The Pakistan Credit Rating Agency Limited

Rating Report

Flying Cement Company Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
19-Apr-2024	A-	A2	Stable	Maintain	Yes
20-Apr-2023	A-	A2	Stable	Maintain	Yes
29-Apr-2022	A-	A2	Stable	Maintain	Yes
07-May-2021	A-	A2	Stable	Maintain	Yes
16-May-2020	A-	A2	Stable	Maintain	Yes
15-Nov-2019	A-	A2	Stable	Maintain	-
16-May-2019	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Flying Cement Company Limited ('the Company' or 'Flying Cement') is part of the Flying group. The Company operates with one manufacturing unit having capacity of 1.2mln tons per annum ('TPA'). The Company's production site is in north Punjab and usually captures the locality of northern region of the country. In FY23, cement sales witnessed a substantial decline due to uncertainty in government policies and recorded high input cost. However, during the latest quarter 1QFY24, the industry volumes increased by ~24% to 11.9mln MT from 9.6mln MT during 1QFY23 on back of recovering demand and economic conditions. During 1HFY24, the Company dispatched ~164,000 tons as compared to ~162,000 tons during 1HFY23 witnessing an increase of 2%. The price per ton sold by the Company also increased by 14% and stood at PKR 19,355 (1HFY23: PKR 16,941) resulting in an increase of 15% in revenue. During 1HFY24, the revenue stood at PKR 2,368Mln (1HFY23: PKR 2,069Mln). Margins of the Company also showed a positive trend on the back of higher prices. During 1HFY24, gross margin of the Company increased to 16.4% (1HFY23: 15%). Net margins increased to 7.2% (1HFY23: 6.7%) and the Company recorded net profit of PKR 171mln as compared to PKR 139mln despite an increase of 37% in finance cost (1HFY24: PKR 112mln, 1HFY23: PKR 82mln).
The Company announced cement capacity expansion plan in FY16 which got delayed due to a number of unfavorable economic conditions. As per management, total capacity will be 11,700tpd (Clinker) after line II achieves COD which is expected in the start of FY25. However, at end Dec 23, the Company's financial risk criticality is elevated. The working capital cycle of the Company is under pressure, trade payables have seen a significant increase and current ratio of the Company has deteriorated to 0.4x. FCFO's of the Company have increased to PKR 386mln from PKR 306mln adequately covering the finance cost but the repayment of short-term borrowing and CMLTD remains vital. However, the Company's banks by deferring the principal repayment of the long-term debt, and repayments staring from 2QFY25, has given a breathing space to the Company albeit, the repayment of principal remains crucial. The Company's equity base stands at PKR 12bln following a PKR 5bln equity injection and braced by PKR 4bln revaluation reserve. At end Dec-23, the leveraging of the Company stands at 35.7%. Rating watch incorporates delays in expansion projects and pressure on financial risk matrix. However, management is of view that once COD of Line II is achieved cashflows are expected to improve.

The ratings are dependent on improvement of the company's business and financial risk profile; repayments of deferred long-term loans and strengthening of equity base is vital. Any further derivation from the envisaged financial structure (debt equity ratio, cash coverage etc.) would be considered negative.

Disclosure

Name of Rated Entity	Flying Cement Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Cement(Apr-24)
Rating Analysts	Shujat Ehsanullah Wasim | Shujat.Ehsan@pacra.com | +92-42-35869504

Profile

Legal Structure Flying Cement Company Limited was incorporated in December 1992 as a public limited company. It started commercial production in 2005. The Company is listed on Pakistan Stock Exchange. Flying Cement is engaged in the manufacturing and sale of Ordinary Portland Cement.

Background Initially, the family was engaged in Flying coaches' business back in 1970s. The group started Flying Paper Industries Limited in 1986 and Flying Board & Paper Products Limited. In 1990's group decided to enter into cement industry. The company started its commercial production in January 2005 and was part of diversification strategy followed by group.

Operations Flying Cement registered Head Office is situated at 4-Sarwar Colony, Sarwar Road, Lahore Cantt and manufacturing facility established at Lilla Interchange (LHR-ISB Motorway), Mangowal Khushab; located in province Punjab. Currently, the company has ~ 2.3% share in North region's cement capacity (operational). The company announced up gradation of the existing capacity and is currently working on the project. After BMR, total capacity will be 11,700 tpd (clinker) which is expected to come online by Jul 24.

Ownership

Ownership Structure The ownership of Flying Cement mainly lies with the sponsors' family (64.42%) .

Stability The shareholding is divided equally between the family members. As third generation has entered business at executive positions. The division between the next generation is yet be seen.

Business Acumen The sponsors, Mr. Kamran Khan and Mr. Momin Qamar are associated with the company for very long and have capabilities of strategic decision making. Majority shareholders are young blood, started working in family business with different educational backgrounds so their business Acumen is considered adequate.

Financial Strength Flying Group consist of 3 companies; 1) Flying Paper Industries Limited, 2) Flying Board & Paper Products and 3) Flying Cement Company Limited. Financial Strength of sponsors is considered good owing to the investment in diversified nature of companies.

