The Pakistan Credit Rating Agency Limited

Rating Report

Bestway Cement Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
09-Sep-2022	AA-	A1+	Stable	Maintain	-
09-Sep-2021	AA-	A1+	Stable	Maintain	-
11-Sep-2020	AA-	A1+	Stable	Maintain	-
28-Sep-2019	AA-	A1+	Stable	Maintain	-
29-Mar-2019	AA-	A1+	Stable	Maintain	-
19-Nov-2018	AA-	A1+	Stable	Maintain	-
07-May-2018	AA-	A1+	Stable	Maintain	-
17-Nov-2017	AA-	A1+	Stable	Maintain	-
05-Apr-2017	AA-	A1+	Stable	Maintain	-
19-Nov-2016	AA-	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Bestway Cement’s ratings reflect its leading position in the market emanating from its high market share in north region. The company has maintained its position by taking capacity enhancement steps through organic and inorganic means. The latest period reported a reduction in cement production reflecting on economic downturn. Increase in prices of all the construction materials has impacted demand for cement as well. However, cement’s demand is expected to come full circle once the macro level fundamentals improve. Keeping the current phase of expansion in view and to maintain its position in competitive environment, Bestway is working on its two expansion projects. Greenfield expansion includes establishing a plant with capacity of 7,200 tonnes of clinker per day along with 9MW WHRP near Paikhel, District Mianwali whereas Brownfield expansion includes establishing a plant with same capacity with 9MW WHRP at its Hattar Site. Both these projects are expected to come online before the end of current financial year. In FY22, the Company picked up pace and report profits in line with the cement industry trend. Industry wide volumetric decrease in sales has been reported but better selling prices have absorbed their impact. During 9MFY22, Bestway Cement recorded net profit of PKR 10.4bln against PKR 8.3bln in 9MFY21. The Company’s ratings are strengthened by the sustainable dividend income from its strategic investment in United Bank Limited (UBL) in which company is holding 7.65%. Coverages have been improving despite increase in borrowings rates and borrowings due to improvement in FCFO's in 9MFY22. The company’s reliance on short term as well long-term debt is increasing to support ongoing expansion projects thus impacting its leveraging as well as current ratio.

The Company's business performance with local demand remains vital with focus on sustaining margins. The ratings also draw comfort from the strong sponsor support (Bestway Group). The ratings are dependent on upholding of company’s leading market position along with sustenance of business volumes and margins. The company's good business performance as compared to other players in current stretched economic scenario - challenges on demand front - remains vital for ratings.

Disclosure

Name of Rated Entity	Bestway 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	Uswa Sikandar | uswa.sikandar@pacra.com | +92-42-35869504

Profile

Legal Structure Bestway Cement Limited (Bestway Cement) – Flagship Company of Bestway Group (BG) – is a public limited company. The company obtained listing on Pakistan Stock Exchange on April 9, 2001.

Background Bestway Cement formally incorporated in 1993 and commenced operations in 1998. The company has history of successful acquisitions of cement plants. These acquisitions have abetted in solidifying the company's foot print in Pakistani cement industry. Latest acquisition held was of 'Pakcem Limited' with and into Bestway Cement.

Operations Bestway Cement registered Head Office is situated at College Road, F-7 Markaz, Islamabad. The company has multiple cement manufacturing facilities at locations of Hattar, Farooqia, Chakwal and Kallar Kahar and is also undergoing brownfield as well as greenfield expansions due to come online within current financial year. The company's sales office is located in Rawalpindi.

Ownership

Ownership Structure Bestway Cement is majority owned (77.5%) by Bestway Group (BWG) – UK – mainly through corporate (~60%), followed by individuals (~17%). Bestway group companies include Bestway International Holdings Limited and Bestway Foundation.

Stability Ownership of Bestway cement remained same throughout the years. Therefore no change is expected in foreseeable future.

Business Acumen Bestway Group is a British multinational conglomerate based in London, United Kingdom. It has its operations in United Kingdom and Pakistan. The association with various diversified businesses, since last few decades, reflects strong business acumen of sponsors

Financial Strength Bestway Group (end-Jun21 shareholders' equity: GBP 1.782bln, asset base: GBP 13.724bln) has business interests in the segments of wholesale segment, cement manufacturing, global banking, real estate, and pharmaceutical.

Governance

Board Structure The Company's eight member board comprises mainly BWG nominees. Two directors are Bestway Cement's executives (including CEO) while six are non-executive directors including two independent members.

Members' Profile Board members are equipped with necessary skill set as they have diversified professional background. Chairman, Sir Mohammed Anwar Pervez is associated with the group since 1984.

Board Effectiveness There are two board committees in place to assist board through decision making process. The committees are: 1) Audit committee and 2) Human Resource & Remuneration Committee (HR&R).

