



## 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
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	-
29-Dec-2017	A	A1	Stable	Maintain	-
27-Mar-2017	A	A1	Stable	Maintain	-
28-Oct-2016	A	A1	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect squeezed margins and pressure on the profitability in some recent months. The performance trend line took a dip but the company curtailed loss in the recent quarter. Amreli Steels has good business profile on account of the company's market positioning in the industry. The Company produces two key products: i) steel billets, ii) rebars including a) Grade 60 Deformed Steel bars and b) Xtreme bars (G-500W). The Company has achieved capacity expansion of melting and rebar manufacturing capacity to 600,000 tpa and 605,000 tpa respectively. Rebar capacity will be further enhanced to 1,105,000; however the project has been placed currently at halt due to the economic downturn. The company being 'Champion in selling Rebars' will not compromise on its footprint in the markets amid slow infrastructural activity in the country. Steel industry dynamics reflects weakening with squeezing margins and surging raw material costs coupled with rupee depreciation. Meanwhile, regulatory protection to the finished product (rebar) is an advantage for the sector. The volumetric increase (from recently added capacity) improved topline but margins declined. The financial risk profile witnessed dilution owing to decline in coverages attributable to sizable increase in finance costs. Going forward, the management will focus on volumes and sustaining market share while aligning the financial matrix by raising fresh term loan to retire existing working capital lines. The ratings draw comfort from strong business acumen of Amreli Steels' sponsors - Akberali Family.

The ratings are dependent on the management's ability to uphold and improve its business vis-à-vis financial risk profile. Utilization of enhanced capacity and improved margins are vital. Moreover, prudent management of financial affairs remains important.

#### Disclosure

<b>Name of Rated Entity</b>	Amreli Steels Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Criteria_LT ST Relationship_FY19(Jun-19)
<b>Related Research</b>	Sector Study   Steel(Mar-19)
<b>Rating Analysts</b>	Sehar Fatima   sehar.fatima@pacra.com   +92-42-35869504



## Profile

**Legal Structure** Amreli Steels Limited is a public limited company listed on Pakistan Stock Exchange since December 2015 and is traded under the section of Engineering.

**Background** Amreli Steels' rebar production facility is situated at S.I.T.E Karachi and the melt shop is situated in industrial zone at Dhabeji, Port Qasim. Expansion equating to a total of PKR 1bln is ongoing on steel melt shop at dhabeji to increase capacity from 400,000tpa to 600,000tpa. During FY18, commencement of commercial operations of the new rolling mill at Dhabeji increased the rebar production capacity of Amreli to 605,000 tons p.a (FY17:180,000 tons p.a).

**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). All Xtreme bars are cut in standard sizes of 12-16 meters. Amreli Steels has the largest billet manufacturing plant in Pakistan with a capacity of producing 400,000 tons of billets. The SMS Plant produces billets in sizes ranging from 100x100mmsq to 200x200mmsq. The Company's entire power need is being fulfilled by K-Electric.

## Ownership

**Ownership Structure** The company is majority (75%) owned by Akberali family, followed by Financial Institutions (18%), and general public (~7%).

**Stability** The Company's ownership structure witnessed minor changes post IPO. However, majority stake will rest 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 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 on the company.

**Board Effectiveness** There are two board committees in place, these include: (i) Audit, and (ii) Human Resource & Remuneration. Audit Committee comprises two independent members and one non-executive director from sponsoring family. In FY18, four board meetings were held. Attendance of board members in these 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 for the Financial statements of year ended 30th, June 2018.

## 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 i) Marketing, ii) Govt. and Public Relations, iii) Information Technology, iv) Corporate Affairs & Liaison, v) New Businesses, and vi) CSR and communication reports to COO-Strategy. Other eight functions; i) Sales, ii) Finance, iii) Supply Chain, iv) Admin & IR, v) Plant Operations, vi) Human Resource, vii) Security and Vigilance, ix) Environmental Health & Safety are reporting to COO-Operations and CFO. Internal audit function reports to Audit Committee.

**Management Team** Mr. Shayan Akberali, the elder son of Mr. Abbas Akberali, is lately appointed CEO. He is an engineer by profession and has been associated with the company since last two decades. Mr. Hadi Akberali, the younger son, has been promoted to the position of COO – Strategy. Mr. Fazal Ahmed, the previous CFO has been promoted as 'COO – Operations and CFO'.

