



The Pakistan Credit Rating Agency Limited

Rating Report

Amreli Steels Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
10-May-2024	BBB	A3	Stable	Downgrade	Yes
10-May-2023	A-	A2	Stable	Maintain	-
05-Jul-2022	A-	A2	Stable	Maintain	-
05-Jul-2021	A-	A2	Stable	Maintain	-
02-Sep-2020	A-	A2	Stable	Maintain	-
24-Sep-2019	A-	A2	Stable	Downgrade	-
25-Mar-2019	A	A1	Stable	Maintain	-
18-Dec-2018	A	A1	Stable	Maintain	-
14-Jun-2018	A	A1	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The steel industry is highly sensitive to economic cyclicalities and exposed to fluctuations in exchange rates and international commodity prices. In FY21, the steel industry reached its peak demand, standing at 4.8mln tons, marking an increase of 20% YoY. As demand surged, major players in the industrial sector seized the opportunity to bolster their capacities in anticipation of future growth through leveraging. Amreli, as one of the key contributors, upscaled their melting capacity by 300,000 tons per annum and re rolling capacity by 305,000 tons per annum. However, in the subsequent fiscal year of FY22, demand tapered slightly to 4.7 million tons, and then plummeted steeply to 4 million tons in FY23, significantly impacting the steel industry as a whole. The steel industry, today, faces challenges such as low-capacity utilization, revenue and profitability issues, taxation challenges, higher financing costs, rupee depreciation, and increases in energy prices. Operating within these challenging dynamics has become a significant hurdle for industry players. In FY23, the demand marked a decrease of 16% YoY. Meanwhile, the Company's volumetric sales declined significantly from 361,587 tons to 218,589 tons, representing a material deterioration of 40%. However, the rise in prices somewhat offset this negative impact of volumes, with revenue in FY23 reported to PKR 45,492mln with a dip of approx. 22%. The similar trend is witnessed during 1HFY24 where revenue clocked at PKR 22,251mln (1HFY23: PKR 23,031mln). During the 1HFY24, gross margins experienced a slight uptick to 11.2% from 10.6%, driven by higher prices. However, due to high level of reliance on short-term borrowing and increased finance cost the Company posted a net loss of PKR -634mln (FY23: PKR -678mln). Consequently, the net margin deteriorated to -2.9% from -0.8%. The Company's current financial risk matrix is in distress. The debt-to-equity ratio of the Company stands at 61.7% due to significant reliance on short-term borrowing for its working capital requirement. Moreover, at Dec-23 the FCFO's of the Company stood at PKR 1,583mln whereas the finance cost stood at PKR 2,263mln and CMLTD at PKR 1,766mln depicting a stress on the repayment of its finance cost and timely repayment of its current obligations. The rating downgrade is attributed to the depressed demand, which has had a significant impact on the Company's financial standing and its ability to fulfill its financial commitments. The management of the Company has actively indulged in discussion with the financial institutions to figure out the breather for its debt servicing various options, including debt reprofiling are under consideration. Meanwhile the management also undertook other measures including resizing itself according to the demand, sale of nonessential assets and injection of equity through other strategic partner in order to meet the current challenging scenario.

The ratings are dependent on the management's ability to translate strategies along with successful finalization of its reprofiling process. Moreover, the availability of sponsor support to address any shortfall will also be a crucial factor to consider, going forward.

Disclosure

Name of Rated Entity	Amreli Steels Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jul-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-24)
Related Research	Sector Study Steel(Sep-23)
Rating Analysts	Shujat Ehsanullah Wasim Shujat.Ehsan@pacra.com +92-42-35869504

Profile

Legal Structure Amreli Steels Limited, a public limited company incorporated in 1984 under the Companies Ordinance and is traded under the section of Engineering.

Background Amreli Steel's two re-rolling plants situated at S.I.T.E. Karachi and Dhabeji are using one of the most modern hot re-rolling technologies in the industry with a nameplate capacity of 180,000 metric tons and 425,000 metric tons of rebars per annum respectively. The melt shop is situated in industrial zone at Dhabeji, Port Qasim, is constructed on 65 acres of land and has a nameplate capacity of 600,000 metric tons per annum.

Operations Amreli Steels produces two key products: i) steel billets, ii) rebars including a) Grade 60 Deformed Steel bars and b) Xtreme bars (G-500W). Amreli Steels has the largest billet manufacturing plant in Pakistan with a capacity of producing 600,000 tons. The Company's majority power need is being fulfilled by K-Electric.

Ownership

Ownership Structure Presently, the company is majority (75%) owned by Akberali family, followed by general public (~16.79%)

Stability Organogram of the company is such that key positions are filled by the individuals from sponsor family which bodes well for the stability in the structure. The majority stake rests with Akberali family.

Business Acumen The sponsors' _ Akberali family carries experience of more than six decades of successfully managing steel and allied business. The willingness towards the business is evident from the steadfast approach used by the management. Hence, sponsor's business acumen is considered strong.

Financial Strength The sponsors have demonstrated their commitment towards the company by injecting funds on as and when required basis. Given that Amreli is the flagship entity of sponsors, willingness to support the company in case the need arises is considered high; also supplemented by access to capital markets.

