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MIRA INFORM REPORT

Report No. :	521606
Report Date :	26.07.2018

IDENTIFICATION DETAILS

Name :	D.G. KHAN CEMENT COMPANY LIMITED
Registered Office :	Nishat House, 53-A, Lawrence Road, Lahore, Pakistan
Country :	Pakistan
Financials (as on) :	30.06.2017
Date of Incorporation :	1978
Com. Reg. No.:	0006469
Legal Form :	Public Limited Company
Line of Business :	Subject is Principally engaged in production and sale of Clinker, Ordinary Portland and Sulphate Resistant Cement
No. of Employees :	1,553

RATING & COMMENTS

(Mira Inform has adopted New Rating mechanism w.e.f. 23rd January 2017)

MIRA's Rating :	A

Credit Rating	**Explanation**	**Rating Comments**
A	Acceptable Risk	Business dealings permissible with moderate risk of default

Status :	Satisfactory
Payment Behaviour :	Slow and delayed
Litigation :	Clear

NOTES :

Any query related to this report can be made on e-mail : infodept@mirainform.com while quoting report number, name and date.

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ECGC Country Risk Classification List

Country Name	Previous Rating (31.12.2017)	Current Rating (01.04.2018)
Pakistan	B1	B1

Risk Category	ECGC Classification
Insignificant	A1
Low Risk	A2
Moderately Low Risk	B1
Moderate Risk	B2
Moderately High Risk	C1
High Risk	C2
Very High Risk	D

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PAKISTAN - ECONOMIC OVERVIEW

Decades of internal political disputes and low levels of foreign investment have led to underdevelopment in Pakistan. Pakistan has a large English-speaking population, with English-language skills less prevalent outside urban centers. Despite some progress in recent years in both security and energy, a challenging security environment, electricity shortages, and a burdensome investment climate have traditionally deterred investors. Agriculture accounts for one-fifth of output and two-fifths of employment. Textiles and apparel account for more than half of Pakistan's export earnings; Pakistan's failure to diversify its exports has left the country vulnerable to shifts in world demand. Pakistan's GDP growth has gradually increased since 2012, and was 5.3% in 2017. Official unemployment was 6% in 2017, but this fails to capture the true picture, because much of the economy is informal and underemployment remains high. Human development continues to lag behind most of the region.
In 2013, Pakistan embarked on a $6.3 billion IMF Extended Fund Facility, which focused on reducing energy shortages, stabilizing public finances, increasing revenue collection, and improving its balance of payments position. The program concluded in September 2016. Although Pakistan missed several structural reform criteria, it restored macroeconomic stability, improved its credit rating, and boosted growth. The Pakistani rupee has remained relatively stable against the US dollar since 2015, though it declined about 10% between November 2017 and March 2018. Balance of payments concerns have reemerged, however, as a result of a significant increase in imports and weak export and remittance growth.
Pakistan must continue to address several longstanding issues, including expanding investment in education, healthcare, and sanitation; adapting to the effects of climate change and natural disasters; improving the country's business environment; and widening the country's tax base. Given demographic challenges, Pakistan's leadership will be pressed to implement economic reforms, promote further development of the energy sector, and attract foreign investment to support sufficient economic growth necessary to employ its growing and rapidly urbanizing population, much of which is under the age of 25.
In an effort to boost development, Pakistan and China are implementing the "China-Pakistan Economic Corridor" (CPEC) with $60 billion in investments targeted towards energy and other infrastructure projects. Pakistan believes CPEC investments will enable growth rates of over 6% of GDP by laying the groundwork for increased exports. CPEC-related obligations, however, have raised IMF concern about Pakistan's capital outflows and external financing needs over the medium term.

Source : CIA

COMPANY NAME

Business Name D.G. KHAN CEMENT COMPANY LIMITED

FULL ADDRESS

Registered Address
Nishat House, 53-A, Lawrence Road, Lahore, Pakistan

Tel # 92 (42) 111-113-333
Fax # 92 (42) 36367414
Email info@dgcement.com

SHORT DESCRIPTION OF BUSINESS

a.	Nature of Business	Principally engaged in production and sale of Clinker, Ordinary Portland and Sulphate Resistant Cement
b.	Year Established	1978
c.	Registration #	0006469

FACTORIES LOCATION

(1) Khofli Sattai, Distt. Dera Ghazi Khan-Pakistan
Phone: 92 (641) 460025-7
Fax: 92 (641) 462392
Email: dgsite@dgcement.com

(2) 12, K.M. Choa Saidan Shah Road,
Khairpur, Tehsil Kallar Kahar,
Distt. Chakwal-Pakistan
Phone: 92 (543) 650215-8
Fax: 92 (543) 650231

