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
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, 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. Around 47% is contribution from poles whilst from remaining 53% arises from pipes and guardrails. Diversification in product slate is considered positive while further strengthening of revenue from each 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. During FY21, company’s net sales recorded around PKR 2.4bln where net profitability stood at PKR 135mln. Margins and coverage witnessed improvement attributable to low policy rates and lessor short term borrowings, profitability for FY21; stays in good range. The management is eying to improve capacity utilization by improving customer base for upcoming years. 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, diversify customer base with better capacity utilization. Herein, effective and prudent management of financial risk indicators remain important.

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 especially in K-Electricity, Bahria Town, FWO and SNGPL.

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 Kala Shah Kako, Main GT Road. The Company produced 6,441 metric tons of MS pipe, 7,938 metric tons of Pole and 58 metric tons of Guardrails for the year end June 2021.

Operations Jamal Pipe commenced its operations in 1981. Jamal pipe broadly produces 3 products; i) Steel Line Pipes, ii) Tubular Poles, and iii) Guardrails. All products conform to international standards. The company also started 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. Mian Farooq Ahmed and 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 Mian Farooq Ahmed and Mian 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 business.

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. 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. There are no defined committees of the board. Independent Internal Audit function is also not available.

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, 2020. Audit of June, 2021 is in process, audited accounts will be shared once the audit completed.

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, 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 three 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 31 years and has been associated with the company since last 17 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 System is capable enough to generate the reports used for operational as well as strategic financial decision making. The company is planning to go for local ERP System in Aug 2021. Still the Financial Statements are manually prepared.

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 four 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. Authority Access of different persons based on policy prepared by the BoD was not shared with us.

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 installed a galvanizing plant. K-Electic Limited, International Institute of Welding, Bahria Town, Public Health Engineering Department, SNGPL, and Frontier Works Organization, are the key customers for the company, as they contribute 47.38%, 3.51%, 3.34%, 2.8%, and 0.75% 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.

Revenues During FY21, revenue stood at PKR 2.433bln (FY20: 2.445bln), depicting a -0.1% decreased on YoY basis. Jamal Pipe engaged in manufacturing and selling locally. Same with the case in company's operating expenses, as they also increased by ~1.5% and stood at PKR 90.7mln (FY 20: PKR 89.2mln). This scenario ultimately translated into operating profit of PKR 217mln (FY20: PKR 161mln). Finance cost decreased by ~57.2% to PKR 32mln (FY20: PKR 76mln) by making payments and decreased in KIBOR during COVID period. Net profit for FY21 stood at PKR 135mln.

Margins During FY21, Company's gross and operating margin increased by 12.6% and 8.9% respectively. The Company's profitability was increased in FY21: 7% (FY20: 2.6%).

Sustainability Going forward, the demand for steel pipes is expected to witness lagged pattern in the medium term. This is due to the cyclicality factor regarding sales

Financial Risk

Working Capital During FY21, Jamal Pipe net working capital days increases hence, Cash conversion cycle increased to 89 days at FY21 (FY20: 60days), mainly due to increase in receivable days. The extended working capital cycle adds further burden on business as the company imports raw material for both Pipes and Poles. There was an decrease in short-term borrowings (FY21: 301mln; FY20: PKR 401mln;). Current ratio decrease and stood at FY21: 1.3x (FY20: 1.5x).

Coverages During FY20, FCFO up by 171mln due to higher profitability. Interest coverage stood at 5.3x (FY19: 3.5x).

Capitalization In FY21, equity of the company increased to PKR 601mln (FY20: PKR 473mln). However, the debt to capital ratio decreased significantly by making payment to short-term borrowings and decreased KIBOR due to COVID. Consequently, leverage indicators at end of FY21 were reported at 33.5% (FY20: 46.4%). Going forward, the Company's debt levels are expected to remain inbound as no long-term financing is planned in foreseeable future.

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Financial Summary
PKR mln

Jamal Pipes Indutries Pvt. Limited	May-21	Jun-20	Jun-19	Jun-18
Steel	11M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	582	564	549	442
2 Investments	-	1	1	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,427	1,263	862	870
a Inventories	*558*	*489*	*498*	*436*
b Trade Receivables	*656*	*449*	*175*	*314*
5 Total Assets	2,009	1,828	1,412	1,312
6 Current Liabilities	1,105	834	725	511
a Trade Payables	*471*	*486*	*316*	*365*
7 Borrowings	303	410	256	346
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	111	-	-
10 Net Assets	601	473	430	455
11 Shareholders' Equity	601	473	430	455
B INCOME STATEMENT				
1 Sales	2,443	2,445	2,039	2,305
a Cost of Good Sold	*(2,135)*	*(2,195)*	*(1,847)*	*(2,082)*
2 Gross Profit	308	250	192	224
a Operating Expenses	(91)	(89)	(86)	(94)
3 Operating Profit	217	161	106	130
a Non Operating Income or (Expense)	*(13)*	*(6)*	*(4)*	-
4 Profit or (Loss) before Interest and Tax	204	155	102	130
a Total Finance Cost	*(32)*	*(76)*	*(45)*	*(40)*
b Taxation	*(37)*	*(37)*	*(26)*	*(27)*
6 Net Income Or (Loss)	135	42	31	63
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*172*	*171*	*121*	*124*
b Net Cash from Operating Activities before Working Capital Changes	*172*	*95*	*76*	*92*
c Changes in Working Capital	-	*(272)*	*102*	*61*
1 Net Cash provided by Operating Activities	172	(178)	178	152
2 Net Cash (Used in) or Available From Investing Activities	-	(49)	(93)	(147)
3 Net Cash (Used in) or Available From Financing Activities	-	260	(85)	135
4 Net Cash generated or (Used) during the period	172	34	0	141
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-0.1%	19.9%	-11.6%	24.0%
b Gross Profit Margin	12.6%	10.2%	9.4%	9.7%
c Net Profit Margin	5.5%	1.7%	1.5%	2.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	7.0%	-4.2%	11.0%	8.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/S*	23.5%	10.1%	7.5%	14.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	161	120	127	134
b Net Working Capital (Average Days)	89	60	66	71
c Current Ratio (Current Assets / Current Liabilities)	1.3	1.5	1.2	1.7
3 Coverages				
a EBITDA / Finance Cost	5.9	5.3	3.5	5.7
b FCFO / Finance Cost+CMLTB+Excess STB	5.4	4.1	0.8	4.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.1	1.5	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	33.5%	46.4%	37.3%	43.2%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	8.2%	9.1%	14.5%	9.4%

Credit Rating

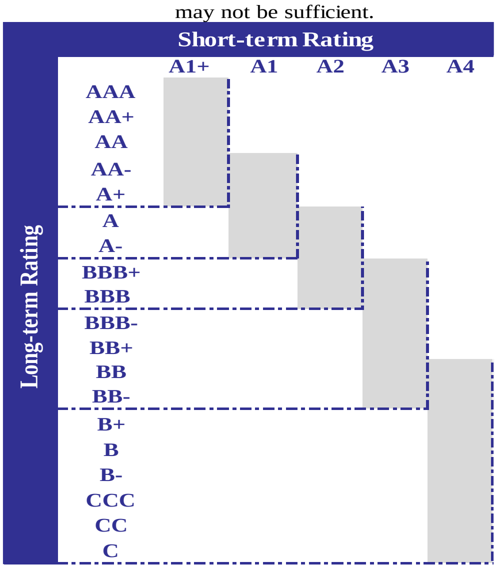
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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 Rating

Scale	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
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 surveill 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):

Entities

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

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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