

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

RATING REPORT

Century Paper & Board Limited

REPORT DATE:

May 30, 2016

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A+	A-1	A+	A-1
Rating Outlook	Stable		Stable	
Rating Date	May 23, 2016		December 15, 2014	

COMPANY INFORMATION

Incorporated in 1984	External auditors: BDO Ebrahim & Co., Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Iqbal Ali Lakhani
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Aftab Ahmed
<i>Associated Companies</i> –68%	
<i>General Public</i> –12%	
<i>Others</i> –14%	

APPLICABLE METHODOLOGY (IES)

Methodology: Industrial Corporates (Oct 2003) <http://jcrvis.com.pk/images/IndustrialCorp.pdf>

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OVERVIEW OF THE INSTITUTION

Century Paper & Board Mills Limited (CPBM) was incorporated in 1984 as a public listed Company. Financial Statements of the Company for FY15 were audited by BDO Ebrahim & Co., Chartered Accountants.

Lakson Group of Companies has a diversified portfolio of industries consisting of consumer goods, Information Technology, Paper and Paperboard, Printing and Packaging, Fast Food Chain, Publications & Media, Surgical Instruments, Insurance, Asset Management and Travel Services.

RATING RATIONALE

Century Paper & Board Mills Limited (CPBM) operates as a part of Lakson Group of Companies. With an operational capacity of 240,000 MT CPBM operates in the market as a manufacturer of paper & paperboard and corrugated boxes. Paperboard remains the flagship product category of the Company, accounting for approximately 75% of total sales.

Rating Divers

- **Sponsor Support:** Ratings incorporate the strong sponsor support enjoined on CPBM with Lakson Group of Companies as its parent.
- **Market Dynamics:** During the course of FY15, fierce competition from China and increasing cost of inputs adversely affected profit margins. CPBM resorted to curtail production and consequently its market share declined to 10% (FY14: 12%) in FY15. To regain market share, Company had adjusted selling prices downward in the last quarter of the FY2015. However, despite the reduced prices, Company is performing well in FY16 because of declining cost of key inputs namely, fuel and raw material.
- **Coal Based Co-Generation Power Plant:** The 18 MW Coal Based Co-generation Plant (COGEN 111) is in its testing phase and is expected to be operational by end of May 2016; a source of cost-effective energy, the plant will suffice for over half of the Company's energy requirements. Further, with the plant coming online, it will enable the Company to enhance its capacity utilization to enhance quantum of profits.
- **Profitability:** After incurring a loss of Rs. 205m during FY15 (as compared to profit of Rs. 630 million in FY14), the Company posted a profit of Rs. 194m for the nine months ended March 31, 2016. These results were achieved on the back of increase in sales volumes coupled with reduced operating cost. Resultantly, gross and net margins substantially increased to 8.87% (FY15: 6.66%) and 1.92% (FY15: -1.56%) respectively.
- **Liquidity:** Lower capacity utilization translated into restricted funds and CPBM's Funds From Operations (FFO) declined by over 70% in FY15. Likewise, FFO to total debt diminished to 7% (FY14: 27%). With improved margins and better inventory management, the Company's liquidity profile significantly improved during 9MFY16; FFO to Total Debt increased to 16% (annualized).
- **Leverage:** Since COGEN-III was largely financed through debt, leverage indicators showcased higher levels; leverage and gearing stood at 1.56x (FY14: 1.29x) and 1.65x (FY14: 1.37x) as at end FY15. With improved cash flows and repayment of long term debt, leverage indicators are projected to revert to adequate levels.

Outlook

Going forward, the Company expects to increase its capacity utilization to garner higher profits. However, profitability will remain susceptible to market dynamics, input prices and interest rates which may cause downward pressure as witnessed in FY15.

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Century Paper & Board Limited

Appendix I

FINANCIAL SUMMARY (amounts in PKR millions)			
<u>BALANCE SHEET</u>	HYFY16	FY15	FY14
Fixed Assets	9,960	9,426	8,349
Investments	-	-	-
Stock-in-Trade	1,970	1,982	2,563
Trade Debts	1,248	1,174	1,007
Cash & Bank Balances	239	121	69
Total Assets	14,862	14,108	13,179
Trade and Other Payables	1,479	1,245	973
Long Term Debt (<i>*incl. current maturity</i>)	4,985	4,771	4,130
Short Term Debt	2,177	1,952	1,605
Tier-1 Equity	1,939	1,856	2,082
Total Equity	5,602	5,519	5,745
<u>INCOME STATEMENT</u>	HYFY16	FY15	FY14
Net Sales	6,464	13,186	14,668
Gross Profit	545	878	2,021
Operating Profit	315	400	1,529
Profit After Tax	83	(205)	630
<u>RATIO ANALYSIS</u>	HYFY16	FY15	FY14
Gross Margin (%)	8.43%	6.66%	13.78%
Net Working Capital	454	821	1,405
FFO to Total Debt (x)	16.00%*	7.07%	27.22%
FFO to Long Term Debt (x)	22.98%*	9.96%	37.80%
Debt Servicing Coverage Ratio (x)	1.54*	0.78	2.47
ROAA (%)	1.15%*	-1.51%	4.76%
ROAE (%)	3.00%*	-3.65%	10.89%

* Annualized

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

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

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.

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.

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REGULATORY DISCLOSURES					Appendix III
Name of Rated Entity	Century Paper & Board Limited				
Sector	Paper & Board				
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				
	23-May-16	A+	A-1	Stable	Reaffirmed
	15-Dec-14	A+	A-1	Stable	Reaffirmed
	20-Nov-13	A+	A-1	Stable	Upgrade
	07-Dec-12	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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