



The Pakistan Credit Rating Agency Limited

Rating Report

Bilal Steel Mills (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
31-Dec-2018	BB	B	Stable	Maintain	-
10-Jan-2018	BB	B	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Bilal Steel is a distinct player in the steel industry. The company directly caters to the demand of corporate/ mega projects. It has multiple projects to its credit. The ratings reflect small market presence of the company in a large fragmented industry. The company operates on adequate business margins in order to compete in local market, hence Bilal Steel's profitability is commensurate to its size. Bilal Steel has large infrastructural orders in hand which bodes well for the company. The company holds an adequate financial risk profile; absence of long term financing. The brain of the company is Mr. Farrukh Shahzad Malik also reflecting key man risk. Bilal Steel is a private limited company with two member board – hence board oversight is desired.

The ratings are dependent upon the company's ability to sustain its market presence. Enhancement of business profile with improvement in financial risk indicators is crucial. Moreover, strengthening of governance framework and human resource is vital.

Disclosure

Name of Rated Entity	Bilal Steel Mills (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Steel(Jan-18)
Rating Analysts	Sehar Fatima sehar.fatima@pacra.com +92-42-35869504

Profile

Legal Structure Bilal Steel Mills (Private) Limited (Bilal Steels), is a private limited company incorporated in 2013 under Companies Ordinance 1984.

Background Bilal Steel Mills (Pvt.) Ltd has been established five years ago with a comprehensive modern step up and a peerless standard of production of steel billets and steel bars with solid foundations of outstanding engineering expertise.

Operations It is primarily engaged in manufacturing and sale of billet steel and D-formed steel bars. The company operates through its registered head office located in Lahore. Bilal Steels' plant is located on a 13 acre area of land on Main Sheikhpura Road, Lahore. The plant is segregated between two areas, one being melting furnace with installed capacity of 42,000 MT while the other is rolling section with installed capacity of 87,500 MT.

Ownership

Ownership Structure Bilal Steels is a family owned business. Mr. Farrukh Shahzad Malik owns 94% of the shareholding, with the remaining 6% owned by his wife Mrs. Amber Shahzad Malik.

Stability Mr. Farrukh Shahzad Malik has a son and two daughters. The family has an understanding that post Mr. Farrukh Shahzad, the entire shareholding will be transferred to Mr. Bilal Malik, however, no formal succession plan is in place.

Business Acumen The sponsors – Malik family – carry decades of experience in steel and allied business. The sponsors have demonstrated their commitment towards the company by injecting funds on as and when required basis. This is evident from the fact that company has no long term borrowings.

Financial Strength The company sponsor strength considered adequate as one person of the family owns shareholding.

Governance

Board Structure Bilal Steels has a two member board. Mr. Farrukh Shahzad Malik is an executive director with whereas his wife Mrs. Amber Shahzad Malik is a non-executive director with no formal experience. The board remained same since inception.

Members' Profile The overall board structure is weak with no independent director and then family members are holding board positions.

Board Effectiveness There are no formal board committees in place. Since Bilal Steels is a private company, CCG requirements are not applicable.

Financial Transparency The company engaged new auditor M/s Izhar & Company, Chartered Accountants. They have issued an unqualified report, wherein, opinion was modified for the year ended 30th June, 2018.

Management

Organizational Structure Being a small company, the current organization structure is well laid considering it's a family owned business. All reporting lines terminate into the CFO, who in turn reports to MD and CEO.

Management Team Mr. Farrukh Shahzad Malik is the CEO of the company. He is an MBA and carries over two decades of experience in steel and allied industries. His son, Mr. Bilal Bashir Malik is the Managing Director of the company. Mr. Bilal is a graduate in business administration from Oxford International College, UK. He is the driving force behind the company as he now looks after all key departments of Bilal Steels under the vigilant supervision of his father Mr. Farrukh Shahzad.

Effectiveness Mr. Bilal has been instrumental in inducting professionals in the organization which has brought operational efficiencies. The CEO is supported by a team of experienced individuals equipped with necessary technical skills and relevant industry experience.

MIS The company MIS reporting is considered adequate as mostly Excel formats are used to generate reports which are viewed by CEO when required.

Control Environment The company employs SQL software for server database. The database consists of general ledgers with sale and purchase sub modules and petty cash day book for mills and head office. Bilal Steels is equipped with a computerized weight scale platform, herein, the software is attached with weighing scale which sends auto SMS to senior management of net weight for each trailer/ consignment of steel bars and by products. The plant has sanctioned load from LESCO of 4.9MW and 3MW to fulfill furnace and rolling mill needs. The company also has a gas connection for heating purposes which is on normal commercial terms with SNGPL and also equipped with generators.

Business Risk

Industry Dynamics Domestic steel industry is undergoing expansions 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. However, improved business performance and margins is essential for industry players in era of growing interest rate, exchange rate and expected inflationary environment in foreseeable future.

