The Pakistan Credit Rating Agency Limited

Rating Report

Jamal Pipe Industries (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
03-Jul-2024	BBB	A2	Stable	Maintain	-
03-Jul-2023	BBB	A2	Stable	Maintain	-
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 ("The Company or JPI"), 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 24% is contribution from poles while remaining 76% arises from pipes and guardrails including a small portion of G.I pipes. Diversification in product slate is considered positive while further strengthening of revenue from each product would reduce concentration and add cushion to business risk profile. The ratings take into account the high business risk profile of the steel pipes and tubes industry, which is particularly sensitive to economic cyclicality, fluctuations in exchange rates, and international steel prices. The industry also contends with challenges such as low-capacity utilization owing to lower demand due to slowdown in economy, higher financing costs, rupee depreciation, and rising energy costs. The Company in line with the industry trend faced a volumetric decline though, order book remains in comfortable position, as it enjoys a long association from big corporate clients. During the period 6MFY24, JPI sales revenue clocked to PKR ~1,596mln (FY23: PKR ~2,507mln). The gross profit and net profit for the period 6MFY24 stood at 9.9% – PKR ~158mln & 3.6% – PKR ~58mln (FY23: 10.3% – PKR ~258mln & 3.1% – PKR ~78mln) respectively. Owing to ease of import restrictions JPI starts to import the raw material which previously was purchased locally at a higher cost. JPI manages its working capital through the mix of internal cash generation and short-term borrowings. As of 6MFY24 leveraging stood at 29.7% (FY23: 10.3%) constituting 100% short term borrowings - inherent need of the business model. Sufficient cushion in working capital lines are available.

The ratings reflect an adequate market presence of JPI in a highly fragmented industry. The Company has an explicit policy of not raising any long-term debt, therefore, the debt book only contains of short-term borrowings.

Disclosure

Name of Rated Entity	Jamal Pipe Industries (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-24)
Related Research	Sector Study | Steel(Sep-23)
Rating Analysts	Andleeb Zahra | andleeb.zahra@pacra.com | +92-42-35869504

Profile

Legal Structure Jamal Pipe Industries (Pvt.) Limited (The Company or JPI), a private limited company incorporated in 1981

Background Jamal Pipe Industries (Pvt.) Limited is present in the steel sector for over four decades. The head office is located in Lahore. The manufacturing facility is located at Kala Shah Kaku, Main GT Road.

Operations The Company commenced its operations in 1981. 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 especially in NLC, K-Electric, Bahria Town, DHA and SNGPL.

Ownership

Ownership Structure JPI ownership structure comprises shareholding by two individuals of Ahmed Family. JPI 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.

Stability The group has three companies under its umbrella including Jamal PVC Pipes, Jamal Seamless Pipes and Jamal Pipe industries. The structure is vested in two family members. Both Mr. Farooq and Mr. Shakeel have 33% stake in Jamal PVC Pipes and Jamal Seamless Pipes, respectively, which bodes well for the stability in the structure.

Business Acumen Late Mr. Jamal (the founding member) along with his two sons Mian Farooq Ahmed and Mian Shakeel Ahmed initiated the business after running trading business in steel. 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 sponsor's sole business interest is vested in steel sector and 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, while Mr. Salman Azim is present on board in the capacity of the Financial Advisor. Mr. Farooq Ahmed holds the office of Chief Executive Officer. 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 Board members are equipped with necessary technical skills and adequate industry knowledge. 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 BoD meetings are regularly conducted with the CEO and directors. As the board structure is still developing there are no board committees in place. Internal Audit function is also not available.

Financial Transparency Aftab Nabi & 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 2023.

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. Farooq Ahmed-CEO, is supported by team of experienced individuals who are equipped with necessary technical skills. 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.

MIS Management Information System of Jamal Pipe Industries (Pvt.) Ltd is based on visual basic language. 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's core business software is an oracle-based ERP system for smooth functioning of processes as well as for management reporting. The software was installed five years back. The software compiles, calculates and presents data of departments such as Production, Sales, Stores, Inventory, Accounts & Finance, and Imports etc. It is a user friendly, low maintenance and security protected software.

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, a short-term intervention to control the depleting foreign exchange reserves. Due to non-availability of raw material, local steel production also recorded ~10.1% decline YoY, resulting in higher local prices and reflecting in lower consumption levels, vis-à-vis high levels of inflation and a slowdown in the construction sector. High dependence of the 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.

Relative Position Jamal Pipes Industries has a capacity of producing over 30,000MT steel pipes per annum securing its position among medium players. NLC, K-Electic Limited, Bahria Town, DHA and New Metro City are the key customers for the company, Steel pipes are utilized in water lines, sui gas, pressure pipes, chemical flow etc. Poles are utilized as street light and transmission lines. Whereas guardrails are used for road safety.

Revenues During 6MFY24, topline of Jamal Pipe increased by 27% and stood at PKR 1,596mln (FY: 23 PKR 2,507mln, FY22: PKR 3,097mln). However, JPI gross profit remains stable to 9.9% (FY23: 10.3%) on basis of similar trend in sales price. The increase in topline with the stable margins reflects the volumetric growth that is slightly picked up due to a slight stability in the macroeconomic environment starts to be visible.

