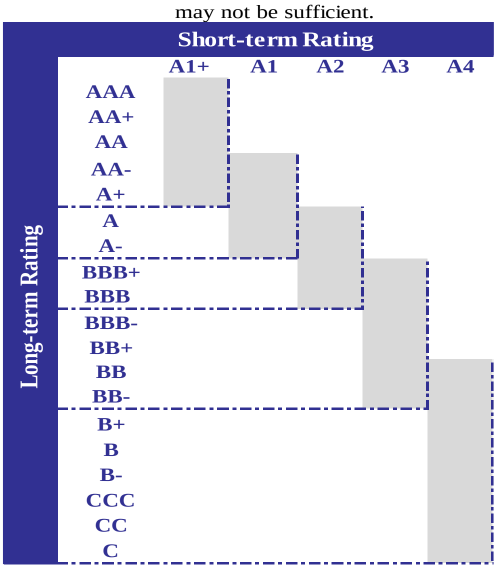
| 00-Jan-00 | Sep-20 | Jun-20 | Jun-19 | Jun-18 |
|---|---|---|---|---|
| ## | 3M | 12M | 12M | 12M |
| **A BALANCE SHEET** | | | | |
| 1 Non-Current Assets | 26,044 | 26,254 | 27,209 | 27,769 |
| 2 Investments | - | - | - | - |
| 3 Related Party Exposure | - | - | - | - |
| 4 Current Assets | 4,380 | 3,414 | 2,695 | 1,405 |
| *a Inventories* | - | - | - | - |
| *b Trade Receivables* | *759* | *884* | *700* | *260* |
| **5 Total Assets** | 30,424 | 29,668 | 29,904 | 29,174 |
| 6 Current Liabilities | 1,729 | 1,422 | 1,820 | 2,493 |
| *a Trade Payables* | *910* | *936* | *252* | *170* |
| 7 Borrowings | 14,145 | 14,166 | 15,110 | 14,316 |
| 8 Related Party Exposure | - | - | - | - |
| 9 Non-Current Liabilities | 94 | 85 | 129 | 83 |
| **10 Net Assets** | 14,456 | 13,995 | 12,845 | 12,283 |
| **11 Shareholders' Equity** | 14,456 | 13,995 | 12,845 | 12,283 |
| **B INCOME STATEMENT** | | | | |
| **1 Sales** | 2,604 | 9,459 | 8,004 | 1,961 |
| *a Cost of Good Sold* | *(1,738)* | *(6,410)* | *(5,772)* | *(2,777)* |
| **2 Gross Profit** | 867 | 3,049 | 2,232 | (817) |
| *a Operating Expenses* | (124) | (489) | (427) | (315) |
| **3 Operating Profit** | 743 | 2,560 | 1,805 | (1,132) |
| *a Non Operating Income or (Expense)* | *125* | *212* | *(2,512)* | *(817)* |
| **4 Profit or (Loss) before Interest and Tax** | 868 | 2,772 | (707) | (1,949) |
| *a Total Finance Cost* | *(275)* | *(1,126)* | *(1,823)* | *(1,265)* |
| *b Taxation* | *(131)* | *(501)* | *127* | *579* |
| **6 Net Income Or (Loss)** | 462 | 1,144 | (2,404) | (2,635) |
| **C CASH FLOW STATEMENT** | | | | |
| *a Free Cash Flows from Operations (FCFO)* | *864* | *3,142* | *2,151* | *(10)* |
| *b Net Cash from Operating Activities before Working Capital Changes* | *861* | *1,535* | *207* | *(531)* |
| *c Changes in Working Capital* | *136* | *(388)* | *(1,667)* | *113* |
| **1 Net Cash provided by Operating Activities** | 997 | 1,147 | (1,460) | (418) |
| **2 Net Cash (Used in) or Available From Investing Activities** | (134) | (515) | (352) | (1,152) |
| **3 Net Cash (Used in) or Available From Financing Activities** | 231 | (524) | 2,115 | (85) |
| **4 Net Cash generated or (Used) during the period** | 1,094 | 107 | 303 | (1,655) |
| **D RATIO ANALYSIS** | | | | |
| **1 Performance** | | | | |
| *a Sales Growth (for the period)* | 10.1% | 18.2% | 308.3% | -- |
| *b Gross Profit Margin* | 33.3% | 32.2% | 27.9% | -41.7% |
| *c Net Profit Margin* | 17.7% | 12.1% | -30.0% | -134.4% |
| *d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)* | 38.4% | 29.1% | 6.0% | 5.2% |
| *e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh* | 12.9% | 8.1% | -18.9% | -21.4% |
| **2 Working Capital Management** | | | | |
| *a Gross Working Capital (Average Days)* | 29 | 31 | 22 | 48 |
| *b Net Working Capital (Average Days)* | -4 | 8 | 12 | 17 |
| *c Current Ratio (Current Assets / Current Liabilities)* | 2.5 | 2.4 | 1.5 | 0.6 |
| **3 Coverages** | | | | |
| *a EBITDA / Finance Cost* | 3.9 | 3.6 | 1.6 | 0.1 |
| *b FCFO / Finance Cost+CMLTB+Excess STB* | 1.2 | 1.1 | 0.6 | 0.0 |
| *c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)* | 6.0 | 7.0 | 46.0 | -12.1 |
| **4 Capital Structure** | | | | |
| *a Total Borrowings / (Total Borrowings+Shareholders' Equity)* | 49.5% | 50.3% | 54.1% | 53.8% |
| *b Interest or Markup Payable (Days)* | 106.7 | 16.0 | 13.6 | 170.2 |
| *c Entity Average Borrowing Rate* | 7.7% | 7.7% | 12.7% | 9.1% |

## 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+<br>AA<br>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+<br>A<br>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+<br>BBB<br>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+<br>BB<br>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+<br>B<br>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<br>CC<br>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):

**Entities**

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

**Instruments**

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

**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)
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