Financial Transparency The Company 's new auditors M/s. A.F. Ferguson & Co., Chartered Accountants, the external auditor, has given unqualified opinion on the company's financial statements for the period ended Dec, 2021.

Management

Organizational Structure The company has a streamlined organizational structure with clearly demarcated roles and high degree of delegation

Management Team The CEO, Mr. Zameer Mohammed Choudrey (also Group CEO), is associated with BWG since 1984. Mr. M. Irfan A Sheikh, is the Managing Director and Mr. Amir Khan is recently appointed as CFO. Mr. Syed Kausar Hussain Shah joined the company in 2019 as Director HR & Administration.

Effectiveness A monthly Coordination Committee (ManCom) meeting is held, that is attended by the CEO (either through telecon or in person), four EDs, and four General Managers Works. The members review business operational progress while taking the decisions there and then.

MIS Oracle-based ERP system; Comprehensive MIS reporting to department heads

Control Environment Geographically spread plant locations: (1) Chakwal (2) Hattar (3) Farooqia (4) Kallar Kahar ; equipped with state-of-the-art technology infrastructure. Diversified sources including Waste Heat Recovery Plants (WHRPP), Boilers, WAPDA, captive power plants and gas-based generators to meet power requirements.

Business Risk

Industry Dynamics Cement sector's production capacity is recorded around ~69mln MT in FY21 (~64mln MT in FY20), an increase of ~8.8% YoY. Expansion plans for enhancing the sector capacity up to ~87mln MT by FY24 are underway; the industry has also fetched PKR~19bln worth of LTFF & TERF financing facilities by Feburary'22 end. Although in FY21 average international coal prices increased by ~20%; improved dispatches and retention price enabled better capacity utilization of ~83% in FY21 (FY20: ~75%). However, In FY22, cement production declined by 3.6% showing a clear reflection of economic downturn where cost of all the construction materials were on a higher side thus eroding demand. Cement prices are hovering around Rs1,050/bag currently due to, (i) higher coal prices (including Afghan Coal), (ii) rupee devaluation against US dollar, and (iii) higher fuel prices

Relative Position As of June-2021, Lucky Cement is the largest player with estimated cement production capacity of ~12mln MT followed by Bestway and D.G Khan cement with ~10mln MT and ~7mln MT capacities respectively.

Revenues During FY22, volumetric analysis reveals that the company's total dispatches shrunk by ~74% on exports due to political and economic uncertainty in Afghanistan and ~ 6% on local sales due to inflationary pressures adversely impacting the commodities demand and price equilibrium. Local-export dispatches mix (FY22: 99:1; FY21: 95:5; FY20: 95:05; FY19: 92:08), almost remained filled by domestic market sales. Total cement capacity utilization declined to 65% (FY21: 78%) due to decrease in dispatches. Despite volumetric decrease, the company's topline witnessed upwards trend and recorded at PKR 51bln in 9MFY22 as compared to PKR 42bln in the corresponding period last year and profits were recorded at PKR 10.4bln (9MFY21: PKR 8.3bln; FY20: PKR .49bln) due to better selling prices. Going forward, the Company's capacity utilization and sustainability of profits remains challenging due to stubborn inflation, geopolitical unrest, high taxation and increase in finance cost due to increased borrowings to support current expansion projects.

Margins During the latest reported period, Gross and net profit margin improved slightly to 31.5% (9MFY21: 28.4%) and 20.2% (9MFY21: 19.7%) respectively. Going forward, sustainability of margins at this level will be challenging due to factors mentioned before.

Sustainability The Company is focusing on holding its leadership position in the market through retention of its market share by undergoing brownfield and greenfield expansions along with achieving optimal capacity utilization levels

Financial Risk

Working Capital During 9MFY22, Bestway Cement's working capital requirements, represented by net cash cycle, decreased to 20days (FY21: 25days). This is on account of decrease in receivable days and increase in trade payables days. The company meets working capital requirements through a mix of internal cashflows and STBs. The quantum of STBs stood at PKR 5.87bln at end-Mar22 (end-Jun21: PKR 1.652bln). Current ratio stood at (end-Mar-22: 1.4x; end-Jun-21: 1.7x).

Coverages During 9MFY22, EBITDA clocked in at PKR 16.493bln (FY21: 17.733 bln) while FCFO's were recorded at PKR13.786bln (FY21: 14.947 bln). Financial charges decreased to PKR. 0.7 billion as against PKR 1.04 billion in FY21 due to reduction in lower average borrowing cost as compared to last year. Resultantly, escalated FCFO coupled with reduced finance costs kept interest coverage ratio higher at 18.9x as compared to 14.4x in FY21. Going forward, with increase in borrowings as well KIBOR rate, coverages may be pushed downwards.

