

## RATING REPORT

### Crescent Steel & Allied Products Limited

**REPORT DATE:**

July 03, 2017

**RATING ANALYSTS:**

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**RATING DETAILS**

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A+	A-2
Rating Outlook	Stable	
Commercial Paper (Preliminary)	A-2	
Rating Date	July 03, 2017	

**COMPANY INFORMATION**

Incorporated in 1983	External auditors: KPMG, Taseer Hadi & Co, Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Ahmad Waqar
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Ahsan M. Saleem
The Crescent Textile Mills Limited – 11%	
Jubilee Life Insurance Company Limited – 8.78%	
Islamic Development Bank – 6.11%	
Bilquis Saleem – 5.48%	
EFU Life Assurance Limited – 5.32%	

**APPLICABLE METHODOLOGY(IES)**

Applicable Rating Criteria: Industrial Corporates (May, 2016) <http://www.jcrvis.com.pk/kc-meth.aspx>

## Crescent Steel &amp; Allied Products Limited (CSAPL)

## OVERVIEW OF THE INSTITUTION

CSAPL was incorporated on August 1, 1983 as a public limited company listed on the Pakistan Stock Exchange (PSX). It is mainly engaged in the manufacturing of large diameter spiral welded steel pipes, used mainly for transmission of oil, gas and water resources. The Company operates three divisions and three wholly owned subsidiaries.

**Profile of Chairman.**

Mr. Ahmad Waqar is the Chairman of CSAPL. He is also currently serving as the principal advisor to Chairman of Pakistan Exploration Ltd. Mr. Waqar has diversified experience across entities in both the Public and Private Sector. With regard to the former during his tenure as a Bureaucrat, he has also served as Secretary Privatization, Secretary Petroleum and Chairman FBR.

**Profile of CEO**

The management team is spearheaded by Mr. Ahsan M. Saleem. Mr. Saleem has been the Chief Executive Officer and Managing Director of Crescent Steel & Allied Products Limited since its inception. He has over 33 years of extensive industry experience in managing multiple business operations across variety of sectors such as steel, sugar, power, textile and engineering. Mr. Saleem is a co-founder and director at The Citizens Foundation and also serves as a member of the Board of Directors of Pakistan Centre for Philanthropy.

## RATING RATIONALE

Crescent Steel and Allied Products Limited (CSAPL) is a diversified concern with operations in engineering (steel), textiles, capital markets and power sectors. However, major contribution to the company's revenues and profitability has been generated through the steel division during FY16 and 9MFY17. The division operates two spiral pipe (SP) production lines & a coating line with the company primarily involved in large diameter pipe manufacturing used in fluid and oil & gas transmission. The second SP line was commissioned in June'2016 and has enhanced production capacity to 200,000tons (Previous: 90,000tons) based on pipe size of 30" dia x 1/2" thickness. Actual production achieved during 9MFY17 was 70,598 tons (FY16: 58,202tons). The cotton (textile) division incurred losses during FY15 and FY16; management diversified into polyester cotton and polyester viscose resulting in decline in quantum of losses during 9MFY17. Given the weak sectoral dynamics, profitability and cash flows of the cotton segment are expected to remain under pressure.

CSAPL also has sizeable investment in subsidiaries and associates representing around two-third of the company's own equity. Subsidiaries include a power sector concern (Shakarganj Energy (Private) Limited), an investment company responsible for managing investment portfolio in shares, real estate etc. (CS Capital (Private) Limited) and a steel sector concern operating a steel melt shop and billet manufacturing facility (Crescent Hadeed (Private) Limited). Apart from CS Capital, the remaining two subsidiaries are in growth phase and are expected to result in limited dividend income over the short to medium term. Funding requirement and dividend income from subsidiaries and strategic investments have been accounted for while arriving at net cash inflow available for debt payments.

**Business Risk & Market Position:** Steel division operations are characterized by high business risk given the cyclical nature of the industry, volatility in steel prices and competition from Chinese manufacturers (partly mitigated by SRO 827). Volatility in sales is reflected in significant historical variation in margins and turnover. However, in the backdrop of planned pipeline infrastructure projects, pipeline sales orders are expected to remain healthy over the medium term. Major project announced and for which tendering is expected over the next one year include 1100km North-South gas pipeline and SNGP and SSGC augmentation projects for existing pipelines. As the major large diameter spiral pipe manufacturer in the country, the company is well-positioned to capture a sizeable chunk of the new orders. Ratings going forward would be constrained by a material weakening in margins, change in sales outlook and delay in implementation of key projects.

