



The Pakistan Credit Rating Agency Limited

**Rating Report**

<b>Steelex (Pvt.) Limited</b>	<b>Report Contents</b>
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<b>Rating History</b>					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
12-Jul-2024	BBB	A2	Stable	Upgrade	-
14-Jul-2023	BBB-	A2	Stable	Maintain	-
14-Jul-2022	BBB-	A2	Stable	Initial	-

**Rating Rationale and Key Rating Drivers**

Steelex (Pvt.) Limited (“Steelex” or “The Company”) has been operating in the piping industry for almost four decades. The Company is principally engaged in the manufacturing and sale of MS & GI pipes and has expanded its product base with time. The Company operates two manufacturing units which are located in Karachi and includes latest equipment for the manufacturing. The Company has the capability to produce the M.S. & Galvanized Pipes in compliance with international standards. The Plastic unit offers a comprehensive range of UPVC and CPVC pipes and fitting to cater the growing need of the water, sewerage, building construction industry. The Company has been successfully exporting their Steel products to Singapore, Sri Lanka, UAE, Iraq, Oman, Afghanistan, Trinidad and African Countries. Locally, the Company has decent presence in the South region with a steady growth in revenues. Approximately 66% of the Net Revenues are generated from the sale of Steel pipes and fittings while the remaining is contributed by the sale PVC products. In continuation to the prevailing economic conditions of the Country, the actual production of the Company has remained low owing to lower demand. However, stability in prices of products is expected to compensate the dip in volumes to a larger degree. The Company’s reliance on working capital financing has remained moderate. However, the peaking interest rates has adversely impacted the Company’s bottom line. Assessment of financial risk profile incorporates adequate cashflows to meet interest cost along with moderate leveraging. The upgrade in rating reflects the Company’s demonstrated growth and sustainability of its market position, YoY, despite the deteriorating and fluctuating macroeconomic conditions of Pakistan. The sponsors’ ability and business acumen have been pivotal in guiding the Company through these challenges.

The ratings assigned to Steelex take into account the moderate business risk profile of allied steel products sector given its fragmented nature accompanied by prevailing competition and price sensitivity of raw material to exchange rate. Steelex is a family owned and operated company. The company is led by an experienced management team but formal governance and organization structure needs improvement. Sustainable demand, customer stickiness and a credit policy are imperatives. Improving management, governance and control environment are also very important.

<b>Disclosure</b>	
<b>Name of Rated Entity</b>	Steelex (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Rating Modifiers(Apr-24)
<b>Related Research</b>	Sector Study   Steel(Sep-23)
<b>Rating Analysts</b>	Shujat Ehsanullah Wasim   Shujat.Ehsan@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Steelex (Pvt) Limited is a private company incorporated on 2 September 1985 under Companies Act, 2017. The principal activity of the company is the manufacturing and sale of PVC and Steel Pipes. The registered office of the company is situated at B-30 (A) Estate Avenue, S.I.T.E, Karachi.

**Background** The company was formed by Ch. Mohammad Sabir (Late) as a modest production house for manufacturing high frequency induction welded M.S (Mild Steel) and G.I (Galvanized Iron) pipes. With improving performance and customers trust Steelex has now ventured into production of PVC (Poly Vinyl Chloride) piping system, with the addition of UPVC and CPVC pipes and fittings to the Steelex family. The company provides highest standard piping solution for all industrial, commercial and residential requirements.

**Operations** Currently Steelex operates two manufacturing units. Steel Unit is located in D-67 (F), PHASE 1 S.I.T.E. SUPER HIGHWAY, KARACHI that includes latest equipment for the manufacturing of MS & GI Pipes. Steelex has the capability to produce the M.S. & Galvanized Pipes in compliance with BSS and equivalent International standards. They have been successfully exported their products to Singapore, Sri Lanka, Trinidad, UAE, Iraq, Oman, Afghanistan and African Countries. The Plastic unit is located in B-30 (A), ESTATE AVENUE, S.I.T.E., KARACHI and offers a comprehensive range of PVC, UPVC and CPVC pipes and fitting to cater the growing need of the water, sewerage, building construction industry.