Capitalization Total borrowings and CMLTD stood at PKR 26.9bln and 4. 8bln in 9MFY22 as opposed to PKR 14.7bln & 1.19bln in FY21. Leveraging is expected to increase further in coming quarters to support expansion projects currently underway. Debt to debt plus equity ratio increased to ~29.8% (FY21: 19.7%). The company's equity base augmented to PKR 63.25bln (FY21: PKR 60.123bln) due to accumulation of profits and has strong capacity to absorb economic shocks in the medium term.

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Financial Summary
PKR mln

Bestway Cement Limited	Mar-22	Jun-21	Jun-20	Jun-19
Cement	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	82,075	62,706	63,618	65,154
2 Investments	274	274	266	262
3 Related Party Exposure	14,628	14,208	13,688	12,512
4 Current Assets	23,294	21,710	17,234	15,054
a Inventories	*4,446*	*3,762*	*2,291*	*2,689*
b Trade Receivables	*984*	*1,052*	*1,728*	*2,102*
5 Total Assets	120,271	98,898	94,806	92,982
6 Current Liabilities	17,181	12,505	7,692	8,274
a Trade Payables	*5,027*	*3,735*	*1,871*	*2,514*
7 Borrowings	26,885	14,711	22,525	16,460
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	12,953	11,560	9,936	10,642
10 Net Assets	63,252	60,123	54,653	57,606
11 Shareholders' Equity	63,252	60,123	54,653	57,606
B INCOME STATEMENT				
1 Sales	51,321	56,864	37,129	53,602
a Cost of Good Sold	*(35,177)*	*(40,261)*	*(36,012)*	*(37,557)*
2 Gross Profit	16,144	16,603	1,117	16,045
a Operating Expenses	(1,886)	(1,218)	(1,374)	(2,050)
3 Operating Profit	14,258	15,385	(257)	13,994
a Non Operating Income or (Expense)	*917*	*1,223*	*1,902*	*750*
4 Profit or (Loss) before Interest and Tax	15,174	16,609	1,645	14,744
a Total Finance Cost	*(752)*	*(1,071)*	*(2,152)*	*(1,498)*
b Taxation	*(4,061)*	*(3,960)*	*556*	*(3,148)*
6 Net Income Or (Loss)	10,361	11,578	49	10,097
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*13,786*	*14,947*	*1,302*	*13,803*
b Net Cash from Operating Activities before Working Capital Changes	*13,164*	*13,405*	*(736)*	*13,371*
c Changes in Working Capital	*(1,104)*	*2,487*	*(1,223)*	*3,456*
1 Net Cash provided by Operating Activities	12,060	15,893	(1,960)	16,827
2 Net Cash (Used in) or Available From Investing Activities	(20,434)	(890)	(423)	(4,271)
3 Net Cash (Used in) or Available From Financing Activities	2,980	(2,491)	2,268	(123)
4 Net Cash generated or (Used) during the period	(5,393)	12,512	(115)	12,433
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	20.3%	53.2%	-30.7%	1.4%
b Gross Profit Margin	31.5%	29.2%	3.0%	29.9%
c Net Profit Margin	20.2%	20.4%	0.1%	18.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	24.7%	30.7%	0.2%	32.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	24.0%	19.7%	0.1%	17.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	44	43	62	57
b Net Working Capital (Average Days)	20	25	41	36
c Current Ratio (Current Assets / Current Liabilities)	1.4	1.7	2.2	1.8
3 Coverages				
a EBITDA / Finance Cost	22.6	17.0	1.5	11.2
b FCFO / Finance Cost+CMLTB+Excess STB	3.2	6.7	0.4	1.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.2	0.9	-15.8	0.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	29.8%	19.7%	29.2%	22.2%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	5.4%	6.0%	10.9%	7.5%

Credit Rating

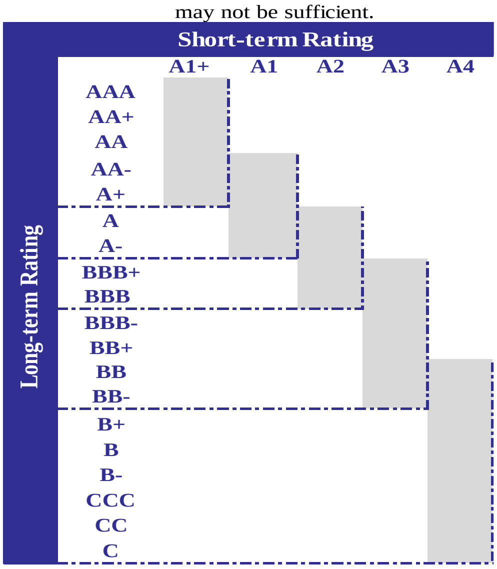
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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

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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).
(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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