The Pakistan Credit Rating Agency Limited

Rating Report

Jamal Pipe Industries (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
18-Jul-2019	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Jamal Pipes Industries (Pvt.) Limited, a family operated business, is engaged in manufacturing of pipes and allied products since 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. The diversification in product slate is considered positive while further strengthening of revenue from all products would reduce concentration and add cushion to business risk profile. The company has been catering to the demand of corporate projects since last many years and enjoys association with corporate clients. The ratings reflect an adequate market presence of the company in a highly fragmented industry. Over the last few years, the company's business risk profile has strengthened on account of better volumetric sales. The recent economic downturn is a challenge. Recently, the Company has performed BMR which will lead to cost efficiency in upcoming years. The Company operates on adequate but improving business margins. The financial risk revolves around higher short-term borrowings to support the working capital - inherent need of the business model followed by the company. The Company has an explicit policy of not raising any long term debt. Going forward, the Company’s debt levels are expected to remain range-bound. The ratings incorporate four decades long association of sponsor family with the same industry.

The ratings are dependent upon the company’s ability to sustain its business profile in the wake of challenges in current diluted economic scenario. Herein, effective and prudent management of financial risk indicators remain important.

Disclosure	
Name of Rated Entity	Jamal Pipe Industries (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Crtieria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study | Steel(Mar-19)
Rating Analysts	Usama Zubair | usama.zubair@pacra.com | +92-42-35869504

Profile

Legal Structure Jamal Pipe Industries (Pvt.) Limited was 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.

Background The history of the company goes almost four decades back - initially the sponsor family was engaged in trading. The head office is located in Lahore. The manufacturing facility is located at 13km, Main GT Road. The company produced 1,582.8 metric tons of steel pipe, 741.7 metric tons of Pole and 1.212 metric tons of Guardrails for the year end June 2018.

Operations Jamal Pipe commenced its operations in 1981. Jamal pipe broadly produces 3 products; i) Steel Line Pipes, ii) Tubular Poles, and iii) Gaurdrails. All products conform to international standards. The company is planning to start a project of Galvanizing Plant in collaboration with Shanghai Bonan Technology Co., Ltd.

Ownership

Ownership Structure Jamal Pipe ownership structure comprises shareholding by two individuals of Ahmed Family. Mr. Mian Farooq Ahmed and Mr. Mian Shakeel Ahmed both having holding of 50% each.

Stability Jamal Pipe ownership structure is seen stable as no ownership changes are expected in foreseeable future.

Business Acumen Late Mr. Jamal (the founding member) along with his two sons Mr. Mian Farooq Ahmed and Mr. Shakeel Ahmed initiated the business after running a trading business in steel. The business acumen is considered adequate on account of more than four decades long association of the sponsor family with the steel sector.

Financial Strength The sponsor's sole business interest is vested in steel sector. Furthermore, the sponsor has properties (Head office and Factory area). Hence, willingness to support in case of need arising is considered high. The financial muscle of the sponsor is considered adequate.

Governance

Board Structure The overall control of board vests with two members, Mr. Mian Farooq Ahmed and Mr. Mian Shakeel Ahmed. Both of them are sons of Mr. Jamal - founding member of Jamal Pipe Industries (Pvt.) limited. Mr. Salman Azim is also present on board in capacity of a Financial Advisor.

Members' Profile Board members are equipped with necessary technical skills and adequate industry knowledge on the back of two decades long association with the steel industry. Mr. Salman Azim (Consultant) and Mr. Zubair Ahmed (Group CFO) are also present in board meetings.

Board Effectiveness BoD meetings are regularly conducted with the CEO and director's attendance in the meetings. There are no defined committees of the board.

Financial Transparency Azim & 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, 2018.

Management

Organizational Structure Jamal Pipe 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 Director.

Management Team The Chief Executive Officer, Mr. Mian Farooq Ahmed is supported by a team of experienced management equipped with necessary technical skills. Mr. Zubair Ahmed (CA finalist), the Chief Financial Officer, has been associated with the company since last two years. Mr. Rehan Saeed is the Factory Manager/ Manager Production of the company, reporting directly to the Director and CEO. He has an overall experience of 29 years and has been associated with the company since last 15 years.