(3) Chichaee Gadani Main RCD, Hub District,
Lasbela, Pakistan

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BRANCHES

In Lahore, Karachi, & Rawalpindi

AUDITORS

A.F. Ferguson & Co.
(Chartered Accountants)

LEGAL STATUS

Subject Company is a public limited company incorporated in Pakistan and is listed at Pakistan Stock Exchange

DETAILS OF DIRECTORS

Names	Designation
Mrs. Naz Mansha	Chairperson
Mr. Raza Mansha	Chief Executive
Mr. Khalid Niaz Khawaja	Director
Mr. Mohammad Arif Hameed	Director
Mr. Khalid Qadeer Qureshi	Director
Mr. Farid Noor Ali Fazal	Director
Mr. Shahzad Ahmad Malik	Director

CATEGORIES OF SHAREHOLDERS

Categories	Percentage (%)
Directors, Chief Executive Officer, and their spouse and minor children	4.27
Associated Companies, undertakings and related parties	32.04

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NIT & ICP	0.24
Banks, Development Financial Institutions, Non Banking Financial Institutions	2.44
Insurance Companies	3.82
Modarabas and Mutual Funds	10.86
General Public	14.08
Others	
Joint Stock Companies	2.71
Investment Companies	0.26
Pension Funds, Provident Funds etc	1.48
Foreign Companies	15.45

ASSOCIATES

A. **SUBSIDIARY**

None

B. **ASSOCIATED COMPANIES**

(1) Nishat Mills Limited, Pakistan.
(2) MCB Bank Limited, Pakistan.
(3) Nishat Power Limited, Pakistan.
(4) Lalpir Power Limited, Pakistan.
(5) Nishat Paper Products Company Limited, Pakistan.
(6) Security General Insurance Company Limited, Pakistan.
(7) Nishat Hotels & Properties Limited, Pakistan.
(8) Nishat (Aziz Avenue) Hotels & Properties Limited, Pakistan.
(9) Nishat (Raiwind) Hotels & Properties Limited, Pakistan.
(10) Nishat (Gulberg) Hotels & Properties Limited, Pakistan.
(11) Nishat Hospitality (Pvt) Limited, Pakistan.
(12) Nishat Automobiles (Pvt) Limited, Pakistan.
(13) Nishat Agriculture Farming (Pvt) Limited, Pakistan.
(14) Nishat Developers (Pvt) Limited, Pakistan.
(15) Pakistan Aviators & Aviation (Pvt) Limited, Pakistan.
(16) Nishat Dairy (Pvt) Limited, Pakistan.

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(17) Nishat Farm Supplies Limited, Pakistan.
(18) Nishat Spinning (Pvt) Limited, Pakistan.
(19) MCB Financial Services Limited, Pakistan.
(20) Adamjee Life Assurance Company Limited, Pakistan.
(21) Mnet Services (Pvt) Limited, Pakistan.
(22) Euronet Pakistan (Pvt) Limited, Pakistan.
(23) Adamjee Insurance Company Limited, Pakistan.
(24) Nishat Energy Limited, Pakistan.
(25) Nishat Linen (Pvt) Limited, Pakistan.
(26) Nishat Real Estate Development (Pvt) Limited, Pakistan.

BUSINESS ACTIVITIES

Principally engaged in production and sale of Clinker, Ordinary Portland and Sulphate Resistant Cement

NUMBER OF EMPLOYEES

1,553

PLANT CAPACITY AND ACTUAL PRODUCTION

	Capacity		Actual production	
	2017	2016	2017	2016
Clinker (Metric Tonnes)				
Unit I	810,000	810,000	829,387	696,461
Unit II	1,200,000	1,200,000	1,195,979	1,227,600
Unit III	2,010,000	2,010,000	2,289,234	2,040,937
Cement Bag (Number of bags in Thousand)	120,000	120,000	118,718	110,404

Normal capacity is based on 300 working days, this can be exceeded if the plant is operational for more than 300 days during the year

ANNUAL SALES VOLUME

Years	In Pak Rupees

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2016	29,703,758,000/-
2017	30,136,165,000/-

CUSTOMERS

Various local & International including Construction Companies, Buying Agencies, Distribution Companies, International Buyers etc

TRADE SUPPLIERS (FOREIGN)

Subject import globally from Companies belongs to China, Korea, Taiwan, Singapore, Japan & European Countries

