



The Pakistan Credit Rating Agency Limited

## ENTITY RATINGS REPORT

### AMRELI STEELS LIMITED

ENTITY	RATINGS	OUTLOOK	ACTION
Amreli Steels Limited (Amreli Steels)	Long Term: A Short Term: A1	Stable	Maintain

#### RATING RATIONALE

The ratings reflect continuous improvement in Amreli Steels' business profile supplemented by strong local demand fundamentals. Business margins declined in FY17 - a factor of notable decline in local prices due to import of steel re-bars from China. The situation is likely to improve, post imposition of anti-dumping duty. Meanwhile, financial risk profile has depicted sustained improvement supplemented by strong cash flows and low leveraged capital structure; resulting in strong debt service coverages. The company is simultaneously working on two expansion projects which would result in capacity enhancement to 605,000tpa. of re-rolling and 600,000tpa. of billets by Feb-18 and Jun-18 respectively. Capacity additions by competitors is likely to heat up competition, herein, effective and timely management of capacity expansion remains important for Amreli. The company has stepped up efforts to ensure supportive supply chain to utilize enhanced capacities in a timely manner. Meanwhile, regulatory protection to the finished product (rebar) is an added advantage for the sector; continuation of the same is important to generate good business margins. The company has streamlined its organizational structure; senior executives with relevant expertise are being engaged to meet needs of growing business, this is likely to bring operational efficiencies. The ratings draw comfort from strong business acumen of Amreli Steels' sponsors - Akberali Family - and business prospects which directly correlate to expected domestic infrastructure activity.

#### KEY RATING DRIVER

The ratings are dependent on the management's ability to sustain its business profile while benefiting from positive demand fundamentals. Effective implementation of upgraded ERP system and strengthening of human resource is vital. Moreover, prudent management of financial affairs remains important.

