The Pakistan Credit Rating Agency Limited

# Rating Report

## Gharibwal Cement Limited

**Report Contents**



**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 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 | - |
| 04-Oct-2016 | A- | A2 | Stable | Initial | - |

**Rating Rationale and Key Rating Drivers**

The ratings reflect Gharibwal Cement's strength in its key markets. The company operates a plant located in Chakwal District with annual cement capacity of 2.1mln Tons. The company focuses on geographies closer to the plant location; Gujranwala division remained company's home market. The Cement sector's dispatches have recorded splendid growth and surged by 21% in FY21 as demand in the domestic market accelerated. The industry's future demand outlook is positive, in view of the infrastructure projects in the pipeline. The company managed to record an increase of 7% in total dispatches for FY21. As a result, Net Sales of the company improved to PKR 12.11bln during FY21 (FY20: 8.71bln) showing a massive 40% increase. Similar trend was noticed in the first quarter ended Sept 2021 (1QFY22: PKR 3.18bln, 1QFY21: PKR 2.16bln). The overall margins of the company also improved as compared to FY20 owing to better retention prices. Going forward, with the rising trend in the coal and fuel prices, the operational costs are expected to increase as this constitutes a major component of the production cost. In order to curtail this effect, 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. Considering the rising demand, the company is planning 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 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-21),Criteria \| Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria \| Rating Modifiers(Jun-21) |
| **Related Research** | Sector Study \| Cement(Mar-21) |
| **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 2 Executive Directors, 3 Non Executive Directors and 2 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-21.

## 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** The cumulative total production capacity of the country is 69 Million Tons which is expected to grow to ~88-91 Million Tons in the next 3-4 years. Overall dispatches in FY21 clocked in at 57.4 Million Tons with a utilization level of 82.7%. The sector is divided into two regions namely North & South. North consist of around 76% of the capacity while the dispatches share of North region in FY21 stands at 75%. In Pakistan, cement demand is closely linked to the overall economic growth, particular the infrastructure and housing sector. Pakistan's Public Sector Development Projects (PSDP) allocation plays an important role in driving the demand of cement. . In addition, Government focused initiatives on housing and infrastructure development and incentives announced under the construction package will lend support to the construction sector and expected to provide boost to the cement sector.

**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** Sales volume has consistently shown an upward trend and stood at 1.78mln Ton dispatches in FY21 (FY20: 1.66). In the north region local off take of cement increased by 18.22% to 40.58 million ton in the fiscal year FY2021 as against 34.33 million ton in fiscal year FY20. Exports from the north region increased by 30.25%, going up from 1.97 million ton in FY20 to 2.57 million ton in FY 2021. As a result, Net Sales improved to PKR 12.11bln during FY21 (FY20: 8.71bln) showing a massive 40% increase. Similar trend was noticed in the first quarter ended Sept 2021, with the company recording 21.7% increase in Net Sales Revenue as compared to the previous quarter (1QFY22: PKR 3.180bln, 1QFY21: PKR 2.613bln).

**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 Sept 2021 were recorded at22.8% (FY21: 26.2%, FY20: 1.0%). A similar trend was witnessed in the Net Profit Margins with 1QFY22 NPM recorded at 12.2% (FY21: 12.8%, FY20: 1.5%). The improvement in margins was a result of improved demand, increase in selling prices, reduction in energy prices and.

**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 0 days at end-Jun21 (FY20: 15 days) and further stretched at end-Sep21 to report as -19 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 850mln for the quarter ended Sept 2021 (FY21: PKR 3,856mln, FY20: PKR 642mln). Hence the company's coverages enhanced and were reported as (Interest Coverage: 1QFY22: 10.1x, FY21: 14.1x, FY20: 0.7x) and (Core Coverage: 1QFY22: 2.1x; FY21: 2.6x, FY20: 0.3x).

