



The Pakistan Credit Rating Agency Limited

## Rating Report

### Jamal Pipe Industries (Pvt.) Limited

#### Report Contents

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

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
03-Jul-2023	BBB	A2	Stable	Maintain	-
15-Jul-2022	BBB	A2	Stable	Maintain	-
16-Jul-2021	BBB	A2	Stable	Maintain	-
17-Jul-2020	BBB	A2	Stable	Maintain	-
18-Jul-2019	BBB	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Jamal Pipes Industries (Pvt.) Limited (“The Company or JPI”), a family operated business, is engaged in manufacturing of pipes and allied products for four decades. The Company's product slate includes black line pipes, galvanized line pipes, variety of poles (octaconical poles, tubular poles and street light poles and guardrails. Around 47% is contribution from poles while remaining 53% arises from pipes and guardrails. Diversification in product slate is considered positive while further strengthening of revenue from each product would reduce concentration and add cushion to business risk profile. The business and financial risk of the steel sector has increased due to import restrictions, limited raw material coverage, soaring raw material prices, exchange rate volatility, and higher interest rates. The ongoing situation is expected to persist, however companies, keeping track of leveraging, finding alternative raw material and able to diversify their portfolio are able to sustain the current pressures. The Company in line with the industry trend faced a volumetric decline though, order book remain in comfortable position, as it enjoys a long association from big corporate clients. During the period 9MFY23, JPI sales revenue clocked to PKR ~1,880mln (FY22: PKR ~3,097mln). The gross profit and net profit for the period 9MFY23 stood at 7.9% – PKR ~149mln & 1.2% – PKR ~22mln (FY22: 8.5% – PKR ~263mln & 2.3% – PKR ~71mln) respectively. The decline in revenue and margins was due to the increase in Hot Rolled Coil (HRC) prices – the basic raw material, along with inability to establish LCs, increased energy prices, policy rates and slowdown in economic growth. However owing to better retention prices JPI manages to clamp its margins. JPI manages its working capital through the mix of internal cash generation and short term borrowings. As of 9MFY23 leveraging stood at 15.1% (FY22: 18.3%: FY21: 43.9%) constituting 100% short term borrowings - inherent need of the business model. Sufficient cushion in working capital lines are available. In order to cater the macro economic challenges JPI prefers to source expensive raw material from local suppliers on extended credit terms and relies less on imports. The ratings reflect an adequate market presence of JPI in a highly fragmented industry. The Company has an explicit policy of not raising any long-term debt, therefore, the debt book only contains of short-term borrowings.

The ratings are dependent upon the Company’s ability to sustain and improve its business profile in the wake of challenges in current diluted economic scenario. Herein, effective and prudent management of financial risk indicators & improvement of business margins through operational efficiencies remain important.

#### Disclosure

<b>Name of Rated Entity</b>	Jamal Pipe Industries (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Steel(Sep-22)
<b>Rating Analysts</b>	Anam Waqas Ghayour   anam.waqas@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Jamal Pipe Industries (Pvt.) Limited, a private limited company incorporated in 1981. Jamal Pipe is engaged in manufacturing of pipes, tubes, tubular poles and guardrails which are used in different government and private projects especially in NLC, K-Electric, Bahria Town, DHA and SNGPL.

**Background** Jamal Pipe Industries (Pvt.) Limited is present in the steel sector for the last four decades. The head office is located in Lahore. The manufacturing facility is located at Kala Shah Kaku, Main GT Road. During this period JPI grew from strength to strength.

**Operations** Jamal Pipe commenced its operations in 1981. The Company is primarily engaged in the manufacturing and sale of steel tubular poles, steel octagonal conical poles, steel round conical poles and guardrails which are used in different government and private projects. The well-known projects include Bahria Town Karachi, Metro Bus Lahore and Motorway Lahore.

## Ownership

**Ownership Structure** Jamal Pipe ownership structure comprises shareholding by two individuals of Ahmed Family. JPI ownership structure is vested in two brothers. Equal stake of 50% is owned by each i.e., Mr. Mian Farooq Ahmed and Mr. Mian Shakeel Ahmed.

**Stability** The Company's ownership structure is vested in two family members. Both Mr. Farooq and Mr. Shakeel have 33% stake in Jamal PVC Pipes in Jamal Seamless Pipes, respectively, which bodes well for the stability in the structure.

**Business Acumen** Late Mr. Jamal (the founding member) along with his two sons Mian Farooq Ahmed and Mian Shakeel Ahmed initiated the business after running a trading business in steel. The sponsors – Mian brothers carry experience of successfully managing steel pipe 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 sponsor's sole business interest is vested in steel sector and have demonstrated their commitment towards the Company by injecting funds on as and when required basis. Furthermore, sponsors have shown willingness to support the Company in case need arises is considered high.

