The Pakistan Credit Rating Agency Limited

Rating Report

Amreli Steels Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Oct-2024	BB	A3	Negative	Downgrade	Yes
10-May-2024	BBB	A3	Stable	Downgrade	Yes
10-May-2023	A-	A2	Stable	Maintain	-
05-Jul-2022	A-	A2	Stable	Maintain	-
05-Jul-2021	A-	A2	Stable	Maintain	-
02-Sep-2020	A-	A2	Stable	Maintain	-
24-Sep-2019	A-	A2	Stable	Downgrade	-
25-Mar-2019	A	A1	Stable	Maintain	-
18-Dec-2018	A	A1	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Amreli Steels Limited ("The Company" or "Amreli Steels") is one of the largest manufacturers of steel reinforcement bars. The Company produces two primary products: i) steel billets and ii) rebars, which include a) Grade 60 Deformed Steel bars and b) Xtreme bars (G-500W). Correspondingly to FY23, the steel industry continues to grapple with grave challenges such as subdued demand, PKR depreciation, high financial costs, and record-high power rates, along with a substantial increase in input costs. These challenges led the steel industry to fight for its sheer survival. Resultantly, many steel mills are working at a small fraction of their capacities and few are on the verge of closure. Amreli Steels has not been immune to these macroeconomic pressures, leading to a sharp decline in its volumetric sales in FY24. Revenue dropped by 15%, reaching approximately PKR 39 billion (FY23: ~PKR 45 billion). Due to constrained demand, the company has been unable to pass on the increased production costs to consumers, resulting in gross margins being halved to 6% in FY24 (FY23: 13%). Furthermore, the Company's operating margins have turned negative in FY24, reflecting a significant strain on its financial position. Amreli Steels heavily relies on short-term borrowings (STB) for working capital management, in line with industry practices. The Company also took out long-term loans to expand production capacity following a surge in demand in FY21. However, negative operating margins, combined with high finance costs, levies, and taxes, have further weakened the Company's already fragile financial standing, leading to a massive net loss of PKR 6 billion. The downgrade in the Company's credit rating is due to its deteriorating financial condition, its reduced ability to meet financial obligations on time, and heightened pressure on debt repayment in FY24.Moreover, previously announced strategies such as debt reprofiling, downsizing, selling non-core assets, and bringing in equity through a strategic partner have not yet significantly materialized. Currently Amreli is in discussion with the financial institutions for the comprehensive debt restructuring, the terms of which are under deliberation, and management is confident to close it by end of this calendar year. The timely conclusion of the debt restructuring as per the proposed plan, may results positive towards the ratings of the Company.

Going Forward, the success of the management's ability to implement these strategies and the availability of sponsor support to address any potential financial shortfall will also play a crucial role in swaying the Company’s ratings.

Disclosure

Name of Rated Entity	Amreli Steels Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Rating Modifiers(Apr-24),Methodology | Corporate Rating(Jul-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24)
Related Research	Sector Study | Steel(Sep-24)
Rating Analysts	Shujat Ehsanullah Wasim | Shujat.Ehsan@pacra.com | +92-42-35869504

Profile

Legal Structure Amreli Steels Limited (The Company) is listed on Pakistan Stock Exchange since 2015. Its shares are traded under the section " Engineering".

Background The Company was incorporates in 1984 now the Companies Act 2017 as Private Limited Company and has grown from being family owned business towards a formal corporate structure in 2009 by converting to public unquoted Company in 2009. Later in 2015 the Company enlisted on Pakistan Stock Exchange. The Company has two re-rolling plants situated at S.I.T.E. Karachi and Dhabeji based on the most modern hot re-rolling technologies in the industry with a nameplate capacity of 180,000 metric tons and 425,000 metric tons of rebars per annum respectively. The melt shop is situated in industrial zone at Dhabeji, Port Qasim, is constructed on 65 acres of land and has a nameplate capacity of 600,000 metric tons per annum .

Operations The Company is engaged in the manufacturing and sale of two key products: i) steel billets, ii) rebars including a) Grade 60 Deformed Steel bars and b) Xtreme bars (G-500W). The Company has the largest billet manufacturing plant in Pakistan with a capacity of producing 600,000 tons. The Company's majority power need is being fulfilled by K-Electric.

Ownership

Ownership Structure The Company is majority (75%) owned by Akberali family, followed by general public (~14.58%).

Stability The sponsors holding major stake in the Company bodes well for the stability in the ownership structure. However, the Sponsors are considering the inclusion of strategic partners in order to meet the challenges facing by the Company.

Business Acumen The sponsors'; Akberali family carries experience of more than six decades of managing steel and allied business. However, operating of business amid the unprecedented factors in the industry for the past 2 years have jogged the alignment of the Company, highlighting a resistance to adapting to the evolving industry landscape.

