



The Pakistan Credit Rating Agency Limited

AMRELI STEELS LIMITED

	INITIAL [OCT-16]
Entity	
Long Term	A
Short Term	A1
Outlook	Stable

REPORT CONTENTS
1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

OCTOBER 2016

Profile & Ownership

- Amreli Steels Limited, incorporated in 1984, is primarily engaged in manufacturing and sale of reinforcement bars (rebars) and billets; obtained listing on PSX in Dec15
- Production facility comprises 180,000 tpa rebar and 200,000 tpa billet capacity
- The company is majority (75%) owned by Akberali family, followed by financial institutions (13%) and general public (12%)
- The sponsors – Akberali family – carry over six decades of experience in steel and allied business. Demonstrated financial support of sponsors in the past

Governance & Management

- Board reconstituted in May15. Seven members BoD comprises four directors from sponsoring family including Chairman/CEO and MD, and three independent directors
- Presence of three independent members strengthens governance framework
- Mr. Abbas Akberali holds the positions of both Chairman and CEO; however, segregation of roles is planned on or before the next elections (May18)
- Mr. Shayan Akberali (MD) has been associated with the company for last 15 years and has an experienced management team
- Organizational structure revamped to bring operational efficiency and depth

Systems & Controls

- In-house computerized testing laboratory for inspection of the products
- SAP based ERP system implemented; comprehensive MIS reporting

Business Risk

- Over the recent years, Amreli Steel’s revenues have witnessed upward trend
- During FY16, despite 14% YoY drop in revenues – mainly a factor of decline in volumes – performance remained positive
- Margins remained strong (gross: FY16: 23%, FY15: 17%; operating: FY16: 18%, FY15: 14%) on the back of declining raw material (scrap) prices. During 1QFY17, they were squeezed YoY due to sale of low-margin imported rebar; expected to recoup by 1HFY17
- Top ten customer concentration is moderate (28%)
- Lower finance cost resulted in significantly higher profits of PKR 1,279mln during FY16 (FY15: PKR 1,011mln)
- Capitalizing on growth potential in local market, capacity expansion projects are underway. Rebar capacity being enhanced to 480,000tpa, while billet capacity is targeted at 350,000tpa. The project (estimated cost PKR 3.4bln) is 100% equity financed; CoD has been extended to 1QFY17
- Post expansion, due to competition, capacity utilization level remains critical

Financial Risk

- Amreli Steels’ working capital needs emanate from inventory and receivables
- During FY16, working capital requirement increased – despite lower sales volume – on account of easing of credit terms of public sector entities
- Despite YoY profitability, operating cashflows remained intact – a factor of higher taxes; though coverages improved YoY (interest: end-Jun16: 6.6x, end-Jun15: 3.3x; debt service: end-Jun16: 2.7x, end-Jun15: 0.5x)
- Debt payback reduced to half a year at end-Jun16 (end-Jun15: 1.4years); With no additional debt, coverages are expected to remain strong
- Post FY13, capital structure has posted gradual improvement on account of regular debt repayment and healthy profitability; leveraging stands at 28% at end-Jun16 (end-Jun15: 45%)
- Successful IPO of 25% shareholding (74.25mln shares @ PKR 51/share) in FY16 has supported the overall financial risk profile of the company

Sukuk Issue

- In Dec09, the company issued PKR 880mln Sukuk for a period of 7years (maturity: Dec16) at mark-up payable @ 3M KIBOR plus 2.5%. Proceeds were mainly utilized to replace short term borrowings with long term debt
- At end-Sep16, one principal payment (~PKR 84mln) remains outstanding

RATING RATIONALE

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.

KEY RATING DRIVERS

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.



Amreli Steels Limited

BALANCE SHEET

	30-Jun-16	30-Jun-15	30-Jun-14
	Annual	Annual	Annual
Non-Current Assets	8,600	7,658	7,700
Investments	315	15	15
Current Assets	7,851	4,589	3,411
Inventory	4,410	2,275	1,565
Trade Receivables	2,071	1,158	930
Others	1,370	1,156	916
Total Assets	16,766	12,262	11,126
Debt	4,181	4,757	4,944
Short-term	3,171	2,654	2,231
Long-term (Inlc. Current Maturity of long-term debt)	1,009	2,103	2,712
Other shortterm liabilities	683	629	471
Other Longterm Liabilities	1,212	1,005	873
Shareholder's Equity	10,690	5,871	4,839
Total Liabilities & Equity	16,766	12,262	11,126

INCOME STATEMENT

Turnover	12,400	14,414	11,962
Gross Profit	2,792	2,493	1,372
Operating profit	2,234	2,004	1,018
Financial Charges	(330)	(648)	(624)
Net Income	1,279	1,011	252

