RATING REPORT

Crescent Steel & Allied Products Limited

REPORT DATE:
June 25, 2021

RATING ANALYSTS:
Narendar Shankar Lal
narendar.shankar@vis.com.pk

Nisha Ahuja
nisha.ahuja@vis.com.pk

RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	*Jun 25, 2021*		*April 08, 2020*	
Rating Action	Reaffirmed		Downgrade	

COMPANY INFORMATION	
Incorporated in 1983	**External auditors:** A.F. Ferguson & Co. Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Ahmad Waqar
Key Shareholders:	**Chief Executive Officer:** Mr. Ahsan M. Saleem
- The Crescent Textile Mills Limited – 11.00%	
- Pak Qatar Family Takaful Limited – 10