Financial Strength Amreli is the flagship entity of sponsors. The sponsors have demonstrated their commitment towards the company by injecting funds in the past but, the support is yet to be seen during these distressed times of the Company.

Governance

Board Structure The overall control of board vests in a seven-member board of directors, wherein four are from sponsoring family including the Chairman and CEO, while three are independent members.

Members' Profile Mr. Abbas Akberali is the chairman of the board. He is associated with the Company since inception and is responsible for the formulating and implementing corporate direction and strategy. The other board members have diverse professional background with relevant business experience.

Board Effectiveness There are two board committees in place, these include: (i) Audit, and (ii) Human Resource & Remuneration. The audit committee comprises three independent members and one non-executive director. Attendance of board members in board meetings is considered good

Financial Transparency M/s EY Ford Rhodes, Chartered Accountants, classified in category 'A' by SBP and having a QCR rating, are the external auditors of the company. They have expressed an unqualified opinion on the financial statements for the year ended 30th June, 2023. The Audit of FY 2024 is in process.

Management

Organizational Structure Amreli has a multi-tier organizational structure. Including two senior positions i) COO-Strategy and ii) COO-Operations and Chief Financial Officer and six functions namely; Marketing, Govt. and Public Relations, Information Technology, Corporate Affairs & Liaison, New Businesses, and CSR and communication reports to COO-Strategy.

Management Team Mr. Shayan Akberali, the elder son of Mr. Abbas Akberali, is CEO - an engineer by profession and has been associated with the company for the last two decades. Mr. Hadi Akberali, the younger son, has been working as COO – Strategy, Mr. Fazal Ahmed, has been working as 'COO – Operations" and while Mr. Taha Umer has been appointed as CFO in the current period. The overall management team is considered strong with the relevant understanding of the industry.

Effectiveness Amreli has five management committees in place. These committees review key performance areas of the company, inter-alia, daily production analysis, yield analysis, mechanical or production breakdown and downtime analysis.

MIS The company has implemented SAP as an ERP solution with the following operational modules, i) Production planning, ii) Material Management, iii) Sales and Distribution, iv) Finance, v) Controlling, and vi) Human Capital Management including success factor module. Reports generated on daily basis.

Control Environment Amreli has obtained ISO-9001 certification from Lloyd's Register Quality Assurance, which shows that the company's manufacturing processes and procedures are in conformity with international standards.

Business Risk

Industry Dynamics The country's annual demand for steel products was recorded at ~11.2mln MT during FY23 (FY22: ~13.6mln MT) down ~17.6% YoY basis, with imports comprising ~39.2% of the total consumption and recording ~42.1% decline YoY. This largely resulted from SBP-imposed import curbs during FY23.High dependence on imported raw material exposes the sector to changes in international raw material prices and exchange rate fluctuations. Going forward, although the SBP has lifted the restrictions on imports, the segment will likely remain exposed to PKR depreciation and high local interest rates, on account of a slowdown in the economy which has managed to continue in FY24.

Relative Position Amreli Steels is one of the leading players specifically in south region. It is the only steel company in Pakistan with sales offices in Sukkur, Hyderabad, Multan, Lahore, Islamabad and Karachi and has warehouses in Karachi, Lahore and Islamabad. Baluchistan and bypass city traffic. It has a network of 186 retailers currently.

Revenues During FY24, topline decreased by 15% and stood at PKR 38.78bln (FY23: PKR 45.49bln) mainly due to drop in volumetric sales due to a confluence of adverse factors including record inflation, rupee devaluation, high borrowing cost and political instability. (FY23: PKR 4bln) owing to substantial increase in debt obligations and high policy rate. Resultantly, the company reported a net loss of PKR 6.1bln due to reduced demand and the factors mentioned above.

Margins During FY24, Amreli Steel's margins witnessed a decrease on gross level and marked at ~6.2% (FY23: ~13%,) due to high production costs. Operating margins, during the period, have turned negative and stood at -0.33% (FY23: ~8.8%). Resultantly, due to significant increase in financial charges coupled with high levy and taxation, net loss in FY24 stood at PKR (6.1)bln (FY23: PKR (697)mln) and net margins significantly deteriorated to -15.75% (FY23: -1.53%) .

Sustainability The Company's sustainability in the current industry landscape is under significant risk due to the financial strain and substantial debt obligations. To move forward, a radical shift in strategy is essential. Meanwhile, without bold action and a clear, executable plan, the road ahead will remain challenging. The Company is under discussion with various financial institutions for the restructuring of its debt obligations, successful and timely completion of the arrangement is considered positive for the sustainability of the Company.

