

## RATING REPORT

### Thatta Cement Company Limited (TCCL)

**REPORT DATE:**

October 27, 2017

**RATING ANALYSTS:**

Talha Iqbal Chhoangalia  
[talha.iqbal@jcrvis.com.pk](mailto:talha.iqbal@jcrvis.com.pk)

Asfia Aziz  
[asfia.aziz@jcrvis.com.pk](mailto:asfia.aziz@jcrvis.com.pk)

**RATING DETAILS**

Rating Category	Latest Rating	Previous Rating
Entity	A-/A-2	A-/A-2
<i>Rating Date</i>	<i>October 27, '17</i>	<i>November 30, '16</i>
Rating Outlook	Stable	Stable
<i>Outlook Date</i>	<i>October 27, '17</i>	<i>November 30, '16</i>

**COMPANY INFORMATION**

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

**APPLICABLE METHODOLOGY(IES)**

*Applicable Rating Criteria: Industrial Corporates (May, 2016)* <http://www.jcrvis.com.pk/kc-meth.aspx>

## Thatta Cement Company Limited (TCCL)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>Thatta Cement Company 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) as a public listed company. Head office of TCCL is situated at 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.</p> <p>TCCL held 62.4% of Thatta Power (Private) Limited (TPPL) shares as at end-FY17. TPPL started 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.</p> <p>Management team of TCCL is headed by Mr. Muhammad Fazlullah Shariff who is the Chief Executive Officer (CEO) of the company. Mr. Shariff holds over 35 years of experience of working in the cement industry. He joined TCCL as Chief Operating Officer at the time of takeover by Al-Abbas Group from the State Cement Corporation through Privatization Commission.</p>	<p>Thatta Cement Company Limited (TCCL) has a 6% market share in terms of installed capacity in the South zone. Its market share in terms of dispatches in the Southern region has risen to 7.2% (FY16: 5.3%) in FY17. During FY17, the plant achieved over 100% utilization levels compared to 75% in the preceding year. Overall cement (increased by 12.4%) and clinker dispatches posted a noticeable increase of 36% during FY17 and amounted to 578,203 MT (FY16: 425,629MT). Clinker dispatches represent 24% (FY16: 14%) of sales mix during FY17; sustainability of the same will depend on market dynamics, going forward.</p> <p><b>Sector Dynamics</b></p> <ul style="list-style-type: none"> <li>Overall cement industry dispatches increased by 3.71% during FY17; local dispatches increased by 8% (FY16: 17%) while exports were lower by 20.6%. While local dispatches continued to grow at a healthy pace both in the North (FY17: 7.7%; FY16: 15.4%) and South zone (FY17: 9.5%; FY16: 24.9%), increase in dispatches was at a slower pace vis-à-vis preceding year. Going forward, cement dispatches are expected to post stable growth on the back of ongoing infrastructure projects under China Pakistan Economic Corridor, demand for housing units and expected increase in economic activity in the election year.</li> <li>JCR-VIS expects industry margins to witness pressure in FY18 on account of full year impact of increase in coal prices and significant additional capacities, particularly in the South region. Additional capacities coming online in the South region in FY18 represents around 62% of existing capacities resulting in decline in capacity utilization from current levels. However, industry players anticipate current industry structure to continue due to capital commitment of major players, projected closure of inefficient lines and growth in domestic demand.</li> <li>Industry players plan to increasingly tap export market in order to enhance capacity utilization levels. Given the excess capacities in key regional markets, scope for significant increase in exports at competitive prices remains limited. Demand patterns synchronizing with substantial supply side dynamics will continue to be an important rating driver, going forward.</li> </ul> <p><b>Financial Profile</b></p> <p><b>Profitability</b></p> <p>During FY17, net sales increased by 28.5% (FY16: 23.5%) attributed to volumetric growth and largely stable retention prices. Despite higher average coal prices, gross margins of the company witnessed only a slight decline to 31.8% (FY16: 32.1%) on account of improved efficiency (FY17: 830kcal/per kg of clink; FY16: 853kcal/per kg of clink). Given the higher dispatches and decline in finance cost, profit before tax increased by 28.4% during FY17. While remaining adequate, profitability levels are expected to moderate in FY18 as clinker sales normalize.</p> <p><b>Liquidity and Capitalization</b></p> <p>Liquidity profile of the company is considered adequate in view of improving cash flows in relation to outstanding obligations (FY17: FFO/Total debt=104%; FY16: 44%; FY15: 21%). Moreover, current ratio and profile of trade debts has remained at adequate levels. With improvement in cash flows, a sizeable portion of existing debt on balance sheet was prepaid during FY17. This along with growth in equity on account of retained profits has translated into a decline in gearing ratio to 0.3x at end-FY17 vs. 0.62x at end-FY16.</p> <p><b>Expansion</b></p> <ul style="list-style-type: none"> <li>The subsidiary company Thatta Power (Private) Limited (TPPL) has achieved the financial close of the planned Waste Heat Recovery (WHR) Project installation of Rs. 1.127b. Installation of WHR will result in power cost savings. The COD of the same is expected by the end of FY19.</li> </ul>

