

RATING REPORT

Century Paper & Board Limited

REPORT DATE:

December 11, 2017

RATING ANALYSTS:

Jazib Ahmed - CFA
jazib.ahmed@jcrvis.com.pk

Zaryab Janbaz

zaryab.janbaz@jcrvis.com.pk

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	Reaffirmed	Stable	Reaffirmed
Rating Date	December 11, 2017		May 23, 2016	

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 Ahmad
<i>Associated Companies –68.13%</i>	
<i>General Public –10.96%</i>	
<i>Others –20.91%</i>	

APPLICABLE METHODOLOGY (IES)

JCR-VIS Entity Rating Criteria *Industrial Corporates (May 2016)*

<http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf>

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 FY17 were audited by BDO Ebrahim & Co., Chartered Accountants.

Lakson Group of Companies has diversified pool of operations in various sectors including media, paper & board, textile, Fast Moving Consumer Goods (FMCGs) and fast food restaurants.

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 and conversion capacity of 30,000 M. Tons. 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 77% of total sales.

Rating Drivers

- **Sponsor Support:** The parent entity Lakson Group has healthy financial profile with strong likelihood of support to CPBM, if required.
- **Market Dynamics:** During the course of FY15, fierce competition from Chinese imports and increasing cost of inputs adversely affected profit margins. However, competitiveness of CPBM's has gradually improved during FY16 & FY17 owing to improved market conditions; range bound input costs and continuous availability of energy thereby driving management to increase production capacity. Moreover, recently the National Tariff Commission (NTC) concluded its investigation and imposed anti-dumping duties on import coated bleached board and coated duplex board – Grey back. The final duty was imposed on coated duplex board in July 2017 for a period of 5 years on imports from China, Indonesia and South Korea. The preliminary duty has been imposed on coated bleached board and final determination is pending because of ongoing litigation.
- **Power:** Improvement in performance in FY17 is augmented by energy self-sufficiency witnessed by CPBM attributable to the completion and activation of the coal-based COGEN-III 18 MW power plant. CPBM now employs a combination of coal, gas and furnace oil powered sources.
- **Operations:** Capacity utilization increased to 89% for FY17 (FY16: 78%, FY16: 68%) on account of favorable market dynamics highlighted above and removal of bottlenecks through capital expenditure. Production volumes for FY17 also witnessed an increase to 214,460 Metric Tons (MT) (FY16: 186,416 MT) on the back of increased demand for CPBM's products. Average sales price for CPBM's total product line has remained almost the same at Rs. 75,588 per MT in FY17 (FY16: Rs.75,867 per MT, FY15: Rs. 83,922 per MT), however margins have improved owing to a decline in input prices.
- **Profitability:** With volumetric growth in sales and improved gross margin, gross profit earned was Rs. 1.8b (FY16: Rs. 1.3b), an increase of 41.4%. Resultantly, gross and net margins increased to 11.6% (FY16: 9.5%) and 3.9% (FY16: 2.4%) respectively.
- **Liquidity and Coverage:** With higher profit and increased sales, CPBM's liquidity profile significantly improved during FY17; Funds From Operations (FFO) and its multiples have witnessed an improvement with FFO amounting to Rs. 1.73b in FY17 (FY16: Rs. 1.19b). FFO to total debt increased to 0.22x (FY16: 0.15x). Operating profit for FY17 continued to be comfortably placed to cover the finance cost resulting in an Interest Coverage ratio of 3.2x (FY16: 2.2x). Similarly, the Debt Service Coverage ratio was 1.58x for FY17 (FY16: 1.58x).
- **Capitalization and Leverage:** CPBM's quantum of equity stood at Rs. 4.81b (FY16: Rs. 4.95b) at end FY17 on account of reduced unappropriated profits at end FY17 as CPBM paid off cumulative preference dividends worth Rs. 725m for the period from 5th November 2009 to 9th June 2017. The same also led to an increase in short-term borrowing which was Rs. 2.84b for FY17 (FY16: Rs. 1.98b) led to an increase in the gearing and leverage indicators. Gearing (inclusive of preference shares) is 1.62x at end FY17 (FY16: 1.56x). Leverage (including preference shares) is 2.21x for FY17 (FY16: 2.03x).

Outlook

Going forward, CPBM expects volumetric growth in the coming few years through the set-up of a new PM-8 plant which increase the existing capacity by about 55% and may translate into increasing cash flows. Even though profitability may remain susceptible to market dynamics and energy prices, the improved market dynamics, and recent anti-dumping duty imposed on Chinese imports are expected to continue to favorably impact CPBM's market share and profitability.

JCR-VIS Credit Rating Company Limited

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

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			Appendix I
BALANCE SHEET	FY17	FY16	FY15
Fixed Assets	9,733.2	10,092.9	9,425.9
Stock-in-Trade	1,963.1	1,731.9	1,982.3
Trade Debts	1,585.4	1,265.4	1,173.6
Cash & Bank Balances	226.5	217.5	121.0
Total Assets	15,437.5	14,980.7	14,107.6
Trade and Other Payables	1,842.1	1,580.9	1,245.4
Long Term Debt <i>(*incl. current maturity + preference shares)</i>	4,970.5	5,725.4	5,671.9
Preference shares	901.2	901.2	901.2
Short Term Debt	2,840.2	1,988.4	1,951.9
Total Equity <i>(*excluding preference shares)</i>	4,811.8	4,949.4	4,617.5
INCOME STATEMENT			
Net Sales	15,401.2	13,389.1	13,186.2
Gross Profit	1,791.5	1,267.3	877.8
Operating Profit	1,310.7	792.1	399.6
Profit After Tax	602.2	322.4	(205.4)
RATIO ANALYSIS			
Gross Margin (%)	11.6%	9.5%	6.7%
FFO to Total Debt (x)	0.22	0.15	0.06
FFO to LT Debt (x)	0.35	0.21	0.08
Gearing (x)	1.62	1.56	1.65
Leverage (x)	2.21	2.03	2.06
DSCR (x)	1.58	1.58	0.78
ROAA (%)	3.96%	2.22%	-1.46%
ROAE (%)	10.42%	5.67%	-3.72%

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.

JCR-VIS Credit Rating Company Limited

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

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
	<u>RATING TYPE: ENTITY</u>				
	11-Dec-17	A+	A-1	Stable	Reaffirmed
	23-May-16	A+	A-1	Stable	Reaffirmed
	15-Dec-14	A+	A-1	Stable	Reaffirmed
20-Nov-13	A+	A-1	Stable	Upgrade	
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.				
Probability of Default	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.				
Disclaimer	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.				