



The Pakistan Credit Rating Agency Limited

ENTITY RATINGS REPORT

AMRELI STEELS LIMITED

| ENTITY | RATINGS | OUTLOOK | ACTION |
|--|--------------------------------|---------|----------|
| Amreli Steels Limited (Amreli Steels) | Long Term: A Short Term: A1 | Stable | Maintain |

RATING RATIONALE

The ratings reflect continuous improvement in Amreli Steels' business profile supplemented by strong local demand fundamentals. Business margins declined in FY17 - 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 sustained improvement supplemented by strong cash flows and low leveraged capital structure; resulting in strong debt service coverages. The company is simultaneously working on two expansion projects – equity financed – which would result in combined capacity enhancement to 750,000tpa. of re-rolling and 600,000tpa. of billets by FY19. Capacity additions by competitors is likely to heat up competition, herein, effective and timely management of capacity expansion remains important for Amreli. 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 has streamlined its organizational structure; senior executives with relevant expertise are being engaged to meet needs of growing business, this is likely to bring operational efficiencies. 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 DRIVER

The ratings are dependent on the management's ability to sustain its business profile while benefiting from positive demand fundamentals. Effective implementation of upgraded ERP system and strengthening of human resource is vital. Moreover, prudent management of financial affairs remains important.

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Amreli Steels Limited

| BALANCE SHEET | 30-Sep-17 | 30-Jun-17 | 30-Jun-16 | 30-Jun-15 |
|--|------------------|------------------|------------------|------------------|
| | 3M | Annual | Annual | Annual |
| Non-Current Assets | 12,982 | 12,403 | 8,600 | 7,658 |
| Investments | 15 | 15 | 315 | 15 |
| Current Assets | 6,674 | 5,791 | 7,850 | 4,589 |
| Inventory | 4,357 | 3,404 | 4,410 | 2,275 |
| Trade Receivables | 1,344 | 1,455 | 2,071 | 1,158 |
| Others | 973 | 931 | 1,370 | 1,156 |
| Total Assets | 19,671 | 18,209 | 16,765 | 12,262 |
| Debt | 6,265 | 5,189 | 4,181 | 4,757 |
| Short-term | 5,279 | 4,165 | 3,171 | 2,654 |
| Long-term (Incl. Current Maturity of long-term debt) | 986 | 1,024 | 1,009 | 2,103 |
| Other shortterm liabilities | 817 | 652 | 683 | 629 |
| Other Longterm Liabilities | 1,248 | 1,222 | 1,212 | 1,005 |
| Shareholder's Equity | 11,342 | 11,146 | 10,690 | 5,871 |
| Total Liabilities & Equity | 19,671 | 18,209 | 16,765 | 12,262 |
| INCOME STATEMENT | 30-Sep-17 | 30-Jun-17 | 30-Jun-16 | 30-Jun-15 |
| Turnover | 2,706 | 13,284 | 12,400 | 14,414 |
| Gross Profit | 510 | 2,468 | 2,792 | 2,493 |
| Operating profit | 353 | 1,806 | 2,234 | 2,004 |
| Financial Charges | (97) | (252) | (330) | (648) |
| Net Income | 196 | 1,074 | 1,279 | 1,011 |
| Cashflow Statement | 30-Sep-17 | 30-Jun-17 | 30-Jun-16 | 30-Jun-15 |
| Free Cashflow from Operations (FCFO) | 323 | 1,796 | 2,193 | 2,115 |
| Net Cash changes in Working Capital | (690) | 1,854 | (3,195) | (1,025) |
| Net Cash from Operating Activities | (438) | 3,406 | (1,354) | 407 |
| Net Cash from Investing Activities | (661) | (4,133) | (1,293) | (207) |
| Net Cash from Financing Activities | 1,110 | 416 | 2,949 | (183) |
| Ratio Analysis | 30-Sep-17 | 30-Jun-17 | 30-Jun-16 | 30-Jun-15 |
| Performance | | | | |
| Turnover Growth (same period last year) | -15.9% | 7.1% | -14.0% | 20.5% |
| Gross Margin | 18.8% | 18.6% | 22.5% | 17.3% |
| Net Margin | 7.2% | 8.1% | 10.3% | 7.0% |
| ROE | 7.2% | 10.0% | 13.8% | 18.1% |
| Coverages | | | | |
| Interest Coverage (x) (FCFO/Gross Interest) | 3.3 | 7.1 | 6.6 | 3.3 |
| Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB) | 1.8 | 3.2 | 2.7 | 1.3 |
| Debt Payback (Years) (Total LT Debt Including UnCovered Total STBs)/(FCFO- Gross Interest) | 1.1 | 0.7 | 0.5 | 1.4 |
| Liquidity | | | | |
| Net WC Days (Inventory Days + Receivable Days - Payable Days) | 165 | 138 | 130 | 87 |
| Short-term Total Leverage (Net Current Assets - STB) / Current Assets | 8.7% | 16.8% | 50.9% | 28.5% |
| Capital Structure (Total Debt/Total Debt+Equity) | 35.6% | 31.8% | 28.1% | 44.8% |

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 | | SHORT TERM RATINGS |
|--------------------------|---|---|
| AAA | Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments. | <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> |
| AA+ | Very high credit quality. Very low expectation of credit risk. | |
| AA | Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. | |
| AA- | | |
| A+ | High credit quality. Low expectation of credit risk. | |
| A | 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. | |
| A- | | |
| BBB+ | Good credit quality. Currently a low expectation of credit risk. | |
| BBB | 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. | |
| BBB- | | |
| BB+ | Moderate risk. Possibility of credit risk developing. | |
| BB | 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. | |
| BB- | | |
| B+ | High credit risk. | |
| B | 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. | |
| B- | | |
| CCC | Very high credit risk. Substantial credit risk | |
| CC | “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. | |
| C | | |
| D | Obligations are currently in default. | |

| | | | |
|---|---|--|---|
| <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>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.</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, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information</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 |
|-------------------|-----------|-----------|----------|---------|
| - | A | A1 | Maintain | Stable |
| 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-17

[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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so.

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