The Pakistan Credit Rating Agency Limited

Rating Report

Gharibwal Cement Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Mar-2023	A	A2	Stable	Maintain	-
01-Apr-2022	A	A2	Stable	Maintain	-
02-Apr-2021	A	A2	Stable	Upgrade	-
03-Apr-2020	A-	A2	Stable	Maintain	-
27-Sep-2019	A-	A2	Stable	Maintain	-
29-Mar-2019	A-	A2	Stable	Maintain	-
16-Nov-2018	A-	A2	Stable	Maintain	-
04-May-2018	A-	A2	Stable	Maintain	-
20-Nov-2017	A-	A2	Stable	Maintain	-
06-Jun-2017	A-	A2	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Gharibwal Cement (the Company) has annual production capacity of 2.1mln tons. The Company has been conducting its business by selling cement to the localities located in close vicinity to the plant located in Ismailwal District Chakwal. Gujranwala division remained the Company’s key market. The cement sector latest period 1HFY23 reported a reduction of 17% in cement production reflecting on economic downturn. Increase in prices of all the construction materials has impacted demand for cement as well. Going forward, the same trend is expected to continue throughout the remaining fiscal year owing to economic constraints and political uncertainty. The company recorded a decrease of 5.2% in total dispatches for FY22. Though the Company observed volumetric decrease in cement dispatches during FY22 but its topline has improved to PKR 16.193bln owning to incremental selling prices (FY21: 12.17bln). Therefore, showing a significant increase (33%). Similar trend was noticed in the first quarter ended Sept 2022 (1QFY23: PKR 3.82bln, 1QFY22: PKR 3.18bln).
The Company has equity base of PKR 16.8bln whereas it's leveraging stands at 6.7%. The overall margins of the company also improved as compared to FY21 owing to better retention prices. In order to curtail the increasing energy prices, the Company has completed the construction and operations of Waste Heat Recovery (WHR) plant that generates electricity up to 12MW from waste hot gases of the process and 8MW from coal fired system. Keeping the current phase of expansion in view, Gharibwal is working on its line II expansion project to expand its current capacity by 10,000 TPD in order to maintain their market presence in the industry. The financial profile remains adequate as long-term leveraging expected to increase if expansion would be financed with debt mix. The ratings draw comfort from sponsor families, having prime focus of the company.

Industry's dynamics encompassing infrastructure development hence rising local demand is seen as an opportunity for the cement manufacturers. The ratings are dependent on upholding the company’s business vis-à-vis financial risk profile in the current economic scenario.

Disclosure

Name of Rated Entity	Gharibwal Cement Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Cement(Mar-22)
Rating Analysts	Anam Waqas Ghayour | anam.waqas@pacra.com | +92-42-35869504

Profile

Legal Structure Gharibwal Cement Limited – the flagship company of Gharibwal Group – was incorporated in 1960 as a Public Limited Company and commenced operations in 1965 and is listed on Pakistan Stock Exchange.

Background Way back in 1970s, the company was nationalized like other peers. Subsequently, after two decades (1992), in the wake of industries' privatization, Mr. Tousif Peracha and Mr. Abdur Rafique Khan – a foreign entrepreneur – acquired a majority stake in Gharibwal Cement. Since then, both have been associated with the company.

Operations Gharibwal Cement's registered office is located in Pace Tower Lahore and production facility is located in Ismailwal, Tehsil Pind Dadan Khan, District Chakwal. Gharibwal Cement Limited enhanced grinding capacity by adding new vertical mill of cement, in which company has increased its capacity to 13,680 t.p.d of grinding mill. The overall annual production capacity of the company is 2.01mln Tons.

Ownership

Ownership Structure Gharibwal Cement is a family owned business with majority stake held by two families. Peracha family owns ~56% while Khan family holds 32% equity stake in the company; all through individuals. However, Mr. Muhammad Tausif Peracha (single key shareholder) is identified as the man at the last mile.

Stability A tacit understanding between shareholding families necessitates formal documentation.

Business Acumen Mr. Muhammad Tousif Peracha and Mr. Abdur Rafique Khan have been together for more than three decades and are partners in different business ventures internationally – mainly shipping and real estate business. Hence their business acumen is considered strong due to their long associated business careers in different sectors.

Financial Strength Gharibwal Group has interests in glass manufacturing, lubricants, and real estate projects locally and shipping and truck manufacturing in Nigeria.