**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 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 include sales and collection, production, major customers receivables report, and quality inspection report.

**Control Environment** The Company has internal control systems and procedures in place to ensure the quality of goods produced on a continuing basis.

## Business Risk

**Industry Dynamics** Domestic steel industry is undergoing expansions (flat and long product's manufacturers) announced in previous government's regime. With the commencement of capacity expansions, industry player's performance in current scenario of slowdown in infrastructure projects remains vital. Regulatory protections in form of increased anti-dumping duties is a positive factor. However, improved business performance and margins are essential for industry players in era of growing key policy rate, depreciating rupee against other currencies and contemporary inflationary pressures.

**Relative Position** Amreli is one of the larger players in domestic steel industry. The company is undergoing capacity expansion, in phases, which will enhance company's footprint and market positioning.

**Revenues** During 9MFY19, topline surged by a massive ~72% YoY to stand at PKR 18.7bln (9MFY18: PKR 10.8bln,) mainly because of part-materializing of capacities and higher sales price and volumes. The company's operating expenses (administrative and marketing expenses) rose by ~24% and a massive ~93% respectively. Consequently, the company's operating profit declined YOY to stand at PKR 1.0bln (FY18: PKR 1.9bln; 9MFY18: PKR 1.6bln). During 9MFY19, finance cost witnessed a sizable increase to stand at PKR 860mln (FY18: PKR 476mln; 9MFY18: PKR 324mln) driven by increase in long-term and short-term finance (owing to expansion projects after borrowing (both for plant and working capital) at high interest rates) coupled with hike in key policy rate (+425bps). Hence, despite the volumetric growth in topline, PAT stood at PKR 224mln (9MFY18: 997mln). In Mar19, Amreli also booked a loss of PKR 292mln, down from a profit of PKR 472mln in the prior year. This is the first quarterly loss of the company since FY16.

**Margins** Amreli's margins witnessed decline (Gross: 9MFY19: ~10%, FY18: ~18%, 9MFY18: ~19%, Operating: 9MFY19: ~6%, FY18: ~13%, 9MFY19: ~15%). In addition to company's higher cost of sales (up by 67%) and operating costs, upward trend in international scrap prices (~30%), lower capacity utilization (post-expansion), high depreciation expense during 9MFY19; all contributed towards slimming business margins.

**Sustainability** Going forward, as of Nov'18 the board has also approved the third phase of expansion plan for setting up an additional rolling mill at Dhabeji to further expand its rebar manufacturing facility from 605,000mt/p.a (FY17: 180,000mt/p.a) to 1,105,000mt/p.a. - as of 9MFY19, the project is on hold due to present downturn in the economy. However, With the recent addition of a melt shop at Dhabeji (operational since Jun19), The company now produces their own high quality billets (total billet capacity: 600,000mt/p.a) Meanwhile, the management will continue to focus on increasing its retail base.

## Financial Risk



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Amreli Steels Limited	Mar-19	Jun-18	Jun-17	Jun-16
Infrastructure   Steel	9M	12M	12M	12M

#### A BALANCE SHEET

1 Non-Current Assets	16,656	15,692	12,403	8,600
2 Investments	15	15	15	315
3 Related Party Exposure	-	-	-	-
4 Current Assets	14,051	10,935	5,791	7,850
a Inventories	9,395	7,459	3,404	4,410
b Trade Receivables	2,634	1,788	1,455	2,071
5 Total Assets	30,722	26,643	18,209	16,765
6 Current Liabilities	3,699	1,221	652	683
a Trade Payables	297	107	100	132
7 Borrowings	13,463	11,380	5,189	4,181
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	1,110	1,162	1,222	1,212
10 Net Assets	12,450	12,880	11,146	10,690
11 Shareholders' Equity	12,450	12,880	11,146	10,690