BANKERS

(1) Allied Bank Limited, Pakistan.
(2) Meezan Bank Limited, Pakistan.
(3) Askari Bank Limited, Pakistan.
(4) National Bank of Pakistan, Pakistan.
(5) Bank Alfalah Limited, Pakistan.
(6) NIB Bank Limited, Pakistan.
(7) Bank Al-Habib Limited, Pakistan.
(8) Samba Bank Limited, Pakistan.
(9) Bank Islami Pakistan Limited, Pakistan.
(10) Soneri Bank Limited, Pakistan.
(11) Citibank N.A., Pakistan.
(12) Standard Chartered Bank, Pakistan.
(13) Deutsche Bank AG (Pakistan) Limited, Pakistan.
(14) Dubai Islamic Bank, Pakistan.
(15) Silk Bank Limited, Pakistan.
(16) Faysal Bank Limited, Pakistan.
(17) The Bank of Punjab, Pakistan.
(18) Habib Bank Limited, Pakistan.
(19) United Bank Limited, Pakistan.
(20) Habib Metropolitan Bank, Pakistan.
(21) MCB Bank Limited, Pakistan.

EXPORTING COUNTRIES

Mainly to Afghanistan & India

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GLOBAL ECONOMIC ENVIRONMENT

Global Economy indicated positive signals via industrial production, trade and other confidence symbols. Yet it is recovering. Struggling to cure and iron out. Searching ways to bring durable growth. Carving out better regulatory measures. Emerging markets and developing economies now account for 75% of global growth in output and consumption. IMF predicted a noticeable growth in the global economy in 2017 for reasons including investment upsurge, manufacturing and trade activities. It projected world growth is expected to rise to 3.5 pc this year and 3.6pc in 2018, from 3.1pc last year. With a set of new thinking and policies USA is at work for reconsidering various international agreements and protocols. "Buy American, Hire American" slogan is something may have impacts on talent and goods imports in USA market, if materialised. Middle East specifically Gulf states are engulfed with multi facet problems from oil prices to regional conflicts and war. This part of world is expected to report slow down. Few regional conflicts like North Korea, Syria, Iraq, Afghanistan and Yemen are like boiling volcanos. Though major developments were made in last year in Iraq and Syria towards resolution. Oil picked up and it may remain stable in 2018 with a probability of rising and remaining range bound. International lenders forecasted growth in Pakistan economy at the rate of about 5pc for 2017 and 5.2pc for 2018. Pakistan is consumption driven economy. In present days CPEC will be main drive force for investment in Pakistan. Harvard University study which predicted Pakistan to grow by more than 5% in the next decade. PWC said in its report that by 2050 Pakistan economy could become world's 16th largest in terms of GDP and Purchasing Power Parity. National statistics showed GDP growth of 5.3pc, highest in last decade. Fiscal deficit was at 3.8 (FY16: 4.6pc, FY15: 5.3pc), again lowest in about twelve years and that touched 8.8pc in FY 12. Per capita income raised from USD 1,531 to USD 1,629. Inflation is now picking up after bottoming out. CPI growth is 4.1 (FY16: 2.9). Country policy rate is at 5.75% since May 2016. It came down from 10.0 in November 2013. Agriculture sector has witnessed downfall in last years. Total cropped area is almost same since last seven years. Agriculture registered growth of 3.5% as against 0.3% in FY16. Industrial segment proved 5% enhancement and service sector as usual was on top with 6% growth. Large scale manufacturing improved with 4.9% increase, small scale grown at last year rate of 8.2%. Construction segment grown at 9% as against 14.6% in FY16. There is huge growth of 6.9% in wholesale and retail trade.

PAKISTAN CEMENT INDUSTRY

witnessed overall about 4% (FY16: 10%) growth. Local despatch growth is 8% (FY16: 17%). Exports are down by 21% (FY16: 18%). Domestic Cement Industry utilization for FY17 remained at 86% (FY16: 85.22%) without any overall significant change. Local despatch utilization was at 76% (FY16: 72%) and exports took 10% (FY16: 13%). North local despatch utilization increased from 73% to 76% whereas South remained ahead by reaching 76% from 69%. Exports utilization of North fall from 10% to 8% and of South from 24% to 18%. In last 12 years average utilization of industry is about 78% with 62% local and 17% exports share. North has remained ahead in local utilization of 63% as 57% of South. While South was better in exports with 28% as compared to 14% of North. Domestic Cement Industry remained very bullish in growth and expansions besides on PSX. In last couple of years 10 cement players have announced 12 expansion plans on various dates. It includes our two plants. All announced projects are brownfield except 2 that includes one of our green field Hub project. If all announced expansion plans are materialized, this will bring considerable change in capacity-wise status of companies falling between top and bottom threes and will increase the industry capacity by almost more than 50% in about four to five years' time. 8 companies have announced expansion in North and 4 in South with two companies having announced expansion adventures in both geographical classifications including us. These expansions will bring a capacity increase of about 32% in KPK, 56% in Punjab, 54% in Sindh and 225% in Baluchistan. This will make

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North about 47% larger than its existing capacity and South of about 90% of its existing. This analysis has yet not taken any impact of licenses granted by KPK government to 14 prospective cement manufacturers in March 2017 as the winners of these licenses have yet not made any formal project announcements. As per media reports 6 more licenses are in pipeline. KPK government has identified areas of Dera Ismail Khan, Kohat and Haripur for new cement plants being rich in required raw material reserves. The bullishness of cement industry can be ascertained that as per media reports 44 industrial groups have applied to KPK government for obtaining licenses. KPK government is expecting USD 2.5 billion investment through these licenses.