## Ownership

**Ownership Structure** Entire ownership belongs to the sponsoring family including Ch Muhammad Sabir's (Late) wife and three sons.

**Stability** The ownership of the company is stable with the company belonging to the same sponsoring family.

**Business Acumen** The business acumen of the sponsors is considered adequate with vast experience in the steel sector.

**Financial Strength** The financial strength of the sponsoring family is considered adequate with sizeable equity deployed in the business.

## Governance

**Board Structure** The board consists of four members, each of them is from the sponsoring family. All of the members on the board are associated with the company from 2004.

**Members' Profile** All board members have satisfactory qualification along with relevant experience of operating in the steel industry.

**Board Effectiveness** The board conducts regular meetings to discuss the key issues and performance of the company. All agendas and issues are discussed during meetings before decisions are made by the board members.

**Financial Transparency** Faruq Ali & Co are the external auditors of the Company for the year ended June 30th, 2023. The Company has adequate reporting controls and financial transparency.

## Management

**Organizational Structure** Steelex (Pvt) Ltd has a streamlined organization structure with each department headed by an experienced resource. There are a total number of 175 employees who report to their respective department heads. Each head is responsible for the smooth functioning of their unit and reports the performance to the board.

**Management Team** The management team has a vast experience relevant to their nature of work. Additionally, each member of the senior management has been with the company from a long time which shows their competency relevant to operating in the steel piping business.

**Effectiveness** Currently Steelex (Pvt) Ltd has six functions namely (i) Marketing, (ii) Accounts, (iii) Production, (iv) Information Technology, (v) Sales, (vi) Quality Control. Each unit is overseen and supervised by an experienced resource that has been associated with the company since a long period of time.

**MIS** The company has implemented ERP software to report its financials, operations and manufacturing activities. Furthermore the company maintains a detailed record of its receivables and payables using the software.

**Control Environment** The company has established a quality control department that ensures the smooth functioning of both the plants along with maintaining the product quality. The company also ensures that all machinery is in working condition in order to maintain efficiency and reduce losses and wastage of material.

## 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 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 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** Steelex (Pvt) Ltd has a significant market share in the piping industry in the Southern region including Karachi and Baluchistan. The company has engaged wholesalers and has developed a distribution network along with its retail outlets to boost sales. The company has a fairly large presence in the South and is planning to penetrate in the North market in near future.

**Revenues** The company generates its revenues from the sale of Steel and PVC products including GI, M.S and PVC pipes along with fittings. Additionally, the company also produces a minor chunk of its sales from exporting Steel pipes to Singapore and Trinidad. The company reported net decent sales revenue over a period.

**Margins** The company's profit margins have shown significant improvement owing to sales growth during the period.

**Sustainability** The company has been operating in the industry for over four decades which shows their commitment and progress. The company and its management has developed a strong product base which they plan to expand further in the future which shows their positive prospects.

## Financial Risk

**Working Capital** The company's working capital management is a function of its inventory management along with receivable and payable days. The company has an adequate working capital management profile which is supported by internal cash flow generation along with borrowings.

**Coverages** The Company has stable coverages owing to consistent profitability.

**Capitalization** The company's reliance on Short Term Borrowings to manage its working capital needs has increased but remains at moderate level.



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Financial Summary  
PKR mln

	Jun-23	Jun-22	Jun-21
	12M	12M	12M
	Audited	Audited	Audited
<b>A BALANCE SHEET</b>			
11 Shareholders' Equity	1,069	796	518
<b>B INCOME STATEMENT</b>			
1 Sales	5,305	4,354	2,563
<b>D RATIO ANALYSIS</b>			
<b>1 Performance</b>			
<i>a Sales Growth (for the period)</i>	21.8%	69.9%	14.8%
<i>b Gross Profit Margin</i>	13.5%	11.8%	10.1%
<i>c Net Profit Margin</i>	5.1%	6.4%	4.7%
<b>2 Working Capital Management</b>			
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.2	1.3	1.3
<b>4 Capital Structure</b>			
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	43.9%	63.7%	63.0%

### 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 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+	
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-	
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):  
 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

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### **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)

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