

## SECTORWATCH | CORONAVIRUS | STEEL & ALLIED PRODUCTS

Since the start of 2020, the novel coronavirus (COVID-19) outbreak has quickly spread across the world and caused disruptions in economies worldwide. Starting in China – itself a global manufacturing hub – and moving to more than 200 countries and territories, virtually all major economies and markets have been adversely impacted. The full impact of such an outbreak on Pakistan’s economy is difficult to ascertain at present and will depend on the severity and duration of the outbreak as well as Government’s response. However, it is clear that credit conditions are under stress and this will impact credit quality of many entities and sectors. In this context, PACRA aims to provide analysis on how the ongoing outbreak of COVID-19 may impact various sectors in Pakistan.

SECTOR	SUB-SECTOR																							
INFRASTRUCTURE	STEEL & ALLIED PRODUCTS																							
SIZE	<ul style="list-style-type: none"> <li>- Pakistan’s steel sector mainly consists of two segments - Long Steel Segment and Flat Steel Segment. Both segments import distinct raw material in accordance with the finished products manufactured by each.</li> </ul> <table border="1"> <thead> <tr> <th>Factors</th> <th>Long Steel Segment</th> <th>Flat Steel Segment</th> </tr> </thead> <tbody> <tr> <td>Raw Material</td> <td>Ingots, Blooms, Scrap</td> <td>Hot Rolled Coil</td> </tr> <tr> <td>Finished Products</td> <td>Rebar, Bars, Girders, T- Iron etc.</td> <td>Cold Rolled Coils, Hot Dipped Galvanized Coils, Steel Pipes, Guardrails etc.</td> </tr> <tr> <td>Forward Integration</td> <td>-</td> <td>Steel Pipes which are sometimes galvanized too. Steel poles, guardrails and other products too.</td> </tr> <tr> <td>Production (mln tons)</td> <td> <table border="1"> <thead> <tr> <th>8MFY20</th> <th>FY19</th> </tr> </thead> <tbody> <tr> <td>2.32</td> <td>3.87</td> </tr> </tbody> </table> </td> <td> <table border="1"> <thead> <tr> <th>8MFY20</th> <th>FY19</th> </tr> </thead> <tbody> <tr> <td>2.89</td> <td>4.38</td> </tr> </tbody> </table> </td> </tr> </tbody> </table>	Factors	Long Steel Segment	Flat Steel Segment	Raw Material	Ingots, Blooms, Scrap	Hot Rolled Coil	Finished Products	Rebar, Bars, Girders, T- Iron etc.	Cold Rolled Coils, Hot Dipped Galvanized Coils, Steel Pipes, Guardrails etc.	Forward Integration	-	Steel Pipes which are sometimes galvanized too. Steel poles, guardrails and other products too.	Production (mln tons)	<table border="1"> <thead> <tr> <th>8MFY20</th> <th>FY19</th> </tr> </thead> <tbody> <tr> <td>2.32</td> <td>3.87</td> </tr> </tbody> </table>	8MFY20	FY19	2.32	3.87	<table border="1"> <thead> <tr> <th>8MFY20</th> <th>FY19</th> </tr> </thead> <tbody> <tr> <td>2.89</td> <td>4.38</td> </tr> </tbody> </table>	8MFY20	FY19	2.89	4.38
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NUMBER OF PLAYERS	<ul style="list-style-type: none"> <li>- Steel is a fragmented sector with small and large players operating throughout the country.</li> <li>- Long Steel segment is dominated by few players; Amreli, Agha and Mughal Steels are quite well known with sizable market share.</li> <li>- Flat Steel segment comprises multiple players in which respective market share is quite diversified; range and type of products are expansive given forward integration by some players.</li> </ul>																							
PACRA PENETRATION	<ul style="list-style-type: none"> <li>- PACRA rates 3 Long Steel players: Amreli Steels, Mughal Steels and Bilal Steels. Combined turnover for these companies stands at around PKR 30bln for 1HFY20.</li> <li>- PACRA rates 2 Flat Steel Players; Jamal Pipes and BBJ Pipes; combined turnover for both companies stands at around PKR 5bln for 1HFY20.</li> </ul>																							
IMPACT	<ul style="list-style-type: none"> <li>- During 1HFY20, construction industry witnessed pressure with attrition in margins and dilution in profitability amid slow infrastructural activity in the country. Covid-19 outbreak has added to the challenges.</li> <li>- Construction industry’s arm - steel and allied products manufacturers - are highly dependent on import for raw material making them more exposed as several countries are observing lock down.</li> <li>- Government has announced construction package – further clarity and materiality of impact will unfold with time. Sector players were unable to gain much in the recent period (historically best months for local demand) attributable to prevailing lock down. Holy month of Ramzan followed by season of monsoon are observed to be months of slow local infrastructural demand. Hence, performance of the sector is considered to be impacted severely for last four months of FY20</li> <li>- After incorporating lockdown of two months (new base case scenario), the volumetric decline in both segments is calculated to be around 17% for FY20. In worst case scenario, (lockdown for three months), decline in volumes produced will be around 27% from earlier anticipated</li> </ul>																							



- figures for FY20. Anticipated figure for FY20 are prorated on the basis of actual volumes manufactured in 8 months till Feb-20.
- If situation persists in FY21, 1Q is historically low manufacturing period attributable to rainy season. Three drivers are considered vital for sector's dynamics in FY21: 1) Private Investment – can be fully determined with opening up of the economy, 2) Naya Pakistan Housing Scheme – with the incentives provided it is highly probable that investment will come, 3) PSDP – if widening of budget deficit is contained then funds will be channelized towards development.
  - Curtailed key policy rate and allowed deferment of repayments will provide essential breather. PACRA's estimated figure for long term debt of long segment is around PKR 18bln.

#### **DISCLAIMER**

PACRA has taken due care while formulating this analysis. We have used the information that we believe is reliable and current as to the date of publication. In any case, this remains an opinion and suitability may vary. Due care should be taken while relying on it. The press release may be used in full or in part without changing the meaning or context thereof with due credit to PACRA.

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