#### Report Contents

1. Rating Analyses
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

AMRELI STEELS LIMITED (AMRELI STEELS)		INDUSTRY SNAPSHOT
<b>PROFILE</b>		<p>Domestic steel industry is experiencing rapid growth on account of positive demand fundamentals emanating from large infrastructure projects. Improving macro-economic indicators are driving growth in retail segment as well. The industry is in expansion phase reflecting expected changes in the domestic landscape of the industry. Regulatory protection in the shape of anti-dumping duties coupled with increase in regulatory duties bodes well for domestic industry.</p>
<b>Incorporated</b>	1984	
<b>Major Business</b>	<ul style="list-style-type: none"> <li>Manufacturing and sale of billets and rebars including a) deformed bars which conform to American standards, and b) Xtreme bars – plain and twisted - conforming to British standards.</li> </ul>	
<b>Legal Status</b>	Listed	
<b>Head Office</b>	Karachi	
<b>OWNERSHIP</b>		<b>GOOD</b>
<ul style="list-style-type: none"> <li>Presently, the company is majority (75%) owned by Akberali family, followed by Financial Institutions, and general public.</li> <li>The sponsors – Akberali family – carry over six decades of experience in steel and allied business. Given that Amreli Steels is the flagship entity of Akberali family, willingness to support the company in case the need arises is considered high.</li> </ul>		
<b>GOVERNANCE</b>		<b>GOOD</b>
<ul style="list-style-type: none"> <li>The overall control of board vests in seven-member board of directors, wherein four are from sponsoring family including the Chairman and CEO, while three are independent members.</li> <li>Mr. Abbas Akberali holds the position of the Chairman, whereas his son, Mr. Shayan Akberali has recently replaced him as the CEO.</li> <li>There are two board committees in place, these include: (i) Audit, and (ii) Human Resource &amp; Remuneration. Audit Committee, in addition to an independent Chairman, comprises two members including one from sponsoring family.</li> <li>M/s EY Ford Rhodes Sidat Hyder Chartered Accountants are the external auditors of the company. They have expressed unqualified opinion and review report for the year ended 30th June, 2017.</li> <li>The internal audit function of the company has been outsourced to BDO Ebrahim &amp; Co. Chartered Accountants; it reports directly to the board's Audit Committee.</li> </ul>		
<b>MANAGEMENT</b>		<b>GOOD</b>
<ul style="list-style-type: none"> <li>Mr. Abbas Akberali – the founding member – resigned from the position of CEO in Aug-17. He was replaced by his son Mr. Shayan Akberali.</li> <li>Mr. Shayan is an engineer by profession and has more than 19 years of experience with the company.</li> <li>The company in a bid to streamline its organizational structure and decision making process made significant changes in its senior management and revamped the organizational structure to bring efficiency and depth.</li> <li>The CEO is supported by a team of experienced individuals equipped with necessary technical skills and relevant industry experience.</li> </ul>		
<b>SYSTEMS &amp; CONTROLS</b>		<b>GOOD</b>
<ul style="list-style-type: none"> <li>In-house computerized testing laboratory for inspection of the products.</li> <li>SAP based ERP system implemented; comprehensive MIS reporting.</li> </ul>		
<b>PERFORMANCE</b>		<b>GOOD</b>
<ul style="list-style-type: none"> <li>During FY17, Amreli Steels continued on the growth trajectory. Revenue stood at PKR 13.2bln (FY16: 12.4bln), depicting a 7.1% growth on YoY basis. Growth was led by 10.6% increase in quantities.</li> <li>However, growth was limited due to 4.6% dip in price. The price was cut to compete with dumped rebars from Chinese market. Amreli Steels uses imported scrap as its raw material. Hence, the upward trend in international scrap prices (~7%) during FY17 also contributed towards slimming business margins (gross: FY17: 18.6%, FY16: 22.5%; operating: FY17: 13.6%, FY16: 18%).</li> <li>Finance costs rationalized during the year, however, higher operating costs coupled with ~50% increase in administrative expenses and imposition of super tax resulted in lower profitability. PAT declined to PKR ~1bln (FY16: PKR ~ 1.2bln) depicting a 16% decline on YoY basis.</li> <li>During Jun-17, National Tariff Commission (NTC) imposed anti-dumping duty of 24.04% on continuous casting steel billets. Moreover, during Oct-17, NTC has also imposed anti-dumping duty of 19.15% on rebars originating from China in addition to 30% regulatory duty already in place. This would positively impact Amreli and the sector, going forward.</li> <li>Going forward, the company envisages tremendous growth emanating from retail segment as well as large government projects. Amreli has positioned itself to take advantage of this growing demand. In addition to original expansion project, the company has launched second phase of expansion as well. Both expansions after completion will result in 605,000tpa. of re-rolling capacity and 600,000tpa. of billets capacity.</li> <li>The company also plans to strengthen its human resource along with upgrading its SAP module to improve analytical capabilities. These are likely to create efficiencies in supply chain.</li> </ul>		
<b>FINANCIAL RISK</b>		<b>GOOD</b>
<ul style="list-style-type: none"> <li>Amreli Steels' working capital needs emanating from receivables and inventory increased during FY17 – due to higher turnover volume. Owing to this, net cash cycle was increased to 138days at end-Jun17 (end-Jun16: 130days).</li> <li>Working capital needs were funded by short-term borrowings (STBs). As a result, during FY17, STBs increased. However, the company has PKR 6,106mln in unutilized facilities at end-Jun17 (end-Jun16: PKR 4,306mln).</li> <li>During FY17, on account of lower YoY profitability, FCFO declined to PKR 1,796mln (FY16: PKR 2,193mln). However, rationalization in finance cost and maturity of long-term debt strengthened coverages (interest: end-Jun17: 7.1x, end-Jun16: 6.6x; debt service: end-Jun17: 3.2x, end-Jun16: 2.7x).</li> <li>On account of PKR ~1bln addition in STBs coupled with lower profitability for the period at end-Jun17, the debt to debt plus equity ratio increased to 32% (end-Jun16: 28%; end-Jun15: 45%). ~80% of the debt outstanding pertains to short-term (end-Jun16: ~76%).</li> </ul>		