SALES & GROSS MARGIN

Sales revenue increased by about 1.46% with a corresponding increase of about 7% in COGS, thereby booking a decline of 6.5% in gross margin. Local sales surge by 5% in volumes and by 11.45% in gross value and by just about 3% in net terms as compared to last financial year. FED raised during FY17 to PKR1,000/ton from earlier 5% of sale value. It increased impact of FED to more than double. Total sales related governmental levies were 21% of gross value in last year. Now these are 27% of gross sales. Therefore, on average net local sales price decreased by about 3%. The Company could not pass on the impact of raised taxes completely. 57% (FY16: 50%) of cost of sales is comprised of energy i.e., electricity, gas, furnace oil and coal. Energy related heads increased by 23% over year. Comparatively higher number of kiln operational days and higher clinker and cement production offset to some extent negative impacts of comparatively higher coal prices. More emphasis remained on own electricity generation than WAPDA that also gave an advantage in keeping cost contained. Had the own electricity generation arrangements were not made the cost could have been higher. Coal prices remained higher in FY17 as compared to FY16. Since November 2016, RLNG tariff has made gas expensive.

FUTURE OUTLOOK

Oil prices may remain range bound but with bit upward trend. Coal prices to remain shaky and unpredictable as now its trending against its historical correlation with oil. Coal index price may cross USD 100. KIBOR position will not change immensely. PKR is expected to see minor depreciation against USD. Developmental spending, CPEC projects and election year are expected to boost construction activity and resultantly give a healthy push to cement sector. Local demand of cement will grow but exports to remain depressed. Cement prices may oscillate in ranges due to materialized expansions. For FY18 government increased Federal Excise Duty from PKR1000/ton to PKR1250/ton. We expect that in forthcoming year the trend of profitability may remain almost same. Hub cement plant, of 9000tpd, will be a state of the art project. Civil work of factory buildings is almost complete and erection work is in full swing. The project is in line with time schedule. Till June 30, 2017 the Company incurred PKR 30.8 billion on this project. Setting up of brown field project upto 2,200,000 tons per annum clinker at Dera Ghazi Khan site is still on table but its execution is deferred till the economics permits. The Company is in process of BMR of Unit 1 that will achieve production efficiency and more environment friendliness.

MEMBERSHIPS

Federation Pakistan Chamber of Commerce & Industry.
All Pakistan Cement Manufacturers Association.

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Lahore Chamber of Commerce & Industry.

COMMENTS

Mansha Group enjoys excellent credibility in Pakistan as well as in abroad. Directors of the Company are reported as qualified, experienced and resourceful businessmen. Payments are In view of current disturbed economic and political situation, we would advise to deal with all the business in Pakistan with some caution.

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FOREIGN EXCHANGE RATES

Currency	Unit	Indian Rupees
US Dollar	1	INR 68.80
UK Pound	1	INR 90.58
Euro	1	INR 80.45
PKR	1	INR 0.53

Note : Above are approximate rates obtained from sources believed to be correct

INFORMATION DETAILS

Analysis Done by :	VIV
Report Prepared by :	KET

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RATING EXPLANATIONS

Credit Rating	Explanation	Rating Comments
A++	Minimum Risk	Business dealings permissible with minimum risk of default
A+	Low Risk	Business dealings permissible with low risk of default
A	Acceptable Risk	Business dealings permissible with moderate risk of default
B	Medium Risk	Business dealings permissible on a regular monitoring basis
C	Medium High Risk	Business dealings permissible preferably on secured basis
D	High Risk	Business dealing not recommended or on secured terms only
NB	New Business	No recommendation can be done due to business in infancy stage
NT	No Trace	No recommendation can be done as the business is not traceable

NB is stated where there is insufficient information to facilitate rating. However, it is not to be considered as unfavourable.

This score serves as a reference to assess SC's credit risk and to set the amount of credit to be extended. It is calculated from a composite of weighted scores obtained from each of the major sections of this report. The assessed factors are as follows:

- Financial condition covering various ratios
- Company background and operations size
- Promoters / Management background
- Payment record
- Litigation against the subject
- Industry scenario / competitor analysis
- Supplier / Customer / Banker review (wherever available)