Governance

Board Structure The overall control of board vests in a seven-member board of directors, wherein four are from sponsoring family including the Chairman and CEO, while three are independent members.

Members' Profile Amreli arranges orientation courses for its directors on as and when required basis. The incoming directors are also provided with appropriate briefing and orientation material to equip them with first-hand knowledge of the company.

Board Effectiveness There are two board committees in place, these include: (i) Audit, and (ii) Human Resource & Remuneration. The audit committee comprises three independent members and one non-executive director. Attendance of board members in board meetings is considered good

Financial Transparency M/s EY Ford Rhodes, Chartered Accountants, classified in category 'A' by SBP and having a QCR rating, are the external auditors of the company. They have expressed an unqualified opinion on the financial statements for the year ended 30th June, 2023.

Management

Organizational Structure Amreli has a multi-tier organizational structure. Including two senior positions i) COO-Strategy and ii) COO-Operations and Chief Financial Officer and six functions namely; Marketing, Govt. and Public Relations, Information Technology, Corporate Affairs & Liaison, New Businesses, and CSR and communication reports to COO-Strategy.

Management Team Mr. Shayan Akberali, the elder son of Mr. Abbas Akberali, is CEO - an engineer by profession and has been associated with the company for the last two decades. Mr. Hadi Akberali, the younger son, has been working as COO – Strategy, Mr. Fazal Ahmed, has been working as 'COO – Operations' and while Mr. Taha Umer has been appointed as CFO in the current period

Effectiveness Amreli has five management committees in place. These committees review key performance areas of the company, inter-alia, daily production analysis, yield analysis, mechanical or production breakdown and downtime analysis.

MIS The company has implemented SAP as an ERP solution with the following operational modules, i) Production planning, ii) Material Management, iii) Sales and Distribution, iv) Finance, v) Controlling, and vi) Human Capital Management including success factor module. Reports generated on daily basis.

Control Environment Amreli has obtained ISO-9001 certification from Lloyd's Register Quality Assurance, which shows that the company's manufacturing processes and procedures are in conformity with international standards.

Business Risk

Industry Dynamics The country's annual demand for steel products was recorded at ~11.2mln MT during FY23 (FY22: ~13.6mln MT) down ~17.6% YoY basis, with imports comprising ~39.2% of the total consumption and recording ~42.1% decline YoY. This largely resulted from SBP-imposed import curbs during FY23, a short-term intervention to control the depleting foreign exchange reserves. Due to non-availability of raw material, local production also recorded ~10.1% decline YoY, resulting in higher local prices and reflecting in lower consumption levels, vis-à-vis high levels of inflation and a slowdown in the construction sector. High dependence on imported raw material exposes the sector to changes in international raw material prices and exchange rate fluctuations. Going forward, although the SBP has lifted the restrictions on imports, the segment will likely remain exposed to PKR depreciation and high local interest rates, on account of a slowdown in the economy which has managed to continue in FY24.

Relative Position Amreli Steels is one of the leading players specifically in south region. It is the only steel company in Pakistan with sales offices in Sukkur, Hyderabad, Multan, Lahore, Islamabad and Karachi and has warehouses in Karachi, Lahore and Islamabad and plans to make a big warehouse in Northern bypass of Karachi to feed Baluchistan and bypass city traffic. It has a network of 186 retailers currently.

Revenues During 1H FY24, topline decreased slightly and stood at PKR 22.251bln (1H FY23: PKR 23.031bln) mainly due to drop in volumetric sales due to a confluence of adverse factors including record inflation, rupee devaluation, high borrowing cost and political instability. Finance cost increased by ~16% and arose to PKR 2,263mln (1H FY23: PKR 1,959mln) owing to substantial increase in policy rate. Resultantly, the company reported a net loss of PKR 634 million due to reduced demand and the factors mentioned above.

Margins During 1H FY24, Amreli Steel's margins witnessed a slight increase on gross level and marked at ~11.2% (1H FY23: ~10.6%), due to better price retention. Operating margins decreased slightly and stood at ~6.7% (1H FY23: ~7.0%), however net margins dropped due to significant increase in financial charges owing to increase in policy rate due to unprecedented inflation levels (Net: 1H FY24: ~(2.9%), 1H FY23: ~(0.8%)).

Sustainability Company's strategies to sustain in the overall shrinking economy include holding any fixed assets capital expenditure, hiring freeze, maintaining optimum inventory and receivables levels and moving breakeven quantity of sales at least.

Financial Risk

Working Capital At Dec23, Amreli Steel's working capital requirements represented by net cash cycle decreased to 84days (Dec22: 128days) driven by stretching of payable days (Dec23: 30days; Dec22: 2days) to manage the cycle and inventory days. The company manages its working capital requirements through mix of internally generated cash and short-term borrowings. However, due to decreased capacity utilization company's reliance on short-term borrowings decreased (Dec23: PKR 16.7bln; Dec22: PKR 18.5bln).