Cashflow Statement

Free Cashflow from Operations (FCFO)	2,193	2,115	1,265
Net Cash changes in Working Capital	(3,195)	(1,025)	462
Net Cash from Operating Activities	(1,354)	407	1,102
Net Cash from Investing Activities	(1,293)	(207)	(97)
Net Cash from Financing Activities	2,949	(183)	(1,019)

Ratio Analysis

Performance			
Turnover Growth (same period last year)	-14.0%	20.5%	12.6%
Gross Margin	22.5%	17.3%	11.5%
Net Margin	10.3%	7.0%	2.1%
ROE	13.8%	18.1%	5.1%
Coverages			
Interest Coverage (x) (FCFO/Gross Interest)	6.6	3.3	2.0
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	2.7	1.3	1.0
Debt Payback (Years) (Total LT Debt Including UnCovered Total STBs)/(FCFO- Gross Interest)	0.5	1.4	4.2
Liquidity			
Net WC Days (Inventory Days + Receivable Days - Payable Days)	130	87	90
Short-term Total Leverage (Net Current Assets - STB) / Current Assets	50.9%	28.5%	20.8%
Capital Structure (Total Debt/Total Debt+Equity)	28.1%	44.8%	50.5%



STANDARD 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 AA+ AA AA- A+ A A-	<p>Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.</p> <p>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.</p> <p>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.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
BBB+ BBB BBB-	<p>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.</p>	
BB+ BB BB-	<p>Speculative. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.</p>	
B+ B B-	<p>Highly speculative. Significant 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.</p>	
CCC CC C	<p>High default 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.</p>	
D	<p>Obligations are currently in default.</p>	

<p>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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled.</p>	<p>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’.</p>	<p>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.</p>	<p>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, or e) the entity/issuer defaults.</p>
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[Rated Entity](#)

Entity
Sector
Type of Relationship

Amreli Steels Limited
Steel
Solicited

[Purpose of the Rating](#)

Independent Risk Assessment

[Rating History](#)

Notification Date	LT Rating	ST Rating	Action	Outlook
26-Oct-16	A	A1	Initial	Stable

[Related Criteria and Research](#)

[Methodology](#)
[Sector Research](#)

Corporate Rating Methodology
Steel Sector - Viewpoint | Feb-16

[Rating Analysts](#)

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[Rating Team Statement](#)

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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Regulatory and Supplementary Disclosure

Repayment Schedule Sukuk

Annexure A

SUKUK Amount (PKR '000) 880,000
 Period (years) 7
 Repayment Quarterly
 Pricing 3M K + 2.5%

Date	Days	Installment	Beginning Principal	Payment		Ending Principal
				Principal	Markup	
Dec-09			880,000	-	33,000	880,000
Mar-10	94	33,000	880,000	-	33,000	880,000
Jun-10	91	33,000	880,000	-	33,000	880,000
Sep-10	91	34,100	880,000	-	34,100	880,000
Dec-10	92	36,300	880,000	-	36,300	880,000
Mar-11	92	36,300	880,000	-	36,300	880,000
Jun-11	90	36,300	880,000	-	36,300	880,000
Sep-11	91	35,200	880,000		35,200	880,000
Dec-11	92	31,900	880,000		31,900	880,000
Mar-12	92	49,500	880,000	17,600	31,900	862,400
Jun-12	90	48,862	862,400	17,600	31,262	844,800
Sep-12	91	45,056	844,800	17,600	27,456	827,200
Dec-12	92	43,450	827,200	17,600	25,850	809,600
Mar-13	92	41,888	809,600	17,600	24,288	792,000
Jun-13	90	41,360	792,000	17,600	23,760	774,400
Sep-13	87	40,832	774,400	17,600	23,232	756,800
Dec-13	96	41,250	756,800	17,600	23,650	739,200
Mar-14	85	40,700	739,200	17,600	23,100	721,600
Jun-14	97	40,645	721,600	17,600	23,045	704,000
Sep-14	87	40,082	704,000	17,600	22,482	686,400
Dec-14	96	39,282	686,400	17,600	21,682	668,800
Mar-15	85	103,604	668,800	83,600	20,004	585,200
Jun-15	97	99,501	585,200	83,600	15,901	501,600
Sep-15	87	95,307	501,600	83,600	11,707	418,000
Dec-15	96	93,500	418,000	83,600	9,900	334,400
Mar-16	86	91,124	334,400	83,600	7,524	250,800
Jun-16	97	89,243	250,800	83,600	5,643	167,200
Sep-16	87	87,362	167,200	83,600	3,762	83,600
Dec-16	96	85,481	83,600	83,600	1,881	-
		1,534,129		880,000	687,129	