Governance

Board Structure The overall control of the company vests in nine member's board of directors including the Chairman - Khalid Siddiq Tirmizey and the CEO - Mr. Muhammad Tausif Peracha. Apart from them the board constitutes of two Executive Directors, three Non Executive Directors and two Independent Directors

Members' Profile Each board member has attained a professional qualification along with vast experience in different fields that is an evidence of their competency to make key decisions regarding the company's operations.

Board Effectiveness Two committees, Audit, and Human Resource and Remuneration are in place to assist the board on relevant matters.

Financial Transparency M/s Kreston Hyder Bhimji and Co. Chartered accountants, 'A' category SBP panel member, the external auditors have given an unqualified opinion on the company's financial statements for the year ended Jun-22.

Management

Organizational Structure The organizational structure of the company is divided into eight key functions. These include i) Operations and Projects, ii) Procurement, iii) Finance, iv) Marketing/ Commercial, v) Technical Advisory, vi) Information Technology, vii) Administration/ HR, and viii) Internal Audit. The Director Operations and Projects, supported by GM Works and his team, resides at Plant. All functional heads report to the CEO except Internal Audit, who reports to the Audit Committee.

Management Team The management is equipped with the necessary knowledge and technical skills required.

Effectiveness The management is supported by four committees: – (i) Core Executive, (ii) Risk Management, (iii) Investor Relation, and (iv) Finance and Policy Committee.

MIS The company deploys ERP as operating software to manage the company's financials, operations, supply chain, reporting and other business related activities. The quality of MIS reporting considered good.

Control Environment Plant – a mix of European and Chinese technology. Gharibwal Cement has several sources to cater to its power requirements (138MW).

Business Risk

Industry Dynamics Cement sector's production capacity is recorded above ~69mln tons in FY22. Almost ~76% of the operational plants are located in the North Region, while remaining~24% capacity is located in the South Region. Due to the ongoing economic constraints and political instability in the country, cement industry has also faced decline in dispatches during FY22. The supply was adversely affected by the nationwide floods that disturbed supply lines along with slow down in the construction industry leading to a fall in demand. During FY22, overall dispatches including local and export were recorded at 52.89mln MT (FY21: 57.43mln MT) registering a decline of 7.9%. Major decline of 43.6% was witnessed in the exports while local dispatches declined by 1%. Decline in exports were witnessed due to worldwide inflation and unfavorable pricing to export.

Relative Position Gharibwal Cement is among middle-tier cement players with an annual operational capacity of 2.01mln Tons. Over the last few years, the company commenced some projects in order to gain overall efficiency which included raw material conveyer belt, setting up a WHRPP, and cement grinding mill.

Revenues During FY22, the Company recorded revenue of PKR 16.19bln (1QFY23: PKR 3.8bln, FY21: PKR 12.1bln) on the back of positive price indicators whereas the volumes declined by -5% on PoP basis at 1.68mln tons (FY21: 1.78mln tons). The company's capacity utilization remained at 70%.

Margins The company has shown significant improvement in its margins after recovering from the overall economic slowdown. Gross Profit Margin for the latest quarter ended September 2022 were recorded at 23.2% (FY22: 23.4%, FY21: 26.2%, FY20: 1.0%). A similar trend was witnessed in the Net Profit Margins with 1QFY23 NPM recorded at 11.4% (FY22: 8.4%, FY21: 12.8%, FY20: 1.5%). The improvement in margins was a result of increase in selling prices.

Sustainability With the expansion in the cement industry and expected rise in demand due to CPEC related projects along with construction projects in the commercial and housing sector the company is planning to focus on fully utilizing its current capacity and achieving overall efficiency in the manufacturing process. Going Forward, it will be important for Gharibwal to expand its installed capacities in order to sustain its market share.

Financial Risk

Working Capital Gharibwal Cement's working capital requirements are a function of its inventory and payables, for which the company currently relies on a mix of internal cash flows and effective management of payables. Net cash cycle improved to (21) days at end-Jun22 (FY21: 23 days, FY20: 15 days) and further stretched at end-Sep22 to report as -44 days; on account of delayed payments to creditors.

Coverages Just like the overall results of the company improved, the company's coverage ratios showed a positive trend with the improvement in EBITDA. The company recorded EBITDA of PKR 1,163mln for the quarter ended Sept 2022 (1QFY22: PKR 850mln, FY22: 4,084mln, FY21: PKR 3,856mln, FY20: PKR 642mln). Hence the company's coverages enhanced and were reported as (Interest Coverage: FY22: 18.4x, FY21: 14.1x, FY20: 0.7x) and (Core Coverage: FY22: 3.6x; FY21: 2.6x, FY20: 0.3x).