Financial Risk

Working Capital During last quarter FY 24 Company's operations remains halted due to the working capital constraints, the management of the Company is in discussion with the banks and is exploring other opportunities to keep the operations running. The board has also decided to temporarily suspend the operation at the Karachi based manufacturing facility.

Coverages At Mar 24, EBITDA and FCFO's were recorded at PKR 2,601mln (Mar-23: PKR 4,012mln) & PKR 2,143mln; (Mar-23: PKR 3,357mln) respectively. Steep increase in finance costs and loss reported in 9MFY24 resulted in lower coverages and Interest coverage deteriorated to 0.7x at Mar-24 (Mar-23: 1.4x) and Core &Total operating coverages declined to 0.3x (Mar-23: 0.9x).

Capitalization At Mar-24, leveraging stood at ~62.1% and total debt was recorded at PKR 21.4 billion as opposed to PKR 23 billion at Mar-23 (Leveraging at Mar-23: 60%). Out of total debt, ~77% pertains to short-term borrowings.

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Financial Summary
PKR mln

Amreli Steels Ltd	Mar-24	Jun-23	Jun-22	Jun-21
Infrastructure | Steels	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	21,902	22,600	21,870	20,418
2 Investments	14	14	14	15
3 Related Party Exposure	-	-	-	-
4 Current Assets	18,332	17,558	21,666	15,934
a Inventories	*8,286*	*7,097*	*11,018*	*5,992*
b Trade Receivables	*4,960*	*4,973*	5,680	*6,320*
5 Total Assets	40,248	40,172	43,550	36,366
6 Current Liabilities	4,846	5,897	3,684	2,614
a Trade Payables	*2,502*	*3,990*	*365*	*408*
7 Borrowings	21,410	17,768	23,105	18,781
8 Related Party Exposure	142	316	341	341
9 Non-Current Liabilities	711	1,628	1,166	689
10 Net Assets	13,139	14,562	15,254	13,941
11 Shareholders' Equity	13,139	14,562	15,255	13,941
B INCOME STATEMENT				
1 Sales	33,434	45,493	58,184	39,218
a Cost of Good Sold	*(30,062)*	*(39,531)*	*(51,693)*	*(34,676)*
2 Gross Profit	3,372	5,962	6,491	4,542
a Operating Expenses	(1,517)	(1,760)	(1,940)	(1,500)
3 Operating Profit	1,855	4,202	4,552	3,042
a Non Operating Income or (Expense)	*(165)*	*(195)*	*(167)*	*(8)*
4 Profit or (Loss) before Interest and Tax	1,690	4,007	4,385	3,033
a Total Finance Cost	*(3,551)*	*(4,033)*	*(2,307)*	*(1,649)*
b Taxation	*560*	*(653)*	*(753)*	*(16)*
6 Net Income Or (Loss)	(1,300)	(678)	1,326	1,368
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*2,143*	*4,327*	*4,088*	*3,101*
b Net Cash from Operating Activities before Working Capital Changes	*(857)*	*646*	*2,045*	*1,153*
c Changes in Working Capital	*(4,080)*	*6,394*	*(4,244)*	*1,287*
1 Net Cash provided by Operating Activities	(4,937)	7,040	(2,199)	2,440
2 Net Cash (Used in) or Available From Investing Activities	(266)	(1,589)	(2,138)	(1,146)
3 Net Cash (Used in) or Available From Financing Activities	3,876	(5,492)	4,523	(1,996)
4 Net Cash generated or (Used) during the period	(1,326)	(41)	185	(701)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-2.0%	-21.8%	48.4%	47.8%
b Gross Profit Margin	10.1%	13.1%	11.2%	11.6%
c Net Profit Margin	-3.9%	-1.5%	2.3%	3.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-5.8%	23.6%	-0.3%	11.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	-12.5%	-4.6%	9.1%	11.0%
2 Working Capital Management				
a Gross Working Capital (Average Days)	104	115	91	116
b Net Working Capital (Average Days)	77	98	89	113
c Current Ratio (Current Assets / Current Liabilities)	3.8	3.0	5.9	6.1
3 Coverages				
a EBITDA / Finance Cost	0.8	1.4	2.5	2.6
b FCFO / Finance Cost+CMLTB+Excess STB	0.3	0.8	1.2	1.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-5.7	9.2	3.1	3.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	62.1%	55.4%	60.6%	57.8%
b Interest or Markup Payable (Days)	107.5	80.5	100.0	69.6
c Entity Average Borrowing Rate	20.3%	15.6%	8.6%	7.1%

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.

Scale	Long-Term Rating
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.

Scale	Short-Term Rating
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 conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.

Rating Modifiers | Rating Actions

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 surveil 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. Rating actions may include "maintain", "upgrade", or "downgrade".

Note: This scale is applicable to the following methodology(s):

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

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 | Clause 11-(A)(p).
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
Proprietary Information