RATING REPORT

Thatta Cement Company Limited (TCCL)

REPORT DATE:
December 1, 2016

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating	
Rating Category	**Long-term**	**Short-term**
Entity	A-	A-2
Rating Date	*November 30, '16*	
Rating Outlook	Stable	
Outlook Date	*November 30, '16*	

COMPANY INFORMATION

Incorporated in 1980	**External auditors:** M/s Grant Thornton Anjum Rahman, Chartered Accountants
Public Listed Company	**Chairman of the Board:** Mr. Khawaja Muhammad Salman Younis
	Chief Executive Officer: Mr. Muhammad Fazlullah Shariff

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporates (October 2003)*
http://www.jcrvis.com.pk/images/IndustrialCorp.pdf

Thatta Cement Company Limited

OVERVIEW OF THE INSTITUTION

Thatta Cement Limited (TCCL) was incorporated in 1980 as a public limited company and later obtained listing on Pakistan Stock Exchange (formerly Karachi and Lahore Stock Exchange Limited) asa public listed company. Head office of TCCL is situated in Continental Trade Center, Karachi while the factory is located at Ghulamullah Road, Makli District Thatta, Sindh. The company is mainly engaged in manufacturing, selling and marketing of cement.

TCCL held 62.4% of Thatta Power (Private) Limited (TPPL) shares as at end-FY16.TPPLstarted commercial operations on December 12, 2012 and has an installed capacity of 23.1 MW. The capacity is planned to be increased to 28.1MW with the installation of Waste Heat Recovery (WHR) for power generation. Financial close for WHR installation is expected in FY17.

RATING RATIONALE

Thatta Cement Company Limited (TCCL) has a 7% market share in terms of installed capacity in the South Zone. In terms of dispatches, market share stood at 5.3% and 5.4% during FY16 and1Q17, respectively. Sales mix of the company is dominated by local sales with proportion of local dispatches in total sales having increased given the higher demand and favorable retention prices. Apart from conventional cement products (OPC, SRC and Slag), TCCL's product offerings include Class G Cement and Ground-Granulated Blast-Furnace Slag.

During July'2015, the company completed its Balancing, Modernization and Rehabilitation (BMR) initiative resulting in an increase in production capacity to 1,700TPD from 1,500TPD of clinker. Moreover, efficiency indicators of the plant also improved to 105kwh per ton of cement and 835 kcal per kg of clinker. Capacity utilization ranges between 45% and 75% over the last three years. For the company's power related needs, power arrangement has been made through a dedicated 23.1MW electricity supply from company's subsidiary, Thatta Power (Private) Limited and a 12.5MW line from Hyderabad Electricity Supply Company.

Key Rating Drivers

- **Industry Dynamics:** As per independent estimates, Pakistan is amongst the three Cement Hotspots in the world where demand is expected to grow at its fastest. Higher local demand along with decline in input prices resulted in healthy increase in profitability of cement manufacturers during FY15 and FY16. Going forward, growth in local demand is expected to be driven by initiation of infrastructure projects under China Pakistan Economic Corridor and strong demand for private sector housing schemes. Given the favorable demand outlook, a number of cement manufacturers have announced expansion with additional capacities coming online representing over 100% of existing capacity. Industry players anticipate growth in domestic demand to cater to additional capacities.

- **Market Position:** Ratings are underpinned by company's existing market position (lower market share, efficiency and gross margins) and brand strength. Further improving reach (currently main markets include Karachi, Thatta, Badin and other surrounding areas) and franchise is considered important.

- **Improving Financial Profile:** Financial profile of the company has witnessed significant improvement as evident from improving cash flows (FY16: FFO/Total debt=44%; FY15: 21%) and declining leverage indicators (gearing=0.6x; leverage=0.9x). Liquidity profile of the company is considered adequate in view of improving cash flows in relation to outstanding obligations & current ratio and profile of trade debts which remain within manageable levels. Management has prepaid around 4 installments of loan taken for BMR initiative given the improvement in cash flows. Cash flows are projected to increase primarily on account of increase in capacity utilization (capacity utilization is on an improving trend on a timeline basis) and resultant improvement in gross margins.

- **Debt Servicing Coverage:** Management has projected significant cushion in cash flows for timely repayment of existing debt while gearing is expected to remain within manageable levels even after accounting for additional debt that might be undertaken.

Thatta Cement Company Limited — Appendix I

FINANCIAL SUMMARY		(Amounts in PKR Millions)	
BALANCE SHEET	**30-Jun-16**	**30-Jun-15**	**30-Jun-14**
Fixed Assets	2,173,000	2,149,869	1,415,559
Long Term Investments	463,926	578,499	439,264
Stock-in-Trade	241,023	240,225	431,626
Trade Debts	163,817	187,888	117,390
Cash and Bank Balances	237,769	112,837	28,448
Total Assets	3,944,629	3,559,115	2,969,513
Trade and Other Payables	382,819	300,649	522,427
Long Term Debt(Including current maturity)	1,258,617	1,284,778	509,238
Total Equity	2,074,969	1,673,500	1,349,257
INCOME STATEMENT	**30-Jun-16**	**30-Jun-15**	**30-Jun-14**
Net Sales	2,846,147	2,304,404	2,182,327
Gross Profit	913,844	645,901	682,015
Operating Profit	728,181	512,899	544,789
Profit After Tax	614,443	289,274	298,387
RATIO ANALYSIS	**30-Jun-16**	**30-Jun-15**	**30-Jun-14**
Gross Margin (%)	32%	28%	31%
Manufacturing Margin (%)	33%	36%	29%
FFO	565,568	291,596	367,319
FFO to Total Debt	0.4	0.2	0.4
Leverage	0.9	1.1	1.2
Gearing	0.6	0.8	0.7
ROAA (%)	16%	9%	12%
ROAE (%)	33%	19%	24%

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES					**Appendix III**
Name of Rated Entity	Thatta Cement Company Limited				
Sector	Cement and Construction				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: ENTITY				
	November 30, '16	A-	A-2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
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