



## Rating Action

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## Applicable Criteria and Related Research

- Steel Sector - Viewpoint | Feb-16
- Corporate Rating Methodology

## Disclaimer

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## PACRA Assigns Entity Ratings to Amreli Steels

PACRA has assigned Long-Term and Short-Term entity ratings of 'A' (Single A) and 'A1' (Single A One), respectively, to Amreli Steels Limited. These ratings denote a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

The ratings reflect continuous improvement in Amreli Steels' business profile supplemented by strong local demand fundamentals. Business margins have maintained a positive trend - a factor of notable decline in price of imported scrap, a key raw material. Meanwhile, financial risk profile has depicted steady, yet significant, improvement reflected by healthy cash flows and low leveraged capital structure; resulting in strong debt service coverages. This, in addition, is augmented by cash proceeds from IPO, which are utilized to finance Amreli Steels' on-going expansion in re-rolling (from 180,000 to 480,000tpa) and billet (from 200,000 to 350,000tpa) capacities. The project will be equity financed. It is expected to start commercial operations in 1QFY18. However, the company has stepped up efforts to ensure supportive supply chain to utilize enhanced capacities in a timely manner. Meanwhile, regulatory protection to the finished product (rebar) is an added advantage for the sector; continuation of the same is important to generate good business margins. The company is strengthening its organizational structure; senior executives with relevant expertise are being engaged to meet needs of growing business. In line with listing requirement, formality in governance structure has been witnessed; effectiveness is likely to improve with time. The ratings draw comfort from strong business acumen of Amreli Steels' sponsors - Akberali Family - and business prospects which directly correlate to expected domestic infrastructure activity.

The ratings are dependent on the management's ability to sustain its business profile while benefiting from positive demand fundamentals. Effective implementation of governance framework and prudence in financial structure remain important.

## About the Company:

Amreli Steels Limited, incorporated in 1984, obtained listing on Pakistan Stock Exchange on Dec 1st, 2015. The company is majority owned by Akberali family (75%), followed by financial institutions (13%) and general public (12%). Sponsoring family carries over six decades of experience in steel and allied business. Amreli Steels operates a re-rolling mill (capacity: 180,000tpa) and a billet manufacturing plant (capacity: 200,000tpa).

Amreli Steels has a seven-member board of directors; four are from the sponsoring family while three are independent members. Mr. Abbas Akberali - the founding member - holds the position of Chairman and CEO and is assisted by Managing Director - Mr. Shayan Akberali. The management team carries extensive relevant experience and is long associated with the company.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity.

PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.