



The Pakistan Credit Rating Agency Limited

**Rating Report**

**Jamal Pipe Industries (Pvt.) Limited**

**Report Contents**

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

**Rating History**

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
15-Jul-2022	BBB	A2	Stable	Maintain	-
16-Jul-2021	BBB	A2	Stable	Maintain	-
17-Jul-2020	BBB	A2	Stable	Maintain	-
18-Jul-2019	BBB	A2	Stable	Initial	-

**Rating Rationale and Key Rating Drivers**

Jamal Pipes Industries (Pvt.) Limited, a family operated business, is engaged in manufacturing of pipes and allied products for four decades. The Company's product slate includes black line pipes, galvanized line pipes, variety of poles (octaconical poles, tubular poles and street light poles) and guardrails. Around 47% is contribution from poles while remaining 53% arises from pipes and guardrails. Diversification in product slate is considered positive while further strengthening of revenue from each products would reduce concentration and add cushion to business risk profile. The Company has been catering to the demand of corporate projects since last many years and enjoys association with corporate clients. The ratings reflect an adequate market presence of the Company in a highly fragmented industry. Over the last few years, the Company's business risk profile has strengthened on account of better volumetric sales. However, due to the increase in Hot Rolled Coil (HRC) prices – the basic raw material, along with increased energy prices, policy rates and slowdown in economic growth the capacity utilization of JPI expected to reduce going forward. To finance working capital needs amidst rising input costs, short term leverage indicators trended upwards in the coming year. During the period 9MFY22, Jamal Pipe recorded sales revenue of PKR ~2,205mln (FY21: PKR ~2,718mln) along with the gross profit and net profit of PKR ~227mln & PKR ~70mln (FY21: PKR ~278mln & PKR ~91mln) respectively. The Company leveraging stood at 40.7% (FY21: 43.9%) constituting 100% short term borrowings to support working capital - inherent need of the business model followed by the Company. The Company has an explicit policy of not raising any long-term debt. The ratings incorporate four decades of long association of sponsors' family with the same industry.

The ratings are dependent upon the Company's ability to sustain and improve its business profile in the wake of challenges in current diluted economic scenario. Herein, effective and prudent management of financial risk indicators & improvement of business margins through operational efficiencies remain important.

**Disclosure**

<b>Name of Rated Entity</b>	Jamal Pipe Industries (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Mehtodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Steel(Sep-21)
<b>Rating Analysts</b>	Anam Waqas Ghayour   anam.waqas@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Jamal Pipe Industries (Pvt) Limited, a private limited company incorporated in 1981.

**Background** Jamal Pipe Industries (Pvt) Limited is present in the steel sector for the last four decades. During this period JPI grew from strength to strength. The growing construction activity couples with the growth in energy sector, automobile and white goods industry across the country has thrown open opportunities for further growth and diversification.

**Operations** The Company is primarily engaged in the manufacturing and sale of steel tubular poles, steel octagonal conical poles, steel round conical poles and guardrails which are used in different government and private projects. The well-known projects include Bahria Town Karachi, Metro Bus Lahore and Motorway Lahore.

## Ownership

**Ownership Structure** Jamal Pipe's ownership structure is vested in two brothers. Equal stake of 50% is owned by each i.e., Mr. Mian Farooq Ahmed and Mr. Mian Shakeel Ahmed. The adjacent table depicts detailed shareholding pattern of the Company.

**Stability** The Company's ownership structure is vested in two family members. The Company is the only family business of the owners which bodes well for the stability in the structure.

**Business Acumen** The sponsors – Mian brothers carry experience of successfully managing steel pipe business. The willingness towards the business is evident from the steadfast approach used by the management. Hence, sponsor's business acumen is considered strong.

**Financial Strength** The sponsors have demonstrated their commitment towards the Company by injecting funds on as and when required basis. Furthermore, sponsors have shown willingness to support the Company in case need arises is considered high.

## Governance

**Board Structure** The overall control of board only vests in two-member board of directors, both of them are from sponsoring family including the CEO. Mr. Farooq's presence adds significant value to the board on account of his long association, spanning over last four decades, with the industry.

**Members' Profile** Mr. Farooq Ahmed is the CEO of the Company. He has on-hand experience in the planning, set-up, erection, deployment & operational exposure in the steel industry.

**Board Effectiveness** As the board structure is still developing there are no board committees in place.

**Financial Transparency** Azim & Co. Chartered Accountants are the external auditors of the Company. They are not listed on QCR and SBP Auditors list. They have expressed unqualified opinion on financial statements for the year end June 30th 2021.

## Management

**Organizational Structure** Jamal Pipes has a streamlined organizational structure. All functional heads report to their respective department heads and department heads report to the Chief Financial Officer –Mr. Zubair Ahmed and Factory Manager – Mr. Rehan Saeed. Furthermore, the Chief Financial Officer and Factory Manager reports directly to the CEO.

**Management Team** Mr. Farooq Ahmed is the Chief Executive Officer of the Company. Mr. Zubair Ahmed – (CA finalist) is the CFO of the Company. Mr. Farooq Ahmed-CEO, is supported by team of experienced individuals who are equipped with necessary technical skills.

**Effectiveness** Mr. Mian Farooq-CEO, is supported by team of experienced individuals who are equipped with necessary technical skills.

**MIS** Management Information System of Jamal Pipe Industries (Pvt.) Ltd is based on visual basic language. This MIS program have chart of account of 4 levels of accounts structure, which lead to main account of transaction effect. The application covers different input routes to memorize transactions i.e., for monetary transactions bank & cash payment and receipt voucher are used and for recording sales & purchase the data input forms are designed according to requirement of business and product nature. This MIS system is capable enough to generate the reports used for operational as well as strategic financial decision making.