Margins During 6MFY24, The Company's operating and Net margin stood at 6.4% and 3.6% respectively (FY23: 6.2% & 3.1%). The stability in margins is also a reflection of stability in the prices at macro economic level.

Sustainability The strong affiliation with Bahria Town, KElectric and different Sugar Mills is a support for Company, however continuity of the same is important in coming years, However the lessor diversity in the current customer base of the Company is a key concern.

Financial Risk

Working Capital During 6MFY24, Jamal Pipe's working capital requirements represented by net cash cycle (function of inventory, receivables and payables) recorded at 48days (FY23: 56days, FY22: 66days) driven by trade payables days of 118 (FY23: 156 days; FY22: 97days). The STB's during 6MFY24 increased to PKR 343mln (FY23: 86mln, FY21: 140mln). Current ratio remains at an adequate level of 1.5x (FY23: 1.2x). The decrease in payable days along with the increase in short term borrowings during 6MFY 24 reflects the ease out of import restriction and switching of Company from the local expensive raw material to their previous suppliers. During 6MFY24 receivables days were reduced to 40 days (FY23: 79 days) while the inventory days remains largely the same.

Coverages During 6MFY24, FCFO declined to PKR 68mln (FY23: 124mln, FY22: PKR 165mln). However the coverages EBITDA/Finance-cost improved to 7.5x (FY23: 4.8x; FY22:4.8x;).

Capitalization JPI capital structure is composed of Equity and Short-term borrowing. During 6MFY24, leveraging as interpreted by Debt to Capital ratio increased and stood at ~29.7%. (FY23:10.3%, FY22: 18%). There are no any long-term borrowings, all of the debt outstanding pertains to short-term.

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Financial Summary
PKR mln

Jamal Pipe Steel	Dec-23	Jun-23	Jun-22	Jun-21
	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	554	566	602	600
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,750	1,735	1,715	1,498
a Inventories	*1,136*	*1,074*	*740*	*659*
b Trade Receivables	*305*	*395*	*694*	*670*
5 Total Assets	2,304	2,301	2,317	2,097
6 Current Liabilities	1,151	1,462	1,539	993
a Trade Payables	*973*	*1,097*	*1,039*	*609*
7 Borrowings	343	86	143	442
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	98
10 Net Assets	811	752	635	564
11 Shareholders' Equity	811	753	635	564
B INCOME STATEMENT				
1 Sales	1,596	2,507	3,097	2,718
a Cost of Good Sold	*(1,438)*	*(2,249)*	*(2,834)*	*(2,440)*
2 Gross Profit	158	258	263	278
a Operating Expenses	(55)	(103)	(97)	(99)
3 Operating Profit	103	155	166	179
a Non Operating Income or (Expense)	*3*	*(5)*	*(8)*	*(9)*
4 Profit or (Loss) before Interest and Tax	105	150	158	170
a Total Finance Cost	*(24)*	*(40)*	*(49)*	*(38)*
b Taxation	*(24)*	*(32)*	*(39)*	*(41)*
6 Net Income Or (Loss)	58	78	71	91
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*68*	*124*	*165*	*162*
b Net Cash from Operating Activities before Working Capital Changes	*51*	*84*	*110*	*122*
c Changes in Working Capital	*(305)*	*(45)*	*345*	*(75)*
1 Net Cash provided by Operating Activities	(254)	39	455	47
2 Net Cash (Used in) or Available From Investing Activities	(2)	6	(38)	(69)
3 Net Cash (Used in) or Available From Financing Activities	256	(56)	(398)	19
4 Net Cash generated or (Used) during the period	0	(12)	19	(3)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	27.3%	-19.1%	13.9%	11.2%
b Gross Profit Margin	9.9%	10.3%	8.5%	10.2%
c Net Profit Margin	3.6%	3.1%	2.3%	3.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-14.8%	3.2%	16.5%	3.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sl*	14.7%	11.3%	11.8%	17.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	166	211	163	162
b Net Working Capital (Average Days)	48	56	66	89
c Current Ratio (Current Assets / Current Liabilities)	1.5	1.2	1.1	1.5
3 Coverages				
a EBITDA / Finance Cost	7.5	4.8	4.8	6.9
b FCFO / Finance Cost+CMLTB+Excess STB	4.3	3.3	3.7	4.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0	0.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	29.7%	10.3%	18.3%	43.9%

Credit Rating

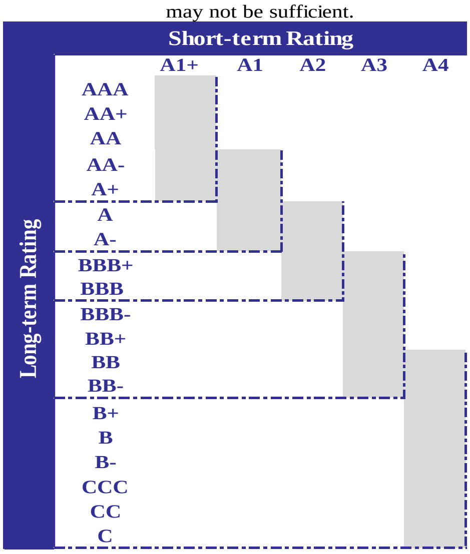
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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.

Short-term Rating

Scale	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
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 surveill 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):

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 Companies Rating

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)

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(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)
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