Capitalization During FY22, the capital structure of the company remained moderate as the total debt to debt plus equity ratio remained at 8.1% (1QFY23: 6.7%, FY21: 14.2%, FY20: 18.9%). Net debt of the company decreased on a YoY basis from PKR 2.86bln to PKR 1.32bln, witnessed in FY21. The company's leveraging is subject to any future expansion projects that the company plans on undertaking.

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Financial Summary
PKR mln

Gharibwal Cement Limited Cement	Sep-22 3M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	19,148	18,930	19,716	20,352
2 Investments	-	-	-	-
3 Related Party Exposure	594	597	587	538
4 Current Assets	6,317	6,672	6,351	4,620
a Inventories	*916*	-	*985*	*528*
b Trade Receivables	*739*	*483*	*504*	*593*
5 Total Assets	26,059	26,199	26,654	25,511
6 Current Liabilities	3,564	3,261	4,060	4,082
a Trade Payables	*2,425*	*2,485*	*2,228*	*1,740*
7 Borrowings	1,214	1,495	2,612	3,112
8 Related Party Exposure	-	-	-	272
9 Non-Current Liabilities	4,489	4,596	4,225	3,539
10 Net Assets	16,793	16,848	15,757	14,506
11 Shareholders' Equity	16,883	16,848	15,757	14,506
B INCOME STATEMENT				
1 Sales	3,826	16,194	12,107	8,714
a Cost of Good Sold	*(2,937)*	*(12,406)*	*(8,930)*	*(8,628)*
2 Gross Profit	889	3,788	3,177	86
a Operating Expenses	(159)	(724)	(441)	(355)
3 Operating Profit	730	3,064	2,736	(268)
a Non Operating Income or (Expense)	*3*	*(23)*	*(26)*	*297*
4 Profit or (Loss) before Interest and Tax	733	3,041	2,709	28
a Total Finance Cost	*(82)*	*(287)*	*(421)*	*(590)*
b Taxation	*(215)*	*(1,399)*	*(737)*	*693*
6 Net Income Or (Loss)	436	1,354	1,551	131
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,003*	*3,856*	*3,684*	*324*
b Net Cash from Operating Activities before Working Capital Changes	*940*	*3,632*	*3,333*	*(113)*
c Changes in Working Capital	*137*	*(2,543)*	*(1,058)*	*1,266*
1 Net Cash provided by Operating Activities	1,078	1,089	2,276	1,153
2 Net Cash (Used in) or Available From Investing Activities	(618)	(154)	(449)	(191)
3 Net Cash (Used in) or Available From Financing Activities	(296)	(1,133)	(963)	(962)
4 Net Cash generated or (Used) during the period	164	(197)	864	(0)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-5.5%	33.8%	38.9%	-23.3%
b Gross Profit Margin	23.2%	23.4%	26.2%	1.0%
c Net Profit Margin	11.4%	8.4%	12.8%	1.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	29.8%	8.1%	21.7%	18.3%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	10.3%	8.0%	10.1%	0.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	70	32	83	112
b Net Working Capital (Average Days)	11	-21	23	45
c Current Ratio (Current Assets / Current Liabilities)	1.8	2.0	1.6	1.1
3 Coverages				
a EBITDA / Finance Cost	14.1	19.5	14.8	1.5
b FCFO / Finance Cost+CMLTB+Excess STB	3.9	3.6	2.6	0.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.3	0.4	0.8	-30.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	6.7%	8.1%	14.2%	18.9%
b Interest or Markup Payable (Days)	135.8	208.5	159.7	61.0
c Entity Average Borrowing Rate	18.6%	10.2%	8.5%	11.9%

Credit Rating

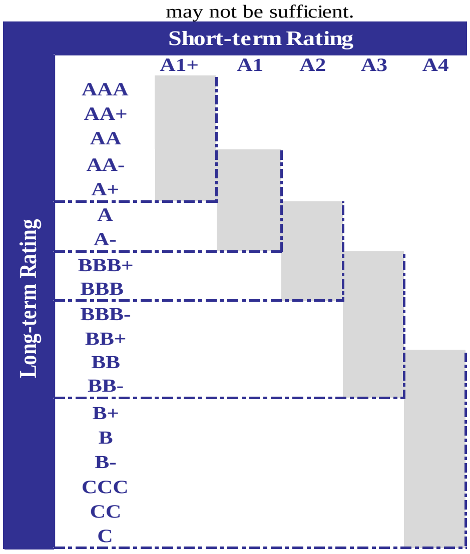
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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**
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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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(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).
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(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)
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(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
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(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)
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(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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