

RATING REPORT

Crescent Steel & Allied Products Limited

REPORT DATE:

April 8, 2020

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest	Previous
Entity	A-/A-2	A/A-2
Rating Outlook	Stable	Stable
Rating Date	Apr 8, 2020	Dec 26, 2018

COMPANY INFORMATION

Incorporated in 1983	External auditors: KPMG Taseer Hadi & Co.
Public Limited Company	Chairman of the Board: Mr. Ahmad Waqar
Key Shareholders:	Chief Executive Officer: Mr. Ahsan M. Saleem
- The Crescent Textile Mills Limited – 11%	
- Pak Qatar Family Takaful Limited – 10.03%	
- Islamic Development Bank – 6.11%	
- Balqies Saleem – 5.48%	
- Trustees Crescent Steel and Allied Products Provident Fund – 5.18%	
- General Public – 39.49%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates (May 2019)

<http://www.vis.com.pk/kc-meth.aspx>

Crescent Steel & Allied Products Limited (CSAPL)
OVERVIEW OF THE INSTITUTION
RATING RATIONALE

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.

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. Absan 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 34 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.

Crescent Steel and Allied Products Limited (CSAPL) is a diversified concern having presence in engineering (steel), textiles, capital markets and power sectors. Historically, major contribution to the company's revenues and profitability was generated through the steel division. CSAPL also operates a cotton segment and manages a portfolio of equity securities.

In Rs. Mn	Steel	Cotton	IID	Energy	Hadeed (Billet)	Inter-segments elimination / adjustments	Total
HY20							
Sales	356.9	801.6	-	93.1	238.9	(21.2)	1,469.3
Gross Profit/(Loss)	(75.4)	24.7	-	(15.4)	(9.4)	-	(75.6)
Income from Investments	-	-	283.4	-	-	-	283.4
Operating Profit/(Loss)	(149.8)	11.5	272.0	(17.3)	(11.2)	-	105.2
Profit/(Loss) Before Tax	(261.8)	0.08	306.2	(17.3)	(19.9)	-	7.3
FY19							
Sales	2,381.4	1,685.1	-	-	-	-	4,066.5
Gross Profit/(Loss)	114.7	105.7	-	-	-	-	220.4
Income from Investments	-	-	191.6	-	-	-	191.6
Operating Profit/(Loss)	12.0	80.0	177.2	-	-	-	269.2
Profit/(Loss) Before Tax	(198.4)	70.2	153.1	-	-	-	24.9
FY18							
Gross Profit/(Loss)	6,136.2	907.6	-	-	-	-	7,043.8
Income from Investments	792.0	19.3	-	-	-	-	811.3
Operating Profit/(Loss)	-	-	495.5	-	-	-	495.5
Profit/(Loss) Before Tax	710.4	13.8	478.6	-	-	-	1,202.7
Gross Profit/(Loss)	498.3	8.2	464.9	-	-	-	971.4

Steel Division

The segment 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. Cyclicity is inherent for this division since business performance largely depends on public sector and pipeline augmentation projects of gas utility companies. Post completion of RLNG I and II projects, there have not been any major steel pipe installation projects initiated. Thus the company has suffered a significant downside in production volumes, with plant utilization recorded at 11% at year end-FY19. Consequently, financial performance of this segment has deteriorated significantly since the past two years. Sales revenue has contracted largely on account of a volumetric dip, while an increase in raw material prices have also exerted pressure on gross margins for this segment.

Segment Performance (Rs. in m)	FY17	FY18	FY19	HY20
Steel Segment				
Sales – net	8,920	6,136	2,381	357
Cost of sales	7,055	5,344	2,267	432
Gross profit / (loss)	1,865	792	115	(75)
Gross margin	21%	13%	5%	-21%
Profit / (loss) before taxation	1,122	498	(198)	(262)
Capacity Utilization	54%	28%	11%	

Projected order pipeline is considered healthy and is contingent upon timely execution of the projects. Management anticipates to book revenue of Rs. 2.03b, Rs. 6.5b and Rs. 10.3b in FY20, FY21 and FY22 respectively within the steel division. Given the projected order pipeline, profitability and cash flows are expected to remain constrained till materialization of orders.

Client	Value In Rs. Mn	Status
Sui Northern Gas Pipelines Limited	600.0	Order received
Elite Engineering (Pvt) Limited	96.0	Order received
Interglobe Commerce Pakistan Limited	45.0	Order received
IIW - Engineer and Contractors	10.0	Order received
Sui Northern Gas Pipelines Limited	1,700.0	Order received
Sui Southern Gas Company Limited	80.0	Order received
Hub Power Company Limited	1,500.0	Bid submitted

Cotton Division

CSAPL's cotton division comprises one spinning unit of 19,680 spindles which is located in Jaranwala and has a daily production capacity of 500 bags in counts ranging from 10s to 31s. Given improved local demand of yarn based on higher export orders for value added textile goods, the company's cotton division has recorded a significant uptick in sales during FY19. Better topline profitability coupled with limited growth in finance cost translated into a higher bottom line, during FY19. Going forward, profitability is highly dependent on pricing growth or cost savings since room for volumetric growth seems to be limited as indicated by full utilization of the plant. Business risk for this segment is on the higher side given volatility in crop prices.

Segment Performance (Rs. in m)	FY17	FY18	FY19	HY20
Cotton Segment				
Sales - net	1,289	908	1,685	802
Cost of sales	1,295	888	1,579	777
Gross profit / (loss)	(7)	19	106	25
Gross margin	-1%	2%	6%	3%
Profit / (loss) before taxation	(45)	8	70	0.08
Capacity utilization	96%	53%	99%	

Investment and Infrastructure Development Division

The principal activity of Investment Division (IID) is to manage and grow investment portfolios of the company in stocks, commodities and other securities, both short and long term. The portfolio is diversified across various sectors and income streams such as dividend yields, while real estate investments are held for rental as well as long term appreciation. During the year under review, the division recorded investment income of Rs. 191.6m (FY18: Rs. 495.5m) primarily in the form of dividends received from associated undertakings, aggregating Rs. 190.5m. The trading portfolio comprises exposure in power, oil & gas and textile.

Other Divisions

During the outgoing year, the company amalgamated two of its subsidiaries, CS Energy (Private) Limited and Crescent Hadeed (Private) Limited (Crescent Hadeed) into itself. The former operates a 15MW co-generation, bagasse fired thermal generation power plant in Bhone, Punjab and is in the business of generating and distributing electricity to Crescent Hadeed and distribution companies. Crescent Hadeed is in the business of manufacturing and selling steel billets through a Steel Melting plant, located in Bhone, Punjab. Annual production capacity stands at 85,000 MT of steel billets with a standard length of 6m. The billets manufactured at Crescent Hadeed, are used by re-rolling mills to manufacture bars and other steel long products for use in the construction and engineering sectors.

Subsidiaries and Associates

In Rs. Mn	FY18	FY19	HY20
Subsidiaries	2,882	525	525
CS Energy (Private) Limited	1,260	-	-
CS Capital (Private) Limited	472	525	525

Crescent Hadeed (Private) Limited	1,150	-	-
Solution de Energy (Private) Limited	-	0	0
Associates	1,285	1,286	1,286
Altern Energy Limited	593	595	595
Shakarganj Limited	691	691	691
Other Long Term Investments	372	453	462
Total Investments	4,538	2,265	2,273

Post amalgamation of subsidiaries, exposure in related parties declined to Rs. 2.3b at end-December 2019. CS Capital Pvt Limited, an investment company responsible for managing investment portfolio in shares and real estate etc, is a fully owned subsidiary of the company. Apart from CS Capital, the remaining subsidiary, Solution de Energy Pvt Limited, is currently in the growth phase and is expected to result in limited dividend income over the years. Other significant holdings (classified as associates) include Altern Energy Limited (AEL) and Shakarganj Limited (SKL) with 16.7% and 21.9% ownership respectively. AEL remains profitable (FY19: Rs. 2.8b; FY18: Rs. 3.4b) and a key source of cash flow for CSAPL while SKL has been operating in losses (FY19: loss of Rs. 751m; FY18: loss of Rs. 14m).

Profitability

	FY18	FY19	HY20
Sales (Rs. Mn)	7,043.8	4,066.5	1,469.3
Gross Margins	11.5%	5.4%	-5.1%
ROAA	6.8%	1.6%	
ROAE	11.1%	2.4%	

Given a sharp decline in quantum sales of the steel segment, overall topline revenue shrank to Rs. 1.4b (FY19: Rs. 4.1b; FY18: Rs. 7.0b) during HY20. Lesser absorption of fixed costs on account of lower plant occupancy and weakened pricing power (in view of a depressed demand scenario) has negatively impacted gross margins. Going forward, management projects healthy growth in topline on account of materialization of the order pipeline and added sales of its new business segments; growth in margins is expected on account of higher plant occupancy.

Liquidity

Liquidity profile of the company, on a standalone basis, is currently under pressure as Funds From Operations (FFO) was recorded negative during FY19. Resultantly, debt servicing ability has been negatively impacted with insufficient internal cash to meet annual debt obligations. Accounting for dividend income from associates, net cash inflow available for debt payments is considered adequate. Nonetheless, stock-in-trade and trade debts do not provide sufficient coverage to short term borrowings at period ended Sep'19. Liquidity would remain highly dependent on resumption of high value pipeline projects to ensure higher quantum of cash flow going forward.

Capitalization

Capital structure of the company has remained conservative with gearing and leverage indicators at manageable levels. Although the company has posted losses in total comprehensive income earned via OCI and has paid out regular dividends, equity accretion has largely been on account of loss on amalgamation of the two subsidiaries into CSAPL. The companies were valued at Rs. 2.5b, Rs. 1.2b of which was considered as a loss because of amalgamation. Dependence on borrowings is expected to increase to finance further working capital requirement given the healthy order book.

Crescent Steel & Allied Products Limited (CSAPL)
Appendix I

FINANCIAL SUMMARY				
	<i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	FY17	FY18	FY19	HY20
Fixed Assets	941	1,039	2,494	2,382
Long term Investments	4,204	4,538	2,265	2,273
Stock-in-Trade	2,687	1,543	821	1,019
Trade Debts	664	107	96	98
Cash & Bank Balances	28	133	28	16
Total Assets	12,179	10,079	8,287	8,453
Trade and Other Payables	1,864	1,349	692	1,010
Long Term Debt	568	497	442	355
Short Term Debt	2,517	1,458	1,577	1,530
Total Debt	3,085	1,955	2,019	1,885
Paid Up Capital	776	776	776	776
Total Equity	6,820	6,724	5,394	5,369
<u>INCOME STATEMENT</u>				
Net Sales	10,209	7,044	4,067	1,469
Gross Profit/ (Loss)	1,859	811	220	(76)
Income from Investments	247	496	192	223
Profit / (Loss) Before Tax	1,392	971	25	(94)
Profit / (Loss) After Tax	1,012	752	143	(26)
<u>RATIO ANALYSIS</u>				
Gross Margin (%)	18.2%	11.5%	5.4%	-5.2%
Net Margin	9.9%	10.7%	3.5%	-1.8%
Trade debts/Sales	6.5%	1.5%	2.4%	3.7%
FFO	1,518	474	(287)	(62)
FFO to Total Debt (%)	49.2%	24.2%	-14.2%	-6.6%
FFO to Long Term Debt (%)	393.1%	133.8%	-102.6%	-63.4%
Current Ratio (x)	1.4	1.4	1.2	1.1
Debt Servicing Coverage Ratio (x)	5.0	1.8		
Gearing (x)	0.45	0.29	0.37	0.35
Leverage (x)	0.79	0.50	0.54	0.57
ROAA (%)	9%	7%	1.6%	
ROAE (%)	16%	11%	2.4%	

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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.

REGULATORY DISCLOSURES		Appendix III			
Name of Rated Entity	Crescent Steel & Allied Products Limited				
Sector	Steel Industry				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	Apr 8, 2020	A-	A-2	Stable	Downgrade
	Dec 26, 2018	A	A-2	Stable	Downgrade
	May 29, 2018	A+	A-2	Negative	Maintained
	July 03, 2017	A+	A-2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	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.				
Probability of Default	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.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meetings Conducted		Name	Designation	Meeting Date	
	1	Mr. Saad Thaniana	Chief Financial Officer	March 11, 2020	
	2	Mr. Azeem Sarwar, FCA	Senior Manager Finance & Control	March 11, 2020	
	3	Mr. Muhammad Haseeb Iqbal	Manager Treasury	March 11, 2020	