The Pakistan Credit Rating Agency Limited

# Rating Report

## Etihad Alloys (Pvt.) Limited

**Report Contents**



**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 01-Nov-2024 | BBB- | A3 | Developing | Maintain | - |
| 01-Nov-2023 | BBB- | A3 | Developing | Maintain | - |
| 02-Nov-2022 | BBB- | A3 | Developing | Upgrade | - |
| 16-Nov-2021 | BB+ | A3 | Developing | Initial | - |

### Rating Rationale and Key Rating Drivers

Etihad Group is set to establish a new steel industrial unit, under the corporate umbrella of Etihad Alloys (Pvt.) Limited ("EAPL" or "the Company"), in Rahim Yar Khan, Punjab, strategically located adjacent to its existing sugar mill. Initially, this new venture will focus primarily on manufacturing steel billets with a melting capacity of approximately 250,000 MT per annum. The steel project, financed through a 65:35 debt-to-equity ratio, is currently under construction. During June 2023, the Company initiated the application process to obtain "Sole Enterprise Special Economic Zone" status, and a public hearing had already been conducted. However, as per the management, the process is on hold due to current restrictions under Extended Finance Facility approved by IMF during September 2024. Additionally, Etihad Power Generation Limited (EPGL), a wholly owned subsidiary of EAPL, established to build and operate a 37.2 MW bagasse-based renewable energy power plant (the “Power Project”), got merged into its parent company, EAPL through the Order of honorable Lahore High Court, Lahore with effect from 1 July 2023. This merger would enable EAPL to finance the funding requirement and upon commissioning utilize in-house power generation at a competitive electricity cost. As a consequence, margins would improve, by way of reduction in overall production cost. The total cost of the Power Project is budgeted at PKR 9,745 million, funded through a 60:40 debt-to-equity ratio. Financial Close (FC) for the Power Project, secured through a syndicated term finance facility totaling PKR 5,850 million, has successfully achieved on August 5, 2024. As of the date of this Report, EAPL's total debt stood at PKR 2,566 million. This debt is expected to increase in the coming periods as the drawdown for the Power Project continues. As of the date of this report, EAPL had successfully repaid seven quarterly installments (both Principal and Markup) totaling PKR ~1.2 billion, starting from March 2023, through sponsor’s subordinated loan. This resilience underscores the unwavering support from its sponsors, who have consistently injected funds whenever needed. EAPL has also maintained a Debt Service Reserve Account (DSRA) that provides coverage for three months of its financial obligations until maturity. The Commercial Operation Date (COD) of EAPL (both steel and power project) is expected by October 2025. FABCON Design & Engineering (Pvt.) Limited has been appointed as the contractor for major supplies of the Power Project, bringing extensive experience and a strong record in bagasse-based power solutions.

The ratings are contingent upon the management's ability to meet completion milestones. The current ratings reflect substantial progress on the steel plant complex, and the FC of the power plant. However, the developing outlook indicates the time until the commission of both projects. Sponsor support up to the point of COD remains fundamental to the Company's financial risk profile.

**Disclosure**

| | |
|---|---|
| **Name of Rated Entity** | Etihad Alloys (Pvt.) Limited |
| **Type of Relationship** | Solicited |
| **Purpose of the Rating** | Entity Rating |
| **Applicable Criteria** | Methodology \| Rating Modifiers(Apr-24),Methodology \| Correlation Between Long-term & Short-term Rating Scales(Jul-24),Methodology \| Corporate Rating(Jul-24) |
| **Related Research** | Sector Study \| Steel(Sep-24) |
| **Rating Analysts** | Ali Arslan Malik \| Ali.Arslan@pacra.com \| +92-42-35869504 |

## Profile

**Legal Structure** Etihad Alloys (Private) Limited ("the Company" or "EAPL") was incorporated in Pakistan on March 16, 2021, as a private limited company under the Companies Act, 2017. The registered office of the Company is situated at 4-Bawa Park, Upper Mall Scheme, Lahore. The production facility is located at Village Karamabad, District Rahim Yar Khan. Etihad Power Generation Limited (EPGL), a wholly owned subsidiary of EAPL got merged into its parent company, EAPL through the Order of honorable Lahore High Court, Lahore with effect from 1 July 2023.