Effectiveness The board reviews the key performance areas of the company, daily production analysis and production breakdown. They also review the overall financial health, discusses different aspects related to turnover, profits and net worthiness of the company.

MIS Management Information System of Jamal Pipe Industries (Pvt.) Ltd is based on visual basic language. This MIS program have chart of account of 4 levels of accounts structure, which lead to main account of transaction effect. The application cover 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 three 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 Domestic steel industry is undergoing expansions (flat and long products' producers) 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 indicator. However, improved business performance and margins is essential for industry players in era of growing key policy rate, depreciating rupee against other currencies and expected inflationary pressures in the coming years.

Relative Position Jamal Pipe Industries produces over 30,000MT steel pipes per annum. Furthermore, the company is planning to install a galvanizing plant. K-Electic Limited, CTE Swat Motorway and Bahria Town are the key customers for the company, as they contribute 78.7%, 11.1% and 3.7% respectively to the topline of 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 FY18, the Company's topline continued on a growth trajectory. Revenue stood at PKR 2.3bln (FY17: 1.9bln), depicting a 24% growth on YoY basis. Jamal Pipe engaged in manufacturing and selling locally. The Company's operating expenses rose by 42%. However, the company posted operating profit of PKR 130mln (FY17: PKR 113mln). Finance cost increased to PKR 40mln (FY17: PKR 24mln) driven by 72% increase in short-term borrowings YoY. Despite of aforementioned factors, the company managed to report profit after tax of PKR 63mln (FY17: PKR 56mln). During 1HFY19, Jamal Pipe net revenue stood at PKR 1.1bln. Gross profit and net profit stood at PKR 118mln and PKR 63mln respectively.

Margins During last few years, the company's profitability is improving. The same is reflected in margins (Gross: 6MFY19: 10.7%, FY18: 9.70%, FY17: 9.59%), depicting an increase on YOY basis. Operating margins also improved to 6.69% on 6MFY19 (FY18: 5.64%, FY17: 6.06%).

Sustainability Lately, the company has undergone BMR which has led to capacity enhancement and overall improvement in cost efficiency. However, the demand for steel pipes is expected to witness lagged pattern in the medium term. This is on account of low demand as infrastructural especially housing activities (large construction projects) are majorly at halt. Exchange rate fluctuation has also impacted the sector's demand.

Financial Risk

Working Capital During FY18, Jamal Pipe net working capital days decreased. Hence, Cash conversion cycle decreased to 56 days at end-Jun18 (end-Jun17: 68days). The stretched working capital cycle is inherent need of business as the company imports raw material for both pipes and Poles. There was a greater reliance on short-term borrowings (1HFY19: PKR 216mln; FY18: PKR 346mln) on account of enhanced working capital needs. Current ratio remained strong at FY18: 1.70x (FY17: 1.45x).

Coverages During FY18, FCFO stood at PKR 124mln (FY17: PKR 113mln) significantly up on account of enhanced profitability. However, during 1HFY19, FCFO dropped down to 57mln due to lesser profitability and higher tax paid. Interest coverage stood at 7.8x (end-Jun17: 4.7x). Going forward, as no major debt planned coverage are expected to improve steadily dependent upon management ability to enhance profitability.

