



The Pakistan Credit Rating Agency Limited

Rating Report

Platinum Steel Mill (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Nov-2022	BBB-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Established in 2019 in the industrial sector of Port Qasim, Platinum Steel Mill Private Limited (PSMPL) is a state of the art vertically integrated steel mill that incorporates the latest innovative technologies in manufacturing, efficiency and sustainability. Although the size is small, it is good to grow from. The Company produces high quality deformed steel rebar's and vertical integration of the steel plant gives it a competitive edge. PSMPL started its operations in June 2021 and posted topline of PKR 1,452mln in 2022. Projections shared by the management show that revenues may witness heightened growth in FY23 due to low base effect and more in upcoming years through enhancement of melting capacity and development of sales and marketing network. On account of expansion, company may witness an increase in reliance on borrowings to manage its working capital requirements post expansion. Maintaining optimal mix of capital structure is thus very important. Group's diversification into other businesses is considered positive and ratings take comfort from the net worth of sponsors. Ratings also incorporate the essence of business's backward supply chain integration. PSMPL is a family owned and operated business exposing it to risks of same management and ownership. The overall governance framework is at very initial stages and needs improvement. Company is led by capable management. Business remains vulnerable to oscillations in macro-economic financial indicators.

The ratings are dependent upon the company's ability to enhance its market share through volumetric growth as well as geographical diversification, effective and prudent management of financial risk indicators remains vital. Moreover, improvement of control environment, management and governance framework is imperative.

Disclosure

Name of Rated Entity	Platinum Steel Mill (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Steel(Sep-22)
Rating Analysts	Uswa Sikandar uswa.sikandar@pacra.com +92-42-35869504

Profile

Legal Structure Platinum Steel Mill (Private) Limited ("the Company") is a private limited company incorporated in Pakistan on 15 July 2019 under the Companies Act, 2017. The registered office of the Company is situated at C-49, K.D.A Scheme No.1, Main Karsaz Road, Gulshan Town, Karachi, Pakistan. The Company started its operations in June 2021.

Background Platinum Steels produces two key products: i) steel billets, ii) rebars including (a) Grade 60 Deformed Steel bars (b) Grade 72 Deformed Steel bars and are available in sizes ranging from 10mm to 40mm using Pakistan's first European technology-based induction furnace and revolutionary direct rolling mill.

Operations Platinum steel operates its steel melting and rolling mill with a capacity of 175,000 tpa and is among the vertically integrated facility. The Company produces high quality deformed steel rebar's. Under ISO 9001:2015 certified quality management system the products are classified as Armourmax, Thundermax and Ultramax.

Ownership

Ownership Structure The Company is wholly (100%) owned by Baghpati family.

Stability The key man risk/succession is a concern as the whole stake rests with Baghpati family.

Business Acumen The sponsor – Mr. Faisal Baghpati carries experience of 15 years of successfully working in the industry. The willingness towards the business is evident from the steadfast approach used by the management. Hence, sponsor's business acumen is considered adequate.

Financial Strength The sponsors have other businesses as well, like Kopak Paints and leased Shipping, and demonstrate their commitment towards the Company by injecting funds on as and when required basis. The willingness to support the Company in case need arises is considered high.

Governance

Board Structure The overall control of board vests in two-members board of directors, both of them are from sponsoring family including the Chairman/CEO. Mr. Faisal Baghpati holds the position of the Chairman, as well as the office of Chief Executive Officer.

Members' Profile The profile of board members is good. The Chairman of the board, Mr. Faisal Baghpati has decent experience in the field of steel industry which helps the board to make timely and efficient decisions. Mr. Faisal is also carrying the director's position on Kopak Paints board, while Ms. Mehreen Faisal is serving as Commercial Advisor in Kopak Paints.

Board Effectiveness The private companies are required to appoint two directors. The Company ensured the regulatory requirement by appointing two directors. The board effectiveness may be strengthened by appointing independent directors and forming committees of the board.

Financial Transparency BDO Ebrahim & Co. Chartered Accountants are the external auditors of the company. They have expressed unqualified opinion on review report for the year ended 30th June 2021. BDO Ebrahim & Co. Chartered Accountants is in 'A' category of SBP list of external auditors and has a QCR rating. The audit of FY22 is under progress.

Management

Organizational Structure Platinum Steel has a lean organizational structure. The team is headed by the Chief Executive Officer. The CEO is directly overseeing the operations of Head of Sales, COO, Head of Supply Chain and Manager Accounts & Finance.

Management Team Mr. Faisal Baghpati is the Chief Executive Officer of the Company. He has been associated with the Company since its inception. Descending tier includes Mr. Obaid-ul-haq (MBA) serving as Head of Sales for Platinum Steel and associated with the team since April 2021 & Mr. Rehan Khaliq – ME – serving as COO since Nov'21. Mr. Faisal, the Chief Executive Officer, is supported by relatively new but experienced individuals who are equipped with necessary technical skills.

