



The Pakistan Credit Rating Agency Limited

# AMRELI STEELS LIMITED

## RATINGS REPORT

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MARCH 2017

**Profile & Ownership**

- Amreli Steels Limited, incorporated in 1984, is primarily engaged in manufacturing and sale of reinforcement bars (rebars) and billets; obtained listing on Pakistan Stock Exchange 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 6MFY17, revenue jumped by 20% YoY – mainly a factor of uptick in volumes – performance remained positive
- Margins declined (gross: 1HFY17: 16%, 1HFY16: 23%; operating: 1HFY17: 11%, 1HFY16: 18%), they were squeezed YoY due to low-margin in trading of imported rebar
- Top ten customer concentration is moderate (28%)
- Profitability declined on the back of lower margin (1HFY17: PKR 482mln, 1HFY16: PKR 550mln)
- 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 1QFY18
- Post expansion, due to competition, capacity utilization level remains critical

**Financial Risk**

- Amreli Steels’ working capital needs emanate from inventory and receivables
- During 1HFY16, working capital requirement increased – despite lower sales volume – on account of easing of credit terms of public sector entities
- Decline in YoY profitability, resulted in deterioration in operating cashflows – a factor of higher taxes; though coverages improved YoY (interest: end-Dec16: 5.5x, end-Dec15: 4.7x; debt service: end-Dec16: 3.6x, end-Dec15: 1.8x)
- Debt payback period has reduced; 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 26% at end-Dec16 (end-Dec15: 22%)
- Successful IPO of 25% shareholding (74.25mln shares @ PKR 51/share) in FY16 has supported the overall financial risk profile of the company

**RATING RATIONALE**

The ratings reflect continuous improvement in Amreli Steels' business profile supplemented by strong local demand fundamentals. Business margins declined in 1HFY17 - a factor of notable decline in local prices due to import of steel re-bars from China. The situation is likely to improve, post imposition of anti-dumping duty. Meanwhile, financial risk profile has depicted steady 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 management of financial affairs remain important.

**Amreli Steels Limited**
**BALANCE SHEET**

	31-Dec-16	30-Jun-16	30-Jun-15
	1H	Annual	Annual
<b>Non-Current Assets</b>	<b>10,136</b>	<b>8,600</b>	<b>7,658</b>
Investments	15	315	15
<b>Current Assets</b>	<b>6,177</b>	<b>7,851</b>	<b>4,589</b>
Inventory	3,329	4,410	2,275
Trade Receivables	1,615	2,071	1,158
Others	1,232	1,370	1,156
<b>Total Assets</b>	<b>16,328</b>	<b>16,766</b>	<b>12,262</b>
<b>Debt</b>	<b>3,748</b>	<b>4,181</b>	<b>4,757</b>
Short-term	3,092	3,171	2,654
Long-term (Incl. Current Maturity of long-term debt)	657	1,009	2,103
Other shortterm liabilities	780	683	629
Other Longterm Liabilities	1,221	1,212	1,005
<b>Shareholder's Equity</b>	<b>10,578</b>	<b>10,690</b>	<b>5,871</b>
<b>Total Liabilities &amp; Equity</b>	<b>16,328</b>	<b>16,765</b>	<b>12,262</b>

**INCOME STATEMENT**

	31-Dec-16	30-Jun-16	30-Jun-15
<b>Turnover</b>	<b>6,558</b>	<b>12,400</b>	<b>14,414</b>
Gross Profit	1,040	2,792	2,493
Operating profit	724	2,234	2,004
Financial Charges	(129)	(330)	(648)
<b>Net Income</b>	<b>482</b>	<b>1,279</b>	<b>1,011</b>

**Cashflow Statement**

	31-Dec-16	30-Jun-16	30-Jun-15
Free Cashflow from Operations (FCFO)	705	2,193	2,115
Net Cash changes in Working Capital	1,839	(3,195)	(1,025)
Net Cash from Operating Activities	2,411	(1,354)	407
Net Cash from Investing Activities	(1,701)	(1,293)	(207)
Net Cash from Financing Activities	(979)	2,949	(183)

**Ratio Analysis**

	31-Dec-16	30-Jun-16	30-Jun-15
<b>Performance</b>			
Turnover Growth (same period last year)	20.3%	-14.0%	20.5%
Gross Margin	15.9%	22.5%	17.3%
Net Margin	7.4%	10.3%	7.0%
ROE	18.0%	13.8%	18.1%
<b>Coverages</b>			
Interest Coverage (x) (FCFO/Gross Interest)	5.5	6.6	3.3
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	3.6	2.7	1.3
Debt Payback (Years) (Total LT Debt Including UnCovered Total STBs)/(FCFO- Gross Interest)	0.3	0.5	1.4
<b>Liquidity</b>			
Net WC Days (Inventory Days + Receivable Days - Payable Days)	74	130	87
Short-term Total Leverage (Net Current Assets - STB) / Current Assets	37.3%	50.9%	28.5%
<b>Capital Structure</b> (Total Debt/Total Debt+Equity)	26.2%	28.1%	44.8%



## 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
<b>AAA</b>  <b>AA+</b> <b>AA</b> <b>AA-</b>  <b>A+</b> <b>A</b> <b>A-</b>	<p><b>Highest credit quality.</b> 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><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.</p> <p><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.</p>	<p><b>A1+:</b> The highest capacity for timely repayment.</p> <p><b>A1:</b> A strong capacity for timely repayment.</p> <p><b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>C:</b> An inadequate capacity to ensure timely repayment.</p>
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<p><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.</p>	
<b>BB+</b> <b>BB</b> <b>BB-</b>	<p><b>Speculative.</b> 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> <b>B</b> <b>B-</b>	<p><b>Highly speculative.</b> 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>	
<b>CCC</b> <b>CC</b> <b>C</b>	<p><b>High default risk.</b> 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>	
<b>D</b>	<p>Obligations are currently in default.</p>	

<p><b>Rating Watch</b>                      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><b>Outlook (Stable, Positive, Negative, Developing)</b>                      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><b>Suspension</b>                      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><b>Withdrawn</b>                      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
7-Mar-17	A	A1	Maintain	Stable
28-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](#)

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