**Background** Etihad Group is establishing a new steel manufacturing unit, under EAPL, strategically located adjacent to its existing sugar mill. This facility will include a steel billet manufacturing mill with an installed capacity of approximately 250,000 tons of steel billets per year and a 37.2 MW bagasse-based renewable energy captive power plant. The Company holds about 73 acres of land for its Steel and Power Projects.

**Operations** Initially, the Company plans to focus on manufacturing steel billets from scrap, as billets serve as a critical input for various value-added steel products. Target industries for billet consumption include: i) wire rods, ii) steel pipes and tubes, iii) GI pipes, and iv) rebar mills. EAPL will gain a competitive advantage through access to cost- effective electricity from its aforementioned captive power plant.

## Ownership

**Ownership Structure** The ownership structure of EAPL comprises two parties: Mr. Mohammad Munir, who holds a majority stake of 51%, and Etihad Sugar Mills Limited, which owns the remaining 49%.

**Stability** Mr. Mohammad Munir, the major shareholder of EAPL, along-with his family members holds substantial shares in other group companies of Etihad Group such as Sugar Mills, Etihad Town, and Technical Associates. This arrangement positively contributes to the stability of the ownership structure.

**Business Acumen** The sponsor, Mr. Mohammad Munir, brings a wealth of experience in successfully managing businesses across diverse sectors, including sugar, real estate, hospitality, and construction. His firm commitment enables him to navigate complex market dynamics and effectively drive growth.

**Financial Strength** The financial soundness of the sponsor is considered strong, as he has demonstrated his commitment to the Company by injecting equity upfront. Additionally, he has provided support to the Company whenever needed.

## Governance

**Board Structure** Overall control of the board resides with a two-member board of directors, both from the sponsoring family. This includes the Chairman/CEO, Mr. Zahid Jamil, who has a long-standing association with the group. The other board member is Mr. Ashfaq Ahmed. Both board members hold executive roles within the Company's management.

**Members' Profile** Mr. Zahid Jamil brings hands-on experience in planning, setup, erection, deployment, and operational management across multiple industrial projects within the group. He actively oversees procurement activities for all group entities. Mr. Ashfaq Ahmed, with 23 years of experience in the banking industry, has been associated with the group for over a decade.

**Board Effectiveness** With only two members, the board's governance model is relatively weak compared to that of established corporations and would benefit from improvement.

**Financial Transparency** Yousaf Adil Chartered Accountants is the external auditor of the Company. They have expressed an unqualified opinion on the Company's financial statements as of June 30, 2023. The audit for FY24 is currently in progress. The Company has got extension in finalization of its accounts for one month.

## Management

**Organizational Structure** EAPL has a well-defined organizational structure. The General Manager of Operations and the Manager of Coordination and Planning report directly to the COO/CFO, who reports to the CEO of the Company. This structure is expected to evolve further as the Company progresses toward the commissioning stage.

**Management Team** Mr. Zahid Jamil serves as the CEO of the Company, while Mr. Saqib Riaz, FCA, is the COO/CFO, bringing over fifteen years of experience in managing finances and operations. Prior to this role, he served as the CFO of Nishat (Chunian) Limited. On technical front, Mr. Sakhawat Qureshi holds the position of technical head of Steel Division. Mr. Qureshi previously worked as the Chief Engineer at Mughal Steel Industries and as General Manager of Projects at Altuwairqi Group in Saudi Arabia. For Power Project, Mr. Mohammad Khan holds the position of technical head who has previously worked with K-Electric, KAPCO and KEMA etc. in leadership roles.