## Governance

**Board Structure** The overall control of board only vests in two-member board of directors, both of them are from sponsoring family including the CEO, while Mr. Salman Azim is present on board in the capacity of the Financial Advisor. Mr. Farooq Ahmed holds the office of Chief Executive Officer. Mr. Farooq's presence adds significant value to the board on account of his long association, spanning over last four decades, with the industry.

**Members' Profile** Board members are equipped with necessary technical skills and adequate industry knowledge. Mr. Farooq Ahmed is the CEO of the Company. He has on-hand experience in the planning, set-up, erection, deployment & operational exposure in the steel industry.

**Board Effectiveness** BoD meetings are regularly conducted with the CEO and directors. As the board structure is still developing there are no board committees in place. Internal Audit function is also not available.

**Financial Transparency** Aftab Nabi & Co. Chartered Accountants are the external auditors of the Company. They are not listed on QCR and SBP Auditors list. They have expressed unqualified opinion on financial statements for the year end June 30th 2022.

## Management

**Organizational Structure** Jamal Pipes has a streamlined organizational structure. All functional heads report to their respective department heads and department heads report to the Chief Financial Officer –Mr. Zubair Ahmed and Factory Manager – Mr. Rehan Saeed. Furthermore, the Chief Financial Officer and Factory Manager reports directly to the CEO.

**Management Team** Mr. Farooq Ahmed is the Chief Executive Officer of the Company. Mr. Zubair Ahmed – (CA finalist) is the CFO of the Company. Mr. Farooq Ahmed-CEO, is supported by team of experienced individuals who are equipped with necessary technical skills.

**Effectiveness** Mr. Farooq Ahmed-CEO, is supported by team of experienced individuals who are equipped with necessary technical skills. All functional heads report to their respective department heads and department heads report to the Chief Financial Officer –Mr. Zubair Ahmed and Factory Manager – Mr. Rehan Saeed.

**MIS** Management Information System of Jamal Pipe Industries (Pvt.) Ltd is based on visual basic language. The application covers different input routes to memorize transactions i.e., for monetary transactions bank & cash payment and receipt voucher are used and for recording sales & purchase the data input forms are designed according to requirement of business and product nature. This MIS system is capable enough to generate the reports used for operational as well as strategic financial decision making.

**Control Environment** The Company's core business software is an oracle-based ERP system for smooth functioning of processes as well as for management reporting. The software was installed five years back. The software compiles, calculates and presents data of departments such as Production, Sales, Stores, Inventory, Accounts & Finance, and Imports etc. It is a user friendly, low maintenance and security protected software.

## Business Risk

**Industry Dynamics** Pakistan Steel Sector is largely fragmented with over ~173 player registered with The Pakistan Steel Re-Rolling Mills Association. Key players in the industry are, however, less than 20 in number, yet account for over ~40-50 production capacity of the sector. Out of these, 12 players are listed on the PSX. The country's annual steel products' demand hovers around ~13.5mln tons (FY22). Almost ~73% of the country's demand is met through local production, while the remaining portion is imported. Shortage of raw material, due to the inability to establish LCs, has led to production delays and financial losses for companies, despite recent relief announcements, according to the Pakistan Association of Large Steel Producers (PALSP).

**Relative Position** Jamal Pipes Industries has a capacity of producing over 30,000MT steel pipes per annum securing its position among medium players. Furthermore, the company installed a galvanizing plant which will increase the production by 30,000 MT per annum. NLC, K-Electric Limited, Bahria Town, DHA and New Metro City are the key customers for the company, Steel pipes are utilized in water lines, Sui gas, pressure pipes, chemical flow etc. Poles are utilized as street light and transmission lines. Whereas guardrails are used for road safety.

**Revenues** During 9MFY23, topline of Jamal Pipe slightly decrease and stood at PKR 1,880mln as compare to PKR 2,205mln in same period of previous year, 9MFY22 (FY22: PKR 3,097mln). JPI gross profit also decreased by 8% period to period and 34% YoY basis. The decline in topline and increase in cost of sales was due to the inability to establish LCs resulting shortage of raw material (imported) and meet demand from local purchase which increased cost of purchase and decreased profit of the company.

**Margins** During 9MFY23, Company's gross and operating margin stood at 7.9% and 3.5% respectively, as compare to 10.3% and 6.3% in 9MFY22. (FY22: 8.5% & 5.3%). Net margins of the company for 9MFY23 are 1.2%. (FY22: 2.3%).

