

**Date**

30-Mar-2019

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www.pacra.com**Applicable Criteria**

- Methodology | Corporate Ratings (Jun 18)
- Methodology | Criteria | Rating Modifier (Jun 18)
- Methodology | Correlation Between Long-Term And Short-Term Rating Scale (Jun 18)

Related Research

- Sector Study | Cement (Nov 18)

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PACRA Maintains Entity Ratings of D.G. Khan Cement Company Limited

Rating Type	Entity	
	Current (30-Mar-2019)	Previous (16-Nov-2018)
Action	Maintain	Maintain
Long Term	AA-	AA-
Short Term	A1+	A1+
Outlook	Stable	Stable
Rating Watch	-	-

DG Khan Cement's ratings reflect company's strong position in the cement industry emanating from its third highest market share in terms of capacity. The company's two existing manufacturing units (Khairpur Site and DG Khan Site) are operating at full capacity. The company lately added a new plant at South region-Hub of 2.9 M tpa capacity which is helping the company in improving its market share amid industry wide capacity expansions. Upcoming industry wide expansions of ~11.7mln tpa (North Region only) commissioning by Sep-19 and slowdown in the growth of local demand seems a challenge. The demand needs to be up to secure companies' margin. Export is another avenue. Industry wide exports (sizeable increase in South Region) have gone up due to muted growth in local demand. A new export window is created in Bangladesh market. Previously, cement exports were seen at its peak after financial crisis in 2008. DG Khan through its Hub plant is exporting sizeable amount of clinker to Bangladesh. The company is eyeing new export fronts and exploring new opportunities to channel exports in cost-efficient manner because the Bangladesh market won't stay for longer. The profitability of the company was on average as compared to peers, because of the underutilization of the new Hub plant and mainly cost structure. Resultantly, EBITDA margins of the company squeezed. Lately, the coal prices showed downward trend due to cutdown of imports by China are expected to remain range bound in medium term. The company's bottom line supported by the established dividend stream of the company from investments in Nishat Group companies - mainly MCB Bank. The company's financial profile reflects moderate leveraging; cashflows and coverages impacted because of declined profitability and increase in debt. The rating takes into account the association company with Nishat Group.

The ratings are dependent on upholding of the company's business vis-à-vis financial risk profile. Any significant deterioration in the sector's outlook particularly slowdown in economic growth, interest rate fluctuation and delay in infrastructure projects may affect the ratings. Industry's dynamics encompassing expected challenges of substantial decline in local demand or deterioration in cement prices will negatively affect the ratings.

About the Entity

DG Khan Cement, operates as the third largest cement manufacturer of the country with total cement capacity of 7.1mln tons p.a. DG Khan Cement, listed on PSX, is owned by Nishat Group (~49%), mainly through associated companies (32%), followed by sponsor family members (~17%). The overall control of the company vests in seven member board including the CEO. Mrs. Naz Mansha and Mr. Raza Mansha, the Chairperson and the CEO, both represent sponsoring family on board. Two board members (including CEO) hold executive positions while four are non-executives and one independent director. The CEO, Mr. Raza Mansha, is associated with the company in capacity of CEO since 2003.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.