**Effectiveness** The management team is actively involved in strategic business planning, financial decision-making, and human resources management. EAPL is supported by a group of experienced professionals possessing the necessary technical expertise.

**MIS** The Company is in the process of implementing an ERP solution developed by a reputable software provider, which includes standard operational modules. This system will enable real-time reporting of operations.

**Control Environment** The Company is in the process of establishing internal control systems and procedures to enhance operational efficiency and safeguard its assets. These systems will continue to evolve after the commencement of its operations.

## Business Risk

**Industry Dynamics** In FY24, the steel sector faced significant challenges due to a slowdown in economic activity, higher inflation, and elevated energy and policy rates. These difficulties have particularly affected several notable players in the long steel sector. During FY24, local steel production was reported at approximately 8.4 million metric tons, reflecting a YoY decline of about 5.6%. Production of billets and ingots (long steel) decreased by 7.5% to around 4.9 million metric tons, while production of coils and plates (flat steel) fell by 2.7% to approximately 3.5 million metric tons.

**Relative Position** The low electricity cost from a captive bagasse-based power plant will reduces production expenses, giving EAPL a competitive edge over other steel manufacturers when it comes online. Additionally, EAPL plans to sell billets as cost-effective input feed to other steel manufacturers for various products, expanding its customer base and reducing competition.

**Revenues** The Company is currently in the pre-COD phase and will begin generating revenue after it commences operations. The COD of Steel and Power Projects is expected in October 2025.

**Margins** EAPL will benefit from a strategic advantage through lower electricity costs from its captive bagasse-based power plant. The adjacent sugar mill, part of the same group, ensures a reliable supply of bagasse for power generation. This will provide EAPL with a competitive edge and is expected to enhance margins once the plant becomes operational.

**Sustainability** The Company is currently in the construction phase; therefore, its sustainability will depend on the timely and successful commissioning of its operations.

## Financial Risk

**Working Capital** The Company is currently in the commissioning phase; therefore, there is no immediate need for working capital. However, projections from management indicate the necessity for short-term borrowings from banks, as the major raw material, iron scrap, is imported from the European, US, UAE and Chinese markets. The projections suggest that working capital will be managed with a mix of internal cash flow generation and bank borrowings near the achievement of COD.

**Coverages** Financial metrics will begin to take shape with the start of EAPL's operations after achieving its COD. However, projections indicate that cash flow generation from operations remains sufficient to meet obligations in a timely manner.

**Capitalization** The debt financing includes a TERF facility of PKR 1,000 million from UBL at an interest rate of 3.75%, a renewable energy refinance of PKR 350 million from UBL and Bank Alfalah at an interest rate of 5.75% and remaining at commercial rates from the consortium of UBL, Bank Alfalah Limited, Askari Bank Limited and The Bank of Punjab. Financing is scheduled for repayment over 10 years. As of 1QFY25, EAPL had successfully repaid seven quarterly installments (both Principal and Markup) totaling PKR ~1.2 billion, starting from March 2023. Financing amounting appx PKR 5 billion is undrawn as of the date of this Report. This will be used for completion of Power Project.