**Thatta Cement Company Limited**

**Appendix I**

<b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions)</i>			
<b><u>BALANCE SHEET</u></b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>
Fixed Assets	2,150	2,173	2,055
Stock-in-Trade	240	241	363
Trade Debts	188	164	137
Cash & Bank Balances	113	238	102
Total Assets	3,559	3,945	3,895
Trade and Other Payables	301	383	420
Long Term Debt	1,215	1,027	320
Short Term Debt	179	251	423
Total Equity	1,674	2,075	2,441
<b><u>INCOME STATEMENT</u></b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>
Net Sales	2,304	2,846	3,657
Gross Profit	646	914	1,163
Operating Profit	513	728	914
Profit After Tax	289	614	582
<b><u>RATIO ANALYSIS</u></b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>
Gross Margin (%)	28%	32.1%	31.8%
Net Working Capital	305	662	688
FFO (Rs. m)	291	565	771
FFO to Total Debt (%)	21%	44%	104%
FFO to Long Term Debt (%)	24%	55%	241%
Debt Servicing Coverage Ratio (x)	2.70	3.13	2.68
ROA (%)	8%	16%	15%
ROE (%)	17%	30%	24%

**Thatta Cement Company Limited (TCCL)****Appendix II**

<b>SENIOR MANAGEMENT TEAM</b>		
<b><u>NAME</u></b>	<b><u>DESIGNATION</u></b>	<b><u>PROFILE</u></b>
<b>Mr. Muhammad Fazlullah Shariff</b>	Chief Executive Officer	Mr. Muhammad Fazlullah Shariff is a qualified Chemical Engineer. He joined Thatta Cement Company Limited as Chief Operating Officer at the time of takeover by Al-Abbas Group from the State Cement Corporation through Privatization Commission. Subsequently he was elevated to the position of Director Project to look after Thatta Cement and the expansion and modernization of Al-Abbas Cement Industry (formerly ESSA Cement). Mr. Shariff has spent over thirty five years in the cement industry. He is a certified Company Director from the Institute of Chartered Accountants of Pakistan. Mr. Shariff is also a life member of the Pakistan Engineering Council and a member of the American Institute of Chemical Engineers and the American Chemical Society.
<b>Mr. Muhammad Taha Hamdani</b>	Chief Financial Officer & Company Secretary	Mr. Muhammad Taha Hamdani is a Fellow Member of Institute of Chartered Accountants of Pakistan. He has over seventeen years working experience with vast exposure in diversified sectors. Prior to joining Thatta Cement Company Limited in 2011 as Chief Financial Officer & Company Secretary, he was associated with Hascol Petroleum Limited as Chief Financial Officer. He has also worked as Head of Internal Audit & Compliance with JS Investments Limited and Head of Finance & Operations with Faysal Asset Management Limited. He also carries the experience of working as Deputy Director – Internal Audit, of Pakistan Tele-communication Company Limited, as a Group Internal Auditor for Five Star International Hotels in Pakistan and as a Group Finance Manager for an International Trading & Manufacturing Group based in Saudi Arabia. During FY17, Mr. Taha Hamdani has been appointed as an executive director on the board of TCCL.
<b>Mr. Aslam Shaikh</b>	Chief Operating Officer	Mr. Aslam Shaikh holds a Bachelor's degree in Mechanical Engineering, from the N.E.D Engineering University, Karachi. He has 35 years of experience in Cement Industry. He joined Thatta Cement as Project Manager during up-gradation of Thatta Cement Plant. On successful installation and commissioning of the up-gradation, he was elevated to the position of General Manager (Works). In 2013 he was promoted as the Chief Operating Officer to oversee operation and maintenance of Thatta Cement plant and monitor operational activities of Thatta Power (Private) Limited.

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Appendix III**

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](http://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](http://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](http://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.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES					Appendix IV
<b>Name of Rated Entity</b>	Thatta Cement Company Limited				
<b>Sector</b>	Cement and Construction				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	October 27, 2017	A-	A-2	Stable	Re-affirmed
	November 30, 2016	A-	A-2	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
<b>Disclaimer</b>	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2017 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.				