**Sustainability** Going forward, considering the current economic downturn, the growth will be crucial for the Company. The strong affiliation with Bahria Town, K-Electric and different Sugar Mills might support the Company in coming years.

## Financial Risk

**Working Capital** During 9MFY23, Jamal Pipe's working capital requirements represented by net cash cycle (function of inventory, receivables and payables) recorded at 50days (9MFY22: 87days, FY22: 66days) driven by increase in trade payables days to 156 (9MFY22: 80days; FY22: 97days). During 9MFY22, STBs decreased to PKR 117mln (9MFY22: 340mln, FY22: 431mln). Current ratio remains same at an adequate level of 1.1x (FY22: 1.1x).

**Coverages** During 9MFY23, on account of higher price pay for raw material, FCFO declined to PKR 49mln (9MFY22: 99mln, FY22: PKR 165mln). Further, these higher costs also resulted in lower coverages EBITDA/Finance-cost 3.0x (FY22: 4.8x). While no major addition in debt is likely, coverages are expected to remain stable, going forward.

**Capitalization** JPI capital structure is composed of Equity and Short-term borrowing. During 9MFY23, leveraging as interpreted by Debt to Capital ratio significantly improved and stood at ~15.1%. (9MFY22:40.7%, FY22: 18.3%). There are no any long-term borrowings, all of the debt outstanding pertains to short-term. STB as at March '23 stood at PKR 117mln (FY22:140). However, the current capital structure is deemed adequate.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Jamal Pipe Industries (Pvt.) Ltd Steel	Mar-23 9M	Jun-22 12M	Jun-21 12M	Jun-20 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	578	602	600	564
2 Investments	-	-	-	1
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,621	1,715	1,498	1,263
a Inventories	913	740	659	636
b Trade Receivables	473	694	670	449
5 Total Assets	2,199	2,317	2,097	1,828
6 Current Liabilities	1,425	1,539	993	945
a Trade Payables	1,099	1,039	609	486
7 Borrowings	117	143	442	410
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	98	-
10 Net Assets	657	635	564	473
11 Shareholders' Equity	657	635	564	473
<b>B INCOME STATEMENT</b>				
1 Sales	1,880	3,097	2,718	2,445
a Cost of Good Sold	(1,731)	(2,834)	(2,440)	(2,195)
2 Gross Profit	149	263	278	250
a Operating Expenses	(83)	(97)	(99)	(89)
3 Operating Profit	66	166	179	161
a Non Operating Income or (Expense)	(2)	(8)	(9)	(6)
4 Profit or (Loss) before Interest and Tax	63	158	170	155
a Total Finance Cost	(32)	(49)	(38)	(76)
b Taxation	(9)	(39)	(41)	(37)
6 Net Income Or (Loss)	22	71	91	42
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	49	165	162	171
b Net Cash from Operating Activities before Working Capital Changes	17	110	122	95
c Changes in Working Capital	(17)	345	(75)	(272)
1 Net Cash provided by Operating Activities	(0)	455	47	(178)
2 Net Cash (Used in) or Available From Investing Activities	-	(38)	(69)	(49)
3 Net Cash (Used in) or Available From Financing Activities	(25)	(398)	19	260
4 Net Cash generated or (Used) during the period	(25)	19	(3)	34
<b>D RATIO ANALYSIS</b>				
<b>1 Performance</b>				
a Sales Growth (for the period)	-19.1%	13.9%	11.2%	19.9%
b Gross Profit Margin	7.9%	8.5%	10.2%	10.2%
c Net Profit Margin	1.2%	2.3%	3.4%	1.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	1.7%	16.5%	3.2%	-4.2%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)	4.6%	11.8%	17.6%	9.4%
<b>2 Working Capital Management</b>				
a Gross Working Capital (Average Days)	205	163	162	131
b Net Working Capital (Average Days)	50	66	89	71
c Current Ratio (Current Assets / Current Liabilities)	1.1	1.1	1.5	1.3
<b>3 Coverages</b>				
a EBITDA / Finance Cost	3.0	4.8	6.9	2.7
b FCFO / Finance Cost+CMLTB+Excess STB	1.7	3.7	4.2	1.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.1	0.9
<b>4 Capital Structure</b>				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	15.1%	18.3%	43.9%	46.4%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	19.8%	13.7%	7.8%	18.3%

### 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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
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.
AA-	
A+	
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.
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	<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-	
CCC	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility.
CC	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

**Disclaimer:** PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

### **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

### **Restrictions**

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(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).

(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)

### **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 | 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)

### **Proprietary Information**

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent