DANDOT CEMENT COMPANY LIMITED

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December 30, 2021

Mr. Hafiz Maqsood Munshi,
Senior Manager,
Listed Companies Compliance Department-RAD,
Pakistan Stock Exchange Limited,
Stock Exchange Building, Stock Exchange Road,
Karachi

Mr. Abdu
Pls

PROGRESS REPORT - BMR

Dear Sir,

With reference to your letter PSX/C-555-2458 dated December 08, 2021, we would like to submit the following progress report under section 5.11.2 (b) of PSX Regulations as a response thereto:

EXTRACTS OF PREVIOUS PROGRESS REPORT

The Company is a subsidiary of Calicom Industries (Pvt.) Limited (Holding Company) acquired in 2019 under the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations, 2017. After the acquisition, the sponsors arranged significant funds to bridge the deficits of cash flows of the Company. Despite thorough annual maintenance, the Company could not achieve feasible production levels which could control financial losses and more importantly, the plant's emission levels could not meet the levels prescribed under the relevant environmental laws. Earlier, the Provincial Cabinet of the Government of Punjab also directed the Company to upgrade the plant on both economical viable scale and towards modern technology to mitigate the environmental risks.

In order to meet the legal standards and to avoid any adverse action from the Environmental Department, the Company decided to close down the operations during the financial year 2019-20 and move towards upgrading it through Balancing, Modernization and Replacement (BMR). For that purpose, the Company signed a Memorandum of Understanding (MOU) with a renowned cement contractor from China.

CURRENT PROGRESS REPORT

1. The BMR Project

Considering the life of the plant and its current condition, professional services were obtained from leading local and international firms relating to Design, Technology and Engineering of Cement Plants. All of these expert firms have had decades of experience in cement projects across the globe.

Several options with permutations on investment cost, extension in capacity and upgradation in energy efficiencies were evaluated. The technical consultancy was unanimous in its conclusion. It opted for a comprehensive BMR on the existing line. This meant that the BMR should focus on upgrading the energy & operational efficiencies, without any fundamental changes to the structure of the plant to enhance capacity.

31/1/21

This BMR project has been designed to fulfill three main objectives:

- Decrease fuel and electricity consumption and reduce the cost of production per unit drastically.
- Become fully environmentally compliant.
- Improve product quality.

Replacements in Existing Plant & Machinery:

The following changes in the Plant shall be carried out to achieve the objectives alongside the efficiencies;

- Pyro Process:
  Redesigning a new 4 stage Pyro Process
  Dismantle of current structure
  Installation of the new 4 stage Pyro Process.

- Pre-heater
  Upgradation of the design of the pre-heater to improve coal burning and reduce the fuel cost.

- Roller press
  A new roller press to increase production capacity and increase efficiency.

- Up-gradation
  Up-gradation and optimization of cement & raw mills; and, addition of certain equipment like bucket elevators, kiln scanners & sensors to optimize the plant.

Enhance Production capacity:

The second goal of the BMR is to enhance production capacity as much as possible within the same structure and improve the plant's operational 'run factor'. Currently, the plant is designed at a capacity of 1,200 Tons/day clinker; however, it only gives an output of an average of about 800 tons/day.

The proposed BMR will increase the production capacity to 1,600 tons/day, a change of 125% in real terms. In addition, the new equipment installed shall increase the 'run factor' to ~90% by eliminating unnecessary halts caused by break-downs.

Environmental Compliance:

The current plant emits an excessive amount of dust into the environment which far exceeds the legal limit. This was also the real reason of the shutdown of the plant. The plant's dust collection system needs a total replacement and upgrade. The current technology is based on an old 'Electrostatic Precipitator (EP)' system which has not only turned obsolete but, does not completely utilize its capacity. In order to rectify this problem, the following equipment shall be installed;

- State of the Art baghouse
- Modern dust collection system

2. Total BMR Cost

The estimated financial outlay for the BMR project is PKR 3.8 billion which will be funded through a combination of debt and equity.

Debt:

For the BMR, the financial institutions approved finance facility under the TERF scheme of State Bank of Pakistan (SBP) and demand finance for the import of Machinery.

Amount of the loan: PKR 1,600 million (TERF) + PKR 250 million (Demand Finance)

Equity:

The Company will arrange PKR 1,950 million through equity and to date an amount of PKR 321 million has been injected by the sponsors of the Company in form of sponsor loan/advance against equity for BMR project.

Following is a breakup of total BMR cost and its sources of funds:

(In millions)

Sr. No.	Description	Sources of Fund		Total (PKR)
		Equity (PKR)	Debt (PKR)	
1.	Imported machinery (USD 13.3 million)	518	1,850	2,368
2.	Duties and taxes on imports (5%)	118	-	118
3.	Civil and mechanical works	714	-	714
4.	Locally fabricated machinery, Erection and Installation of machinery	250	-	250
5.	Repair and Maintenance on the line	50	-	50
6.	Costs during construction	200	-	200
7.	Miscellaneous	100	-	100
	TOTAL	**1,950**	**1,850**	**3,850**

3. Letters of Credit (LCs) and Advance Payments

For BMR, all the Letters of Credit (LCs) have been established.

(In Thousands)

Sr. No	Financial Institution	Amount (USD)	Date of Opening LCs	Advance Payments (USD)
1.	The Bank of Punjab (BOP)	6,250	28-04-2021	938
2.	BankIslami Pakistan Limited	1,875	29-04-2021	281
3.	JS Bank Limited	1,875	29-04-2021	281
4.	Bank Al-Habib Limited	1,563	27-04-2021	234
	TERF/DF - Total	11,563		1,734
5.	Equity - Own source LCs (BOP)	1,722	24-09-2021	258
	TOTAL	**13,285**		**1,993**

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4. Machinery against LCs

- Raw material crushing and conveying systems
- pyro processing equipment
- Kiln feeding system
- Pre-heater
- Kiln
- Clinker cooler & dust collection
- Cement grinding & conveying
- Baghouse
- Coal dozers & grindings
- Electrical equipment
- Compressed air station
- Rotary packer
- Insulation materials
- Packing plant

5. Civil and Mechanical Works

Although basic civil and mechanical structure remains the same, however, certain additional construction works shall also be carried out to complete the existing BMR process. For this pupose, contractors have been short listed to complete the work by the end of FY 2022. These contractors have a vast experience in carrying out such works for cement plants in Pakistan. This work relates to civil, fabrication, electrical, plumbing and other building renovation contracts.
The cost of total civil & mechanical works is estimated at PKR 714 million which shall be funded through equity portion.

6. Project Timelines

Imported machinery against which Letters of Credit (LCs) have been established is expected to be delivered at the factory premises by the end of FY 2022. Meanwhile, ancillary civil work will also be completed by the same time. Thereafter, it will take approximately 6 months to install the imported machinery and to resume the commercial production.

In view of the above, the suspension of commercial production in operations of the plant is not attributable to any intentional default or mala fide of the Company. Rather, it is done as a logical step to embark upon the execution of the BMR. After the BMR, the Company shall attain production efficiencies for long term financial viability, ensure environmental compliance and increase operable life of the plant. Furthermore, we would like to emphasize here that currently, the new sponsors are working hard for the revival of the Company, and PSX placing the Company on the 'Defaulter Segment' may affect the confidence levels of the concerned financial institutions and other stakeholders including both majority and minority shareholders.

We hereby re-request you to take a lenient view and consider removing the Company's name from the 'Defaulter's Segment'.

Yours Sincerely,

Dandot Cement Company Ltd.

Muhammad Kamran
Company Secretary