Capitalization Over the last few years, the company had been operating with low leveraged capital structure. In 1HFY19, the equity stood at PKR 497mln and the debt to capital ratio improved to 30% (end-Jun18: 43%; end-Jun17: 35%). All of Jamal Pipe outstanding debt pertains to be short-term; inherent need of business model followed by the company. Going forward, the Company's debt levels are expected to remain inbound as no long-term financing is planned in foreseeable future.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Jamal Pipes Indutries Pvt. Limited	**Dec-18**	**Jun-18**	**Jun-17**	**Jun-16**
Steel	**6M**	**12M**	**12M**	**12M**
A BALANCE SHEET				
1 Non-Current Assets	451	442	329	179
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	850	870	890	787
a Inventories	*434*	*444*	*369*	*348*
b Trade Receivables	*257*	*314*	*382*	*308*
5 Total Assets	1,302	1,312	1,219	966
6 Current Liabilities	589	511	616	472
a Trade Payables	*392*	*365*	*432*	*280*
7 Borrowings	216	346	202	139
8 Related Party Exposure	-	-	9	19
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	497	455	392	336
11 Shareholders' Equity	497	455	392	336
B INCOME STATEMENT				
1 Sales	1,102	2,305	1,860	1,363
a Cost of Good Sold	*(985)*	*(2,082)*	*(1,681)*	*(1,241)*
2 Gross Profit	118	224	178	122
a Operating Expenses	(44)	(94)	(66)	(54)
3 Operating Profit	74	130	113	68
a Non Operating Income or (Expense)	-	-	*0*	-
4 Profit or (Loss) before Interest and Tax	74	130	113	68
a Total Finance Cost	*(15)*	*(40)*	*(24)*	*(17)*
b Taxation	*(17)*	*(27)*	*(33)*	*(22)*
6 Net Income Or (Loss)	42	63	56	29
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*57*	*124*	*113*	*45*
b Net Cash from Operating Activities before Working Capital Changes	*46*	*92*	*95*	*32*
c Changes in Working Capital	*60*	*61*	*40*	*(72)*
1 Net Cash provided by Operating Activities	107	152	135	(40)
2 Net Cash (Used in) or Available From Investing Activities	(26)	(147)	(176)	(79)
3 Net Cash (Used in) or Available From Financing Activities	(130)	135	53	36
4 Net Cash generated or (Used) during the period	(49)	141	12	(84)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-4.4%	24.0%	36.4%	43.5%
b Gross Profit Margin	10.7%	9.7%	9.6%	8.9%
c Net Profit Margin	3.8%	2.7%	3.0%	2.1%
d Cash Conversion Efficiency (EBITDA/Sales)	7.4%	6.5%	6.8%	5.7%
e Return on Equity (ROE)	17.6%	14.9%	15.3%	8.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	120	119	138	158
b Net Working Capital (Average Days)	57	56	68	83
c Current Ratio (Total Current Assets/Total Current Liabilities)	1.4	1.7	1.4	1.7
3 Coverages				
a EBITDA / Finance Cost	11.2	5.7	10.2	10.5
b FCFO / Finance Cost+CMLTB+Excess STB	7.8	4.7	8.7	4.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.1	0.6
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	30.3%	43.2%	34.9%	32.0%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Average Borrowing Rate	5.2%	9.4%	6.7%	4.7%

Credit Rating Scale & Definitions

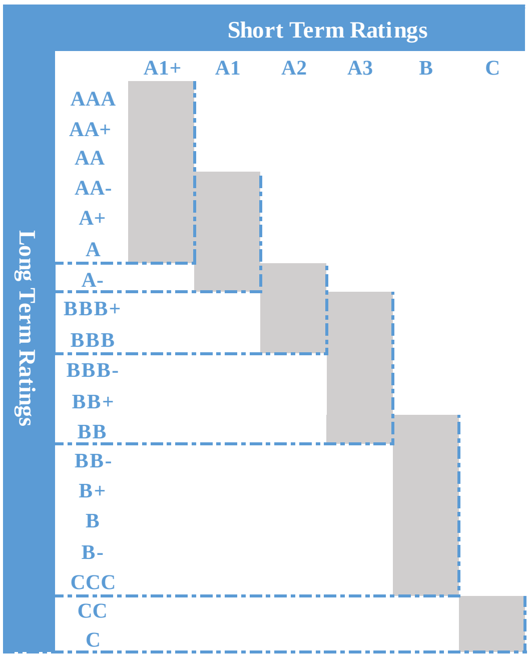
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
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.
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.
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+ 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.
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.

Short Term Ratings

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.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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 surveill the opinion due to lack of requisite information.

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

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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.

(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