**Profitability:** Profitability of the company has witnessed healthy growth in 2016 and in the ongoing year on the back of increase in orders from two major customers and improvement in gross margins. Quarter on quarter gross margins have depicted volatility and will be an important factor in determining the quantum of future profitability and cash flows, going forward. With raw material (HRC) representing a major cost component and significant volatility in prices, efficient procurement is critical to gross margins. Overall profitability is expected to be supported by dividend income from strategic investments.

**Liquidity:** Liquidity profile draws support from improving cash flows in relation to outstanding obligations (9MFY17: FFO/Total Debt: 32%; 2016: FFO/Total Debt: 16%). Funds generated from operations during 9M17 provide full coverage against long-term debt while stock-in-trade was in excess of short-term borrowings. Current ratio was reported at 1.51(x) at end-9MFY17. Debt servicing is expected to remain at manageable levels after sensitizing for lower than projected cash flows and accounting for planned capex.

**Capitalization:** Ratings of CSAPL are primarily based upon the company's consistent conservative financial policy which has been manifested through its leveraging profile. At end-9M17, gearing and leverage stood at 0.38x and 0.58x, respectively, and is projected to remain below 1(x) over the rating horizon. Around 61% of the debt mobilized at end-9MFY17 was short-term in nature. Adjusted for strategic investments, gearing ratio stood at 1.04x at end-9MFY17. CSAPL plans to raise an additional Rs. 1billion through a commercial paper (CP) to fund working capital requirements. Despite sizeable cash outflow in the short term for repayment of CP, funds from operations and dividend income from strategic investments are projected to provide sufficient coverage for timely repayment.

**Corporate Governance:** Overall corporate governance framework is supported by strong board composition and oversight, a professional management team and focus on transparency and disclosures.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			Appendix I
<b>BALANCE SHEET</b>	<b>31-Mar-17</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>
Fixed Assets	904	823	781
Investments	4,682	4,327	3,426
Stock-in-Trade	1,712	2,267	453
Trade Debts	827	323	88
Cash & Bank Balances	15	63	43
<b>Total Assets</b>	<b>10,407</b>	<b>9,484</b>	<b>5,393</b>
Trade and Other Payables	1,680	850	638
Long Term Debt <i>(incl. current maturity)</i>	979	1,100	388
Short Term Debt	1,506	2,084	302
<b>Total Debt</b>	<b>2,486</b>	<b>3,184</b>	<b>689</b>
<b>Total Equity</b>	<b>6,568</b>	<b>5,808</b>	<b>4,051</b>
<b>INCOME STATEMENT</b>	<b>31-Mar-17</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>
Net Sales	7,357	7,412	2,102
Gross Profit	1,570	2,143	32
Profit Before Tax	1,184	1,316	63
Profit After Tax	909	967	106
<b>RATIO ANALYSIS</b>	<b>31-Mar-17</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>
Gross Margin (%)	21.34%	28.91%	1.55%
Net Working Capital	1,715	1,400	423
FFO	593	513	-187
FFO to Total Debt (x)	0.32	0.16	-0.27
FFO to Long Term Debt (x)	0.81	0.47	-0.48
ROAA (%)	12.16%	13.00%	2%
ROAE (%)	19.54%	19.62%	2.64%
Leverage	0.58	0.63	0.33
Gearing	0.38	0.55	0.17
Current Ratio	1.51	1.45	1.4

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Appendix II**

Medium to Long-Term

**AAA**

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

**AA+, AA, AA-**

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

**A+, A, A-**

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

**BBB+, BBB, BBB-**

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

**BB+, BB, BB-**

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

**B+, B, B-**

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

**CCC**

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

**CC**

A high default risk

**C**

A very high default risk

**D**

Defaulted obligations

Short-Term

**A-1+**

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

**A-1**

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

**A-2**

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

**A-3**

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

**B**

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

**C**

Capacity for timely payment of obligations is doubtful.

**Rating Watch:** JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.com.pk/images/criteria_watch.pdf)

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.com.pk/images/criteria_outlook.pdf)

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. [www.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES		Appendix III			
<b>Name of Rated Entity</b>	Crescent Steel and Allied Products Limited				
<b>Sector</b>	Steel Industry				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity and Commercial Paper Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	July 03, 2017	A+	A-2	Stable	Initial
	<b>RATING TYPE: COMMERCIAL PAPER</b>				
	<b>Rating Date</b>	<b>Rating</b>		<b>Rating Action</b>	
July 03, 2017	A-2		Preliminary		
<b>Instrument Structure</b>	Commercial Paper of Rs. 1billion to be issued in the form of promissory note at a discount to face value. The issue will rank equally with all other unsecured, subordinated indebtedness of the issuer				
<b>Statement by the Rating Team</b>	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
<b>Probability of Default</b>	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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