Governance

Board Structure The overall structure vests with eight board members including CEO. Three directors are Flying Cement's executives – CEO, Director Sales & Director Finance– while three are non-executive directors, 2 independent directors and one female director.

Members' Profile Board members carry adequate requisite skills, competence, knowledge and experience required for a vigilant oversight.

Board Effectiveness There are two board committees in place to assist board through decision making process. The committees are: 1) Audit Committee and 2) HR & Remuneration Committee (HR&R), both chaired by independent member. Internal audit department reports to board.

Financial Transparency M/s. Naveed Zafar Ashfaq Jaffery & Co., Chartered Accountants, the external auditor is categorized satisfactory by ICAP has given unqualified opinion on the company's financial statements for the year ended Jun-23 and period ended Dec-23 of the company. The auditors are QCR rated and classified in category "A" of SBP Panel of Auditors.

Management

Organizational Structure Flying Cement has a multi-tier organizational structure, divided into four key functions, namely (I) Finance, (ii) Technical & Administration/ HR/ IT, (iii) Factory Administration and, (iv) Sales/ Marketing. Each function is headed by a separate director who, in turn, reports to the Board directly.

Management Team Mr. Agha Hamayun Khan, CEO is associated with the company for last 25 years. Mr. Kamran Khan, Chairman of the Group is Science Graduate having 48 years of rich knowledge & experience in handling technical matters for capacity expansion of the company while Mr. Momin Qamar Graduate in Business with 38 years' experience handling financial, banking affairs. Mr. Qasim Khan Graduate in International Business manages day to day sales/ marketing & procurement affairs of the company while Mr. Yousaf Kamran Khan, Graduate in Business Administration from Regents Business School London is Director Technical & Administration. Mr. Ali Alam Qamar is also looking after the financial affairs of the Company - Graduated from SOAS University of London & done courses from Harvard University & London School of Economics.

Effectiveness Majority of the sponsors are into management so there are no formal committees for the management. Important matters are discussed in the meeting of the management. The members review business operational progress while taking the decisions there and then.

MIS Flying Cement deploys in house software by the Australian software firm. The MIS reporting is built in Power Builder Language and old version is being used by the company.

Control Environment Flying Cement plant is located at Lilla Interchange, Jhelum, Punjab. The company's lease for limestone mining stands at 25 years from now. The company deploys Japanese plant at its manufacturing facility supplied by IHI Japan.

Business Risk

Industry Dynamics The country's total installed capacity of ~95mln MT is divided between North and South zones. During FY23, total industry volumes stood at 44.5mln MT (FY22: 52.8mln MT) reporting a decline of 15.7%. Local dispatches declined by 16.0% to 40.01mln MT during FY23 from 47.63mln MT in FY22. Similarly, Export volumes dwindled by 0.7mln MT during the period (FY23: 4.56mln MT, FY22: 5.25mln MT). The decline in overall volumes was a result of soaring inflation in the country that led to demand constraints. However, during the latest quarter 1QFY24, the industry volumes increased by ~24% to 11.9mln MT from 9.6mln MT during 1QFY23 on back of recovering demand and economic conditions.

Relative Position The company is smaller player of the industry, by currently operating at a capacity of 1.2mln tpa which translates into market share of 2.3% of cement capacity operational in North region and a market share of 1.26% in the overall cement capacity operational. The company is trying to maintain its share by expanding its existing capacity.

Revenues During 1HFY24, the company reported revenue of PKR 2.3bln compared to PKR 2bln during 1HFY23, demonstrating a growth of ~15% on the back of high prices, an increase of 14% in price per ton and 2% increase in dispatches compared to SPLY. Slight Increase in topline and adequate cost controls resulted in a net profit of PKR 171mln as compared to PKR 139mln SPLY.

Margins During 1HFY24, flying cement's margins increased slightly compared to 1HFY23 due to increase in price per ton by 14% however, inflationary pressures and KIBOR rates coerced margins (Gross Margin: 1HFY24: 16.4%, FY23: 13.6%, 1HFY22: 15%, Operating Margin: 1HFY24: 13.9%, FY23: 11.1%, 1HFY22: 12.7%, Net Profit Margin: 1HFY24: 7.2%, FY23: 6.4%, 1HFY22: 6.7%).

Sustainability The Company is fully committed to complete its Line 2 expansion project, and expects to achieve its COD during July 2024 after which the annual cement production capacity will be 3,510,000 tons. This will help company to sustain its share in the market.

Financial Risk

Working Capital At Dec-23, Company's net cash cycle was recorded at -70 days (FY23: -22 days; Dec-22: 1day) as trade payable days increased significantly from 167 in June 23 to 242 in Dec 23 while inventory days were recorded at 158 in Dec 23 as opposed to 130 in June 23. The company relies on a mix of internal cashflows, and short-term borrowing to meet its working capital requirement. Current ratio has decreased to 0.4x in Dec 23 (end-Jun23: 0.5x; Dec-22: 0.6x) due to significant increase in trade payables. Short term trade leverage has deteriorated to -196% indicating borrowings over and above the net trade assets of the company.

Coverages At Dec 23, FCFO's of the Company stood at PKR 386mln (FY23: PKR 641mln, Dec 22: PKR 306mln). Finance cost has also increased significantly due to increase in policy rate and borrowings. Finance cost was recorded at PKR 112mln in 1HFY24 as opposed to PKR 82mln in 1HFY23. Resultantly interest coverage has dipped to 3.4x at Dec 23 (FY23: 3.8x, 1HFY23: 3.7x).

Capitalization At Dec 23, long term debt stood at PKR 5bln while the Company's equity base was reported at PKR 12.4bln. Thus, Debt to debt plus equity ratio was reported at 35.7% (FY23: 35.9%, Dec 22: 31.1%). Short term borrowings constitute only 8% in total borrowings. In view of current financial crisis in the country, the bank has agreed in principle to allow deferment in its principal repayments while the company is regular in payment of its mark-up dues.

PACRA

The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

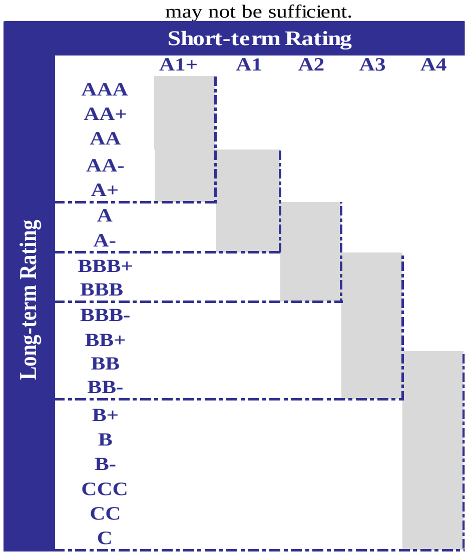
Flying Cement Company Limited	Dec-23	Jun-23	Jun-22	Jun-21
Cement	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	22,748	21,208	18,461	15,919
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	0
4 Current Assets	2,516	1,762	1,781	2,361
a Inventories	*1,217*	*842*	*799*	*1,220*
b Trade Receivables	*198*	*172*	*174*	*186*
5 Total Assets	25,264	22,970	20,242	18,280
6 Current Liabilities	5,597	3,533	2,159	1,620
a Trade Payables	*3,850*	*2,431*	*1,464*	*856*
7 Borrowings	5,462	5,374	4,823	5,888
8 Related Party Exposure	1,427	1,475	974	1,838
9 Non-Current Liabilities	373	354	324	659
10 Net Assets	12,405	12,234	11,963	8,274
11 Shareholders' Equity	12,405	12,234	11,963	8,274
B INCOME STATEMENT				
1 Sales	2,368	4,244	5,336	3,206
a Cost of Good Sold	*(1,980)*	*(3,667)*	*(4,464)*	*(2,903)*
2 Gross Profit	388	577	872	303
a Operating Expenses	*(59)*	*(105)*	*(91)*	*(65)*
3 Operating Profit	329	472	782	238
a Non Operating Income or (Expense)	*29*	*66*	*45*	*87*
4 Profit or (Loss) before Interest and Tax	358	538	826	325
a Total Finance Cost	*(112)*	*(169)*	*(115)*	*(72)*
b Taxation	*(74)*	*(98)*	*215*	*(110)*
6 Net Income Or (Loss)	171	271	926	144
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*386*	*641*	*857*	*419*
b Net Cash from Operating Activities before Working Capital Changes	*273*	*472*	*741*	*348*
c Changes in Working Capital	*1,217*	*1,295*	*777*	*1,082*
1 Net Cash provided by Operating Activities	1,490	1,767	1,519	1,429
2 Net Cash (Used in) or Available From Investing Activities	(1,624)	(2,907)	(2,695)	(2,770)
3 Net Cash (Used in) or Available From Financing Activities	115	1,126	1,046	1,522
4 Net Cash generated or (Used) during the period	(19)	(13)	(130)	182
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	11.6%	-20.5%	66.5%	197.0%
b Gross Profit Margin	16.4%	13.6%	16.3%	9.4%
c Net Profit Margin	7.2%	6.4%	17.4%	4.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	67.7%	45.6%	30.6%	46.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	2.9%	2.4%	8.1%	1.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	172	145	135	442
b Net Working Capital (Average Days)	-70	-22	56	340
c Current Ratio (Current Assets / Current Liabilities)	0.4	0.5	0.8	1.5
3 Coverages				
a EBITDA / Finance Cost	3.9	4.2	8.5	6.1
b FCFO / Finance Cost+CMLTB+Excess STB	0.2	0.2	0.4	0.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	18.2	18.2	8.3	21.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	35.7%	35.9%	32.6%	48.3%
b Interest or Markup Payable (Days)	1212.8	1025.6	563.2	1153.0
c Entity Average Borrowing Rate	3.4%	2.8%	1.6%	0.9%

Credit Rating

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

Long-term Rating	
Scale	**Definition**
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating	
Scale	**Definition**
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

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

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

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

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

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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 | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument;| Chapter III | 17-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)
Proprietary Information