#### B INCOME STATEMENT

1 Sales	18,723	15,501	13,284	12,400
a Cost of Good Sold	(16,883)	(12,742)	(10,816)	(9,608)
2 Gross Profit	1,840	2,758	2,468	2,792
a Operating Expenses	(810)	(787)	(662)	(558)
3 Operating Profit	1,030	1,971	1,806	2,234
a Non Operating Income or (Expense)	(17)	(101)	(109)	(155)
4 Profit or (Loss) before Interest and Tax	1,014	1,871	1,697	2,079
a Total Finance Cost	(860)	(476)	(252)	(330)
b Taxation	70	191	(371)	(470)
6 Net Income Or (Loss)	224	1,585	1,074	1,279

#### C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	1,276	2,004	1,796	2,193
b Net Cash from Operating Activities before Working Capital Changes	607	1,609	1,552	1,840
c Changes in Working Capital	(2,514)	(4,223)	1,854	(3,195)
1 Net Cash provided by Operating Activities	(1,907)	(2,614)	3,406	(1,354)
2 Net Cash (Used in) or Available From Investing Activities	(1,466)	(2,924)	(4,133)	(1,293)
3 Net Cash (Used in) or Available From Financing Activities	3,354	5,599	416	2,949
4 Net Cash generated or (Used) during the period	(19)	62	(312)	301

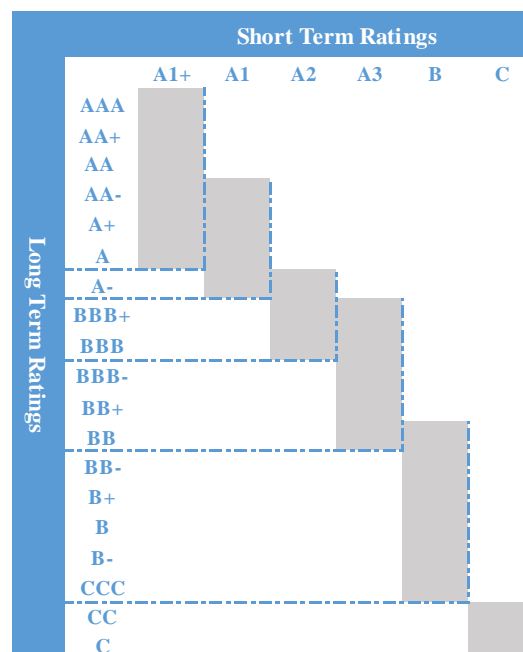
#### D RATIO ANALYSIS

1 Performance				
a Sales Growth (for the period)	61.1%	16.7%	7.1%	-14.0%
b Gross Profit Margin	9.8%	17.8%	18.6%	22.5%
c Net Profit Margin	1.2%	10.2%	8.1%	10.3%
d Cash Conversion Efficiency (EBITDA/Sales)	8.3%	15.3%	15.7%	19.8%
e Return on Equity (ROE)	2.4%	13.2%	9.8%	15.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	156	166	156	146
b Net Working Capital (Average Days)	153	164	153	143
c Current Ratio (Total Current Assets/Total Current Liabilities)	3.8	9.0	8.9	11.5
3 Coverages				
a EBITDA / Finance Cost	1.8	5.1	8.5	7.5
b FCFO / Finance Cost+CMLTB+Excess STB	0.7	1.6	3.2	2.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	5.5	1.9	0.7	0.5
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	52.0%	46.9%	31.8%	28.1%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Average Borrowing Rate	9.1%	5.7%	5.3%	7.3%

## 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.

Long Term Ratings		Short Term Ratings	
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+	<b>Very high credit quality.</b> 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.	A1	A strong capacity for timely repayment.
AA		A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
AA-		A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A+	<b>High credit quality.</b> 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.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
A		C	An inadequate capacity to ensure timely repayment.
A-			
BBB+	<b>Good credit quality.</b> 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			
BBB-			
BB+	<b>Moderate risk.</b> 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			
BB-			
B+	<b>High credit risk.</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-			
CCC	<b>Very high credit risk.</b> 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.		
CC			
C			
D	Obligations are currently in default.		



<b>Outlook (Stable, Positive, Negative, Developing)</b> 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'.	<b>Rating Watch</b> 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.	<b>Suspension</b> 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.	<b>Withdrawn</b> 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.	<b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.
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**Disclaimer:** PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

### **Rating Team Statements**

(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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- (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.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (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)

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- (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)

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- (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 | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(f-VII)

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