**Amreli Steels Limited**

<b>BALANCE SHEET</b>	<b>30-Sep-17</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>
	<b>3M</b>	<b>Annual</b>	<b>Annual</b>	<b>Annual</b>
<b>Non-Current Assets</b>	<b>12,982</b>	<b>12,403</b>	<b>8,600</b>	<b>7,658</b>
<b>Investments</b>	<b>15</b>	<b>15</b>	<b>315</b>	<b>15</b>
<b>Current Assets</b>	<b>6,674</b>	<b>5,791</b>	<b>7,850</b>	<b>4,589</b>
Inventory	4,357	3,404	4,410	2,275
Trade Receivables	1,344	1,455	2,071	1,158
Others	973	931	1,370	1,156
<b>Total Assets</b>	<b>19,671</b>	<b>18,209</b>	<b>16,765</b>	<b>12,262</b>
<b>Debt</b>	<b>6,265</b>	<b>5,189</b>	<b>4,181</b>	<b>4,757</b>
Short-term	5,279	4,165	3,171	2,654
Long-term (Incl. Current Maturity of long-term debt)	986	1,024	1,009	2,103
Other shortterm liabilities	817	652	683	629
Other Longterm Liabilities	1,248	1,222	1,212	1,005
<b>Shareholder's Equity</b>	<b>11,342</b>	<b>11,146</b>	<b>10,690</b>	<b>5,871</b>
<b>Total Liabilities &amp; Equity</b>	<b>19,671</b>	<b>18,209</b>	<b>16,765</b>	<b>12,262</b>
<b>INCOME STATEMENT</b>	<b>30-Sep-17</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>
<b>Turnover</b>	<b>2,706</b>	<b>13,284</b>	<b>12,400</b>	<b>14,414</b>
Gross Profit	510	2,468	2,792	2,493
Operating profit	353	1,806	2,234	2,004
Financial Charges	(97)	(252)	(330)	(648)
<b>Net Income</b>	<b>196</b>	<b>1,074</b>	<b>1,279</b>	<b>1,011</b>
<b>Cashflow Statement</b>	<b>30-Sep-17</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>
Free Cashflow from Operations (FCFO)	323	1,796	2,193	2,115
Net Cash changes in Working Capital	(690)	1,854	(3,195)	(1,025)
Net Cash from Operating Activities	(438)	3,406	(1,354)	407
Net Cash from Investing Activities	(661)	(4,133)	(1,293)	(207)
Net Cash from Financing Activities	1,110	416	2,949	(183)
<b>Ratio Analysis</b>	<b>30-Sep-17</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>
<b>Performance</b>				
Turnover Growth (same period last year)	-15.9%	7.1%	-14.0%	20.5%
Gross Margin	18.8%	18.6%	22.5%	17.3%
Net Margin	7.2%	8.1%	10.3%	7.0%
ROE	7.2%	10.0%	13.8%	18.1%
<b>Coverages</b>				
Interest Coverage (x) (FCFO/Gross Interest)	3.3	7.1	6.6	3.3
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	1.8	3.2	2.7	1.3
Debt Payback (Years) (Total LT Debt Including UnCovered Total STBs)/(FCFO- Gross Interest)	1.1	0.7	0.5	1.4
<b>Liquidity</b>				
Net WC Days (Inventory Days + Receivable Days - Payable Days)	165	138	130	87
Short-term Total Leverage (Net Current Assets - STB) / Current Assets	8.7%	16.8%	50.9%	28.5%
<b>Capital Structure</b> (Total Debt/Total Debt+Equity)	35.6%	31.8%	28.1%	44.8%

## CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

<b>LONG TERM RATINGS</b>		<b>SHORT TERM RATINGS</b>
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<p><b>A1+:</b> The highest capacity for timely repayment.</p> <p><b>A1:</b> A strong capacity for timely repayment.</p> <p><b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>C:</b> An inadequate capacity to ensure timely repayment.</p>
<b>AA+</b>	<b>Very high credit quality.</b> Very low expectation of credit risk.	
<b>AA</b>	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
<b>AA-</b>		
<b>A+</b>	<b>High credit quality.</b> Low expectation of credit risk.	
<b>A</b>	The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	
<b>A-</b>		
<b>BBB+</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk.	
<b>BBB</b>	The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	
<b>BBB-</b>		
<b>BB+</b>	<b>Moderate risk.</b> Possibility of credit risk developing.	
<b>BB</b>	There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	
<b>BB-</b>		
<b>B+</b>	<b>High credit risk.</b>	
<b>B</b>	A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	
<b>B-</b>		
<b>CCC</b>	<b>Very high credit risk.</b> Substantial credit risk	
<b>CC</b>	“CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.	
<b>C</b>		
<b>D</b>	Obligations are currently in default.	

**Outlook (Stable, Positive, Negative, Developing)**  
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

**Rating Watch**  
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

**Suspension**  
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn**  
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information

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[Rated Entity](#)

**Entity**  
**Sector**  
**Type of Relationship**

Amreli Steels Limited  
Steel  
Solicited

[Purpose of the Rating](#)

Independent Risk Assessment

[Rating History](#)

Notification Date	LT Rating	ST Rating	Action	Outlook
29-Dec-17	A	A1	Maintain	Stable
7-Mar-17	A	A1	Maintain	Stable
28-Oct-16	A	A1	Initial	Stable

[Related Criteria and Research](#)

[Methodology](#)  
[Sector Research](#)

Corporate Rating Methodology  
Steel Sector - Viewpoint | Feb-17

[Rating Analysts](#)

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[Rating Team Statement](#)

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Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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[Probability of Default \(PD\)](#)

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