**Capitalization** During FY21, the capital structure of the company remained moderate as the total debt to debt plus equity ratio remained at 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 | Sep-21 | Jun-21 | Jun-20 | Jun-19 |
|---|---|---|---|---|
| Cement | 3M | 12M | 12M | 12M |
| **A BALANCE SHEET** | | | | |
| 1 Non-Current Assets | 19,657 | 19,716 | 20,352 | 18,315 |
| 2 Investments | - | - | - | - |
| 3 Related Party Exposure | 588 | 587 | 538 | 339 |
| 4 Current Assets | 5,932 | 6,351 | 4,620 | 4,609 |
| *a Inventories* | *490* | *985* | *528* | *899* |
| *b Trade Receivables* | *630* | *504* | *593* | *627* |
| **5 Total Assets** | 26,177 | 26,654 | 25,511 | 23,262 |
| 6 Current Liabilities | 3,565 | 4,060 | 4,082 | 3,390 |
| *a Trade Payables* | *3,018* | *2,228* | *1,740* | *1,456* |
| 7 Borrowings | 2,330 | 2,612 | 3,112 | 4,009 |
| 8 Related Party Exposure | - | - | 272 | 11 |
| 9 Non-Current Liabilities | 4,137 | 4,225 | 3,539 | 3,370 |
| **10 Net Assets** | 16,144 | 15,757 | 14,506 | 12,481 |
| **11 Shareholders' Equity** | 16,144 | 15,757 | 14,506 | 12,481 |
| **B INCOME STATEMENT** | | | | |
| **1 Sales** | 3,180 | 12,107 | 8,714 | 11,356 |
| *a Cost of Good Sold* | *(2,455)* | *(8,930)* | *(8,628)* | *(8,716)* |
| **2 Gross Profit** | 726 | 3,177 | 86 | 2,640 |
| *a Operating Expenses* | (129) | (441) | (355) | (591) |
| **3 Operating Profit** | 597 | 2,736 | (268) | 2,050 |
| *a Non Operating Income or (Expense)* | *43* | *(26)* | *297* | *(62)* |
| **4 Profit or (Loss) before Interest and Tax** | 640 | 2,709 | 28 | 1,988 |
| *a Total Finance Cost* | *(80)* | *(421)* | *(590)* | *(608)* |
| *b Taxation* | *(174)* | *(737)* | *693* | *(643)* |
| **6 Net Income Or (Loss)** | 387 | 1,551 | 131 | 736 |
| **C CASH FLOW STATEMENT** | | | | |
| *a Free Cash Flows from Operations (FCFO)* | *806* | *3,684* | *324* | *2,661* |
| *b Net Cash from Operating Activities before Working Capital Changes* | *759* | *3,333* | *(113)* | *2,195* |
| *c Changes in Working Capital* | *(789)* | *(1,058)* | *1,266* | *(868)* |
| **1 Net Cash provided by Operating Activities** | (30) | 2,276 | 1,153 | 1,327 |
| **2 Net Cash (Used in) or Available From Investing Activities** | (84) | (449) | (191) | (170) |
| **3 Net Cash (Used in) or Available From Financing Activities** | (299) | (963) | (962) | (833) |
| **4 Net Cash generated or (Used) during the period** | (413) | 864 | (0) | 324 |
| **D RATIO ANALYSIS** | | | | |
| **1 Performance** | | | | |
| *a Sales Growth (for the period)* | 5.1% | 38.9% | -23.3% | -1.1% |
| *b Gross Profit Margin* | 22.8% | 26.2% | 1.0% | 23.3% |
| *c Net Profit Margin* | 12.2% | 12.8% | 1.5% | 6.5% |
| *d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)* | 0.5% | 21.7% | 18.3% | 15.8% |
| *e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh* | 9.5% | 10.1% | 0.9% | 5.9% |
| **2 Working Capital Management** | | | | |
| *a Gross Working Capital (Average Days)* | 56 | 60 | 82 | 80 |
| *b Net Working Capital (Average Days)* | -19 | 0 | 15 | 25 |
| *c Current Ratio (Current Assets / Current Liabilities)* | 1.7 | 1.6 | 1.1 | 1.4 |
| **3 Coverages** | | | | |
| *a EBITDA / Finance Cost* | 10.6 | 14.8 | 1.5 | 5.5 |
| *b FCFO / Finance Cost+CMLTB+Excess STB* | 2.1 | 2.6 | 0.3 | 1.6 |
| *c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)* | 0.8 | 0.8 | -30.7 | 1.9 |
| **4 Capital Structure** | | | | |
| *a Total Borrowings / (Total Borrowings+Shareholders' Equity)* | 12.6% | 14.2% | 18.9% | 24.4% |
| *b Interest or Markup Payable (Days)* | 125.4 | 159.7 | 61.0 | 49.6 |
| *c Entity Average Borrowing Rate* | 11.2% | 8.5% | 11.9% | 13.7% |

## Credit Rating

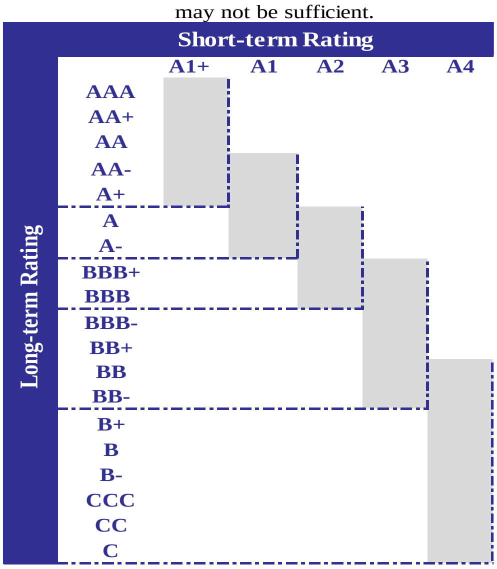
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

**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

## Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

**Rating Team Statements**

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

2) **Conflict of Interest**

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

**Restrictions**

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

(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

**Conduct of Business**

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.

(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)

(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)

(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

**Independence & Conflict of interest**

(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity

(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)

(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)

(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)

(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

**Monitoring and review**

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

**Probability of Default**

(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

**Proprietary Information**