Effectiveness Platinum Steel 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 its inception.

MIS The Company has implemented SAP B1 software, SAP Business One is a single and affordable business management system to manage the entire business from accounting, financials, inventory, sales, warehousing, customer relationships to reporting and analytics. As an Enterprise Resource Planning (ERP) system, SAP Business One can streamline key processes to give the management better insights into the business and enable the management to make data-driven business decisions with real-time information to drive profitable growth.

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 Pakistan Steel Sector is largely fragmented with over ~170 players registered with The Pakistan Steel Re-Rolling Mills Association. Key players in the industry are, however, less than 20 in number, yet account for over ~40-50 production capacity of the sector. Out of these, 12 players are listed on the PSX. Domestic steel industry has undergone through recent expansion phase. According to the PSX data of listed companies in the long steel sector, the net margins of the steel sector shrunk during the last five years, and leading players declared losses during FY 2019-2020. The steel sector came out of crisis during the years 2020-21 and 2021-22 for a brief span of time. However, the steel sector has once again landed into crisis after the drastic increase in interest rates during the first half of FY 2022 by the SBP, rupee depreciation and slash in PSDP.

Relative Position Platinum Steel is one of the new players in south region. The Company's strategy to expand its Melting Mill capacity is vital to enhance its market share over the periods.

Revenues During the first operational year, Platinum Steel's revenue stood at PKR 1,452mln. The volumetric growth will be vital for the growth of the Company in future. The projections shared by the Company show that it will record the revenues up to PKR 6,617mln, almost more than 3.5x by the end of FY23(P) [FY24(P): PKR 13,083mln; FY25(P): PKR 17,598mln].

Margins Platinum Steel's margins for the year FY22 and projection for the future years are as follows: (Gross: FY22(M): 10.2%; FY23(P): 5.0%; FY24(P): 4.5%; FY25(P): 5.1%, Operating: FY22(M): 5.1%; FY23(P): 3.8%; FY24(P): 3.8%; FY25(P) 4.6% %, Net: FY22(M): 3.2%; FY23(P): 2.0%; FY24(P): 1.1%; FY25(P): 1.9%).

Sustainability Platinum Steel is actively working on improvement of distribution channels in order to capture the demand insight. Currently, the Company is capturing the south region of the city but it has plan to capture each region of the city. Moreover, Company's geographical diversification to enhance its market share remains vital for the performance.

Financial Risk

Working Capital During FY22, Platinum Steel's working capital requirements represented by net cash cycle in days (function of inventory, receivables and payables) was recorded to 141days. The projected net working capital (Avg. days) are [FY23(P): 47days; FY24(P): 11days; FY25(P): -11days]. During the period, the Company managed its working capital requirements through internally generated cash only. However, on account of expansion, the Company will have to increase its reliance on borrowings, despite having positive cashflows from the operations.

Coverages The coverage ratios are not applicable for the FY22 as the Company has no short-term or long-term borrowings leading to nil financing costs. The projected coverage ratios (EBITDA/Finance Cost) are as follows: [FY23(P): N/A, FY24(P): 3.9x, FY25(P): 4.2x].

Capitalization Currently, the Company is leveraged free and its capital consists of 100% equity. By the end of FY22, the total equity slightly increased and stood at PKR 1,311mln (FY21: PKR 1,265mln). The projections also show that the Company is planning to lever its capital structure by the end of FY23 through long-term borrowings for the period of three years, which will lead the target leverage to stand at 56.5% by the end of FY23(P) [FY24(P): 47.8%, FY25(P): 35.0%]. The Company is in its initial phase and requires the extensive investments into it to grow. The projections show no dividend will be paid, instead it will be re-invested to achieve the desired expansion. An optimal mix of capital structure (debt and equity) will help the Company to maximize its value.



The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Platinum Steel Mill (Pvt) Limited Steel	Jun-22 12M	Jun-21 12M	Jun-20 12M
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A BALANCE SHEET

11 Shareholders' Equity	1,311	1,265	397
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B INCOME STATEMENT

1 Sales	1,452	-	-
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D RATIO ANALYSIS

1 Performance

<i>a Sales Growth (for the period)</i>	N/A	N/A	N/A
<i>b Gross Profit Margin</i>	10.2%	N/A	N/A
<i>c Net Profit Margin</i>	3.2%	N/A	N/A

2 Working Capital Management

<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.7	2.1	121.1
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4 Capital Structure

<i>a Total Borrowings / (Total Borrowings+Shareholders' Equi.</i>	57.1%	43.0%	0.0%
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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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	
CC	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.
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>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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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)

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

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(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)

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(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).

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(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)

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(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 | 18-(a)

(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)

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-(F-VII)

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