Coverages At Dec23, EBITDA and FCF0's were recorded at PKR 1,928mln (Dec22: PKR 2,117mln) & PKR 1,583mln; (Dec22: PKR 1,703mln) respectively. Steep increase in finance costs and loss reported in 1H FY24 however, resulted in lower coverages and Interest coverage deteriorated to 0.8x at Dec23 (Dec22: 1.1) and Core & Total operating coverages declined to 0.4x (Dec22: 0.7x).

Capitalization At 1H FY24, leveraging stood at ~61.7% and total debt was recorded at PKR 21.8 billion as opposed to PKR 25.292 billion at Dec22 (Dec22: 63%). Out of total debt, ~76% pertains to short-term borrowings. The company's equity base has eroded slightly due to losses reported and was recorded at PKR ~13.8bln (Dec22: PKR 15bln).



The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

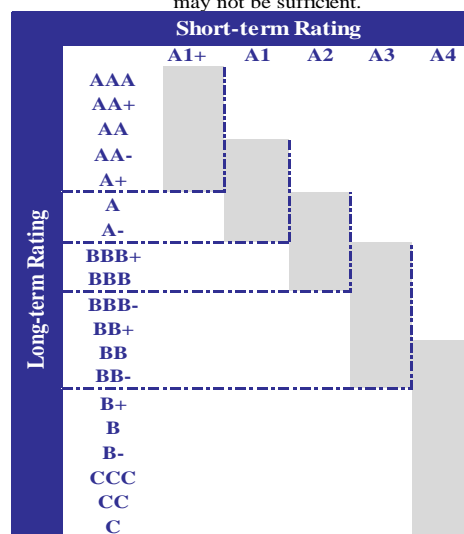
Amreli Steels Ltd Infrastructure Steels	Dec-23 6M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	22,266	22,600	21,870	20,418
2 Investments	14	14	14	15
3 Related Party Exposure	-	-	-	-
4 Current Assets	20,642	17,558	21,666	15,934
<i>a Inventories</i>	9,955	7,097	11,018	5,992
<i>b Trade Receivables</i>	5,714	4,973	5,680	6,320
5 Total Assets	42,922	40,172	43,550	36,366
6 Current Liabilities	5,803	5,897	3,684	2,614
<i>a Trade Payables</i>	3,337	3,990	365	408
7 Borrowings	21,885	17,768	23,105	18,781
8 Related Party Exposure	330	316	341	341
9 Non-Current Liabilities	1,099	1,628	1,166	689
10 Net Assets	13,806	14,562	15,254	13,941
11 Shareholders' Equity	13,805	14,562	15,255	13,941
B INCOME STATEMENT				
1 Sales	22,251	45,493	58,184	39,218
<i>a Cost of Good Sold</i>	(19,767)	(39,531)	(51,693)	(34,676)
2 Gross Profit	2,484	5,962	6,491	4,542
<i>a Operating Expenses</i>	(995)	(1,760)	(1,940)	(1,500)
3 Operating Profit	1,489	4,202	4,552	3,042
<i>a Non Operating Income or (Expense)</i>	(150)	(195)	(167)	(8)
4 Profit or (Loss) before Interest and Tax	1,339	4,007	4,385	3,033
<i>a Total Finance Cost</i>	(2,263)	(4,033)	(2,307)	(1,649)
<i>b Taxation</i>	290	(653)	(753)	(16)
6 Net Income Or (Loss)	(634)	(678)	1,326	1,368
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	1,583	4,327	4,088	3,101
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	(394)	646	2,045	1,153
<i>c Changes in Working Capital</i>	(5,528)	6,394	(4,244)	1,287
1 Net Cash provided by Operating Activities	(5,922)	7,040	(2,199)	2,440
2 Net Cash (Used in) or Available From Investing Activities	(310)	(1,589)	(2,138)	(1,146)
3 Net Cash (Used in) or Available From Financing Activities	5,309	(5,492)	4,523	(1,996)
4 Net Cash generated or (Used) during the period	(923)	(41)	185	(701)
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	-2.2%	-21.8%	48.4%	47.8%
<i>b Gross Profit Margin</i>	11.2%	13.1%	11.2%	11.6%
<i>c Net Profit Margin</i>	-2.9%	-1.5%	2.3%	3.5%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	-17.7%	23.6%	-0.3%	11.2%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/St</i>	-8.9%	-4.6%	9.1%	11.0%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	114	115	91	116
<i>b Net Working Capital (Average Days)</i>	84	98	89	113
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	3.6	3.0	5.9	6.1
3 Coverages				
<i>a EBITDA / Finance Cost</i>	0.9	1.4	2.5	2.6
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	0.4	0.8	1.2	1.2
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	-8.1	9.2	3.1	3.8
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	61.7%	55.4%	60.6%	57.8%
<i>b Interest or Markup Payable (Days)</i>	96.5	80.5	100.0	69.6
<i>c Entity Average Borrowing Rate</i>	18.7%	15.6%	8.6%	7.1%

Credit Rating

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. 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.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. 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.
BBB-	
BB+	
BB	Moderate risk. Possibility of credit risk developing. 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.
BB-	
B+	
B	High credit risk. 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-	
CCC	
CC	Very high credit risk. Substantial credit risk "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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

Probability of Default

(22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

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