The Pakistan Credit Rating Agency Limited

*Financial Summary*
*PKR mln*

| Etihad Alloys (Pvt.) Ltd | Jun-24 | Jun-23 | Jun-22 | Jun-21 |
|---|---|---|---|---|
| | 12M | 12M | 12M | 12M |
| | Unaudited | Audited | Audited | Audited |
| **A BALANCE SHEET** | | | | |
| 1 Non-Current Assets | 10,631 | 10,195 | 2,195 | 574 |
| 2 Investments | - | - | - | - |
| 3 Related Party Exposure | - | - | - | - |
| 4 Current Assets | 689 | 673 | 255 | 64 |
| *a Inventories* | - | - | - | - |
| *b Trade Receivables* | - | - | - | *2* |
| **5 Total Assets** | 11,319 | 10,868 | 2,449 | 638 |
| 6 Current Liabilities | 472 | 412 | 165 | 0 |
| *a Trade Payables* | *26* | *19* | - | - |
| 7 Borrowings | 2,819 | 2,689 | 1,752 | 83 |
| 8 Related Party Exposure | 372 | 2,973 | - | - |
| 9 Non-Current Liabilities | 33 | 20 | 2 | - |
| **10 Net Assets** | 7,623 | 4,775 | 532 | 554 |
| **11 Shareholders' Equity** | 7,623 | 4,775 | 532 | 554 |
| **B INCOME STATEMENT** | | | | |
| **1 Sales** | - | - | - | - |
| *a Cost of Good Sold* | - | - | - | - |
| **2 Gross Profit** | - | - | - | - |
| *a Operating Expenses* | (92) | (159) | (27) | (3) |
| **3 Operating Profit** | (92) | (159) | (27) | (3) |
| *a Non Operating Income or (Expense)* | *(269)* | *(636)* | - | *1* |
| **4 Profit or (Loss) before Interest and Tax** | (361) | (796) | (27) | (2) |
| *a Total Finance Cost* | *(594)* | *(116)* | *(4)* | - |
| *b Taxation* | - | *(10)* | *9* | *1* |
| **6 Net Income Or (Loss)** | (955) | (921) | (22) | (1) |
| **C CASH FLOW STATEMENT** | | | | |
| *a Free Cash Flows from Operations (FCFO)* | *(500)* | *(461)* | *(261)* | *(2)* |
| *b Net Cash from Operating Activities before Working Capital Changes* | *(842)* | *(851)* | *(308)* | *(2)* |
| *c Changes in Working Capital* | *15* | *(252)* | *3* | *(7)* |
| **1 Net Cash provided by Operating Activities** | (827) | (1,104) | (306) | (9) |
| **2 Net Cash (Used in) or Available From Investing Activities** | (525) | (1,125) | (1,355) | (574) |
| **3 Net Cash (Used in) or Available From Financing Activities** | 1,281 | 2,319 | 1,650 | 596 |
| **4 Net Cash generated or (Used) during the period** | (71) | 90 | (11) | 12 |
| **D RATIO ANALYSIS** | | | | |
| **1 Performance** | | | | |
| *a Sales Growth (for the period)* | N/A | N/A | N/A | N/A |
| *b Gross Profit Margin* | N/A | N/A | N/A | N/A |
| *c Net Profit Margin* | N/A | N/A | N/A | N/A |
| *d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)* | N/A | N/A | N/A | N/A |
| *e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh* | N/A | N/A | N/A | N/A |
| **2 Working Capital Management** | | | | |
| *a Gross Working Capital (Average Days)* | N/A | N/A | N/A | N/A |
| *b Net Working Capital (Average Days)* | N/A | N/A | N/A | N/A |
| *c Current Ratio (Current Assets / Current Liabilities)* | 1.5 | 1.6 | 1.5 | 145.6 |
| **3 Coverages** | | | | |
| *a EBITDA / Finance Cost* | -0.7 | -1.4 | N/A | N/A |
| *b FCFO / Finance Cost+CMLTB+Excess STB* | -0.4 | -0.8 | -2.0 | -1.6 |
| *c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)* | -2.9 | -7.8 | -6.7 | -42.2 |
| **4 Capital Structure** | | | | |
| *a Total Borrowings / (Total Borrowings+Shareholders' Equity)* | 29.5% | 48.1% | 76.7% | 13.1% |
| *b Interest or Markup Payable (Days)* | 177.5 | 708.8 | N/A | N/A |
| *c Entity Average Borrowing Rate* | 15.5% | 3.8% | 0.0% | 0.0% |

## 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+<br>AA<br>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+<br>A<br>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+<br>BBB<br>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+<br>BB<br>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+<br>B<br>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<br>CC<br>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) | Rating Watch | Suspension | Withdrawn | Harmonization |
|---|---|---|---|---|
| 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'. | 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. | 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. | 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. | 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**