Relative Position Bilal Steel is a small player in the steel industry dealing only in manufacturing and sale of billet steel and D-formed steel bars.

Revenues During FY18, Bilal Steel continued on the growth trajectory with revenue clocking-in at PKR 3,049mln (FY17: 2,693mln) resulting in a growth of 13% on YoY basis. The surge in topline was led by higher rebar sale in terms of quantities amidst strong competition from dumped rebars originating from China; hence pricing was stressed. Curtailed operating expenses coupled with higher finance costs owing to the increased short term borrowing. As a result, profit before tax stood at PKR 75mln (FY17: 78mln), resulting in 4% decline on YoY basis. Top ten customer concentration improved to 60% for FY17 (FY16: 70%); although still considered high. Diversification in customer base is essential for Bilal Steel as it pushes for growth in the industry.

Margins During FY18, company was able sustain its margins (gross: FY18: 8.2%, FY17: 8.6%; operating: FY18: 5.4%, FY17: 5.4%).

Sustainability Going forward, the company envisages tremendous growth large government projects. Bilal Steel affiliation with sponsors of Bahria Town will also continue to drive growth in the future. The company now plans to expand its operations, herein, setting up a melting furnace plant of 20MT to utilize enhanced capacity from rolling section is on cards.

Financial Risk

Working Capital Bilal Steel's working capital needs slightly improved during FY17 owing to recoveries from debtors, however, inventory needs remained high. As a result, net cash cycle was marginally reduced to 92days at end-Jun18 (end-Jun17: 104days).

Coverages During FY18, on account of lower profit before taxation, FCFO declined to PKR 219mln (FY17: PKR 299mln). However, higher finance cost and addition of STBs resulted in lower coverages (interest: end-Jun18: 2.4x, end-Jun17: 3.4x; debt service: end-Jun18: 2.4x, end-Jun17: 3.4x).

Capitalization During FY18, the leveraging increased on account of higher STBs, but, the debt to debt plus equity ratio climbed to 43% (end-Jun17: 43%) owing to the unappropriated profit supported the equity. All of the debt outstanding pertains to short-term. However, the current capital structure is considered good.

Bilal Steel Mills (Pvt.) Limited (Bilal Steels)

BALANCE SHEET	30-Jun-18	30-Jun-17	30-Jun-16	30-Jun-15
	Annual	Annual	Annual	Annual
Non-Current Assets	911	920	937	1,012
Investments (Incl. Associates)	67	-	-	-
Equity	-	-	-	-
Debt Instruments	67	-	-	-
Current Assets	1,476	1,332	1,025	682
Inventory	297	300	221	88
Trade Receivables	607	603	606	479
Others	573	429	197	115
Total Assets	2,454	2,252	1,961	1,694
Debt	926	896	646	861
Short-Term	926	896	646	370
Long-Term (Incl. Current Maturity of Long-Term Debt)	-	-	-	492
Other short-term liabilities	246	159	200	269
Other long-term liabilities	46	18	14	5
Shareholders' Equity	1,235	1,179	1,101	559
Total Liabilities & Equity	2,454	2,252	1,961	1,694
INCOME STATEMENT	30-Jun-18	30-Jun-17	30-Jun-16	30-Jun-15
Turnover	3,049	2,693	1,895	1,401
Gross Profit	250	231	163	76
Net Other Income	1	0	0	0
Financial Charges	(91)	(68)	(42)	(38)
Net Income	72	58	50	14
Cashflow Statement	30-Jun-18	30-Jun-17	30-Jun-16	30-Jun-15
Free Cashflow from Operations (FCFO)	219	229	177	128
Net Cash changes in Working Capital	(55)	(322)	(363)	(132)
Net Cash from Operating Activities	82	(157)	(221)	(37)
Net Cash from Investing Activities	(120)	(101)	(45)	(174)
Net Cash from Financing Activities	34	165	283	233
Ratio Analysis	30-Jun-18	30-Jun-17	30-Jun-16	30-Jun-15
Performance				
Turnover Growth	13.2%	42.1%	35.2%	-26.1%
Gross Margin	8.2%	8.6%	8.6%	5.4%
Net Margin	2.4%	2.2%	2.7%	1.0%
ROE	6.0%	5.1%	6.1%	2.5%
Coverages				
Interest Coverage (FCFO/Gross Interest)	2.4	3.4	4.2	3.3
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	2.4	3.4	4.2	3.3
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	2.4	3.4	4.2	3.3
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO- Gross Interest)	0.0	0.0	0.0	5.5
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	91.6	104.2	107.1	72.5
Capital Structure				
Total Debt/Total Debt+Equity	42.8%	43.2%	37.0%	60.6%

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+ 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.	A1	A strong capacity for timely repayment.
A+ 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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ 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.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ 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.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	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.		
D	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.

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

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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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- (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.
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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)
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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)

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 | 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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