



## AMRELI STEELS (PRIVATE) LIMITED (ASL)

RATINGS (MAY 2008)

### AMRELI STEELS (PRIVATE) LIMITED

	INITIAL
<b>SUKUK</b>	
Proposed secured PKR 1,300mln	A

### FINANCIAL DATA

PKR (mln)

	30-Jun-07	30-Jun-06
Total Assets	2,714	2,204
Equity	1,057	993
Net Turnover	3,615	2,470
Net Income	65	44
EBITDA	203	137
ROA %	2.6	2.5
ROE %	6.3	5.2
Net Debt / EBITDA (x)	6.4	4.8
EBITDA Net Interest Cover (x)	2.4	3.4
Net Debt/Equity %	122.0	66.6

### ANALYSTS

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### PROFILE

- ASL, incorporated in 1984, is principally engaged in manufacturing and sale of mild steel bars, mainly used for the construction of dams, high rise buildings, flyovers, industrial sheds and for residential buildings. The company is producing three types of steel bars i) twisted, ii) deformed, and iii) plain, with an installed capacity of 150,000 tonnes per annum.
- The company is majority owned by Akberali family, which has been engaged in steel and allied businesses since early forties. The BoD of the company is dominated by family members. ASL has a competent management team in place. Mr. Abbas Akberali, the CEO of the company, is a metallurgical engineer and holds an MBA degree from Columbia University, USA. He has over 36 years of experience in local and the Middle-East markets. He is assisted by a team of qualified and experienced professionals.

### RATING RATIONALE AND KEY DRIVERS

- The rating of the proposed Sukuk, while recognizing the company's adequate ability to generate required cash flows to meet its obligations towards the Sukuk holders, reflects sound security structure of the instrument. The rating also draws comfort from the sponsors commitment to fund Sukuk obligations in times of any financial distress.
- Any significant deterioration in profitability of the company, in turn, putting pressure on the cash flows, and/or any material increase in the company's leveraging wherein the sponsors fail to inject further equity to strengthen the capital structure would negatively impact the rating.

### SUKUK STRUCTURE

- The company intends to issue a Sukuk of PKR 1,300mln, including a green shoe option of PKR 300mln. The proceeds of the instrument would mainly be utilized to re-profile its existing costly borrowings. The issue would be for a term of seven years including a grace period of two years. The profit is payable at 3 month KIBOR *plus* 125bps quarterly in arrears. A portion of the principal (24%) would be redeemed during three years after the end of the grace period and balance during last two years in eight equal quarterly installments.
- ASL would maintain a reserve of two installments (principal *plus* interest). Reserve, equivalent to one installment, would be build, in equal amounts, over first eight quarters of the first draw down. Additional reserve of another installment would be added to the said reserve amount during next four quarters. Thereafter, the reserve account would be maintained at a level equivalent to at least two upcoming installments.
- The Sukuk holders would hold first charge on all present and future fixed assets of the company, ranking *pari passu* inter se the current financiers and with the prior charges, for an amount equal to outstanding portion of the instrument with at least 25% margin. Moreover, the aggregate value of the first charge over the company's fixed assets should not exceed the book value of such assets. In addition, sponsors of ASL would provide assurance to fund any shortfall in the value of underlying security at the time of realization of assets, if such need arises.
- The debt equity ratio of the company would not exceed 65:35 during the tenor of the instrument. In case of breach of this condition, the sponsors undertake to inject additional equity in the company to bring debt level to the agreed parameter within three months of such event.
- ASL would obtain and maintain comprehensive insurance cover on all fixed assets, which are under lien as a security to Sukuk holders, till the redemption of the instrument.

### ASSESSMENT

- ASL, over the recent few years, has witnessed adequate revenue growth, mainly driven by increasing prices of steel and also to some extent by higher production. Notably, the company has maintained its gross margin. However, increasing operational and financing costs has kept net margins under pressure, in turn, limiting the growth in net profits. However, during 1HFY08, rising trend in prices of steel products has helped the company in posting a healthy growth in its overall profitability.
- Consequent to an increase in production capacity, which is recently doubled to 150,000 tonnes per annum, production volumes are expected to grow reasonably in line with increase in actual capacity utilization of the new plant, going forward. Meanwhile, to improve the margins, the management plans to rationalize the overall cost structure, which, amongst other factors, includes, i) reduction in interest cost through proposed re-profiling of existing costly financing, and ii) replacing of twisted bars manufacturing facility with modern water quenching technology, thereby, eliminating related costs of cold twisting. These factors are expected to contribute towards improvement in margins. Meanwhile, the management's ability to sell increased production, while effectively managing all related operations would be critical.
- Despite the fact that cash flows of the company remained under stress in the past, the company managed to maintain its debt servicing coverages at reasonable level mainly because of low leveraging. Going forward, given expected improvement in profitability and the management's intentions to maintain a low leveraged capital structure, coverages are expected to improve.