**Control Environment** The Company will implement internal control systems and procedures in place to ensure the quality of goods produced on a continuing basis.

## Business Risk

**Industry Dynamics** Domestic steel industry has undergone through recent expansion phase. With the reviving economy post pandemic and the Govt. supportive initiatives to strengthen economic activity and induce growth, steel sector is predicting better prospects in near future in concurrence with the reported growth in allied sectors including cement & construction sector. Regulatory protections in form of increased anti-dumping duties also considered as positive indicator. Whilst, sustained market share, improved business performance and margins are essential for industry players in era of stable key policy rate, supportive industry dynamics and flourished demands in the region.

**Relative Position** Jamal Pipes Industries produces over 30,000MT steel pipes per annum securing its position among medium players.

**Revenues** During 9MFY22, Jamal Pipe continued on the slightly growth trajectory with revenue clocking-in at 2,205mln (FY21: 2,718mln) resulting in 8.2% increased on YoY basis. The surge in topline was led by higher steel prices. The company's operating expenses increased by 18.5% YoY and the company posted operating profit of PKR 139mln (FY21: PKR 99mln). Furthermore, finance cost increased by 40.4% to PKR 40mln (FY21: PKR 38mln) driven by higher interest rates over the period. The Company's profit after tax of PKR 70mln (FY21: PKR 91mln) showed the maintaining trend as the previous period.

**Margins** During 9MFY22, Company's gross and operating margin stood at 10.3% and 6.3% respectively, showing the previous year's trend. However, during last few years the margins increased.

**Sustainability** Going forward, considering the current economic downturn, the growth will be crucial for the Company. The strong affiliation with Bahria Town might support the Company in coming years.

## Financial Risk

**Working Capital** During 9MFY22, Jamal Pipe's working capital requirements represented by net cash cycle (function of inventory, receivables and payables) recorded at 87days (FY21: 89days) driven by increase in trade payables days (9MFY22: 80days; FY21: 74days). During 9MFY22, STBs decreased to PKR 340mln (FY21: 431mln).

**Coverages** During 9MFY22, on account of higher raw material and finance costs, FCFO declined to PKR 99mln (FY21: PKR 162mln). Further, these higher costs also resulted in lower coverages EBITDA/Finance-cost 3.2x (FY21: 7.1x). While no major addition in debt is likely, coverages are expected to remain stable, going forward.

**Capitalization** Jamal Pipe's capital structure is composed of Equity and STB. During 9MFY22, leveraging as interpreted by Debt to Capital ratio improved and stood at ~41%. All of the debt outstanding pertains to short-term borrowings. However, the current capital structure is deemed adequate.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Jamal Pipe Industries (Pvt) Ltd Steel	Mar-22 9M	Jun-21 12M	Jun-20 12M	Jun-19 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	549	600	564	549
2 Investments	-	-	1	1
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,658	1,498	1,263	862
a Inventories	815	659	636	498
b Trade Receivables	547	670	449	175
5 Total Assets	2,207	2,097	1,828	1,412
6 Current Liabilities	1,264	993	945	725
a Trade Payables	684	609	486	316
7 Borrowings	344	442	410	256
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	98	98	-	-
10 Net Assets	501	564	473	430
11 Shareholders' Equity	501	564	473	430
<b>B INCOME STATEMENT</b>				
1 Sales	2,205	2,718	2,445	2,039
a Cost of Good Sold	(1,978)	(2,440)	(2,195)	(1,847)
2 Gross Profit	227	278	250	192
a Operating Expenses	(88)	(99)	(89)	(86)
3 Operating Profit	139	179	161	106
a Non Operating Income or (Expense)	0	(9)	(6)	(4)
4 Profit or (Loss) before Interest and Tax	139	170	155	102
a Total Finance Cost	(40)	(38)	(76)	(43)
b Taxation	(29)	(41)	(37)	(26)
6 Net Income Or (Loss)	70	91	42	33
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	99	162	171	123
b Net Cash from Operating Activities before Working Capital Changes	99	122	95	78
c Changes in Working Capital	-	(75)	(272)	102
1 Net Cash provided by Operating Activities	99	47	(178)	180
2 Net Cash (Used in) or Available From Investing Activities	-	(69)	(49)	(93)
3 Net Cash (Used in) or Available From Financing Activities	-	19	260	(85)
4 Net Cash generated or (Used) during the period	99	(3)	34	2
<b>D RATIO ANALYSIS</b>				
1 Performance				
a Sales Growth (for the period)	8.2%	11.2%	19.9%	-11.6%
b Gross Profit Margin	10.3%	10.2%	10.2%	9.4%
c Net Profit Margin	3.2%	3.4%	1.7%	1.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	4.5%	3.2%	-4.2%	11.1%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity) ]	17.6%	17.6%	9.4%	7.5%
2 Working Capital Management				
a Gross Working Capital (Average Days)	167	162	131	155
b Net Working Capital (Average Days)	87	89	71	94
c Current Ratio (Current Assets / Current Liabilities)	1.3	1.5	1.3	1.2
3 Coverages				
a EBITDA / Finance Cost	3.2	7.1	2.7	3.6
b FCFO / Finance Cost+CMLTB+Excess STB	2.9	4.3	1.1	0.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.1	0.9	1.4
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	40.7%	43.9%	46.4%	37.3%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	11.2%	7.7%	18.3%	14.1%

**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 Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<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.
AA-	
A+	
A	<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.
A-	
BBB+	
BBB	<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.
BBB-	
BB+	<b>Moderate risk.</b> 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.
BB	
BB-	
B+	
B	<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	
CC	<b>Very high credit 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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
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.



*\*The correlation shown is indicative and, in certain cases, may not hold.*

**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.

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

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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(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)

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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

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(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).

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(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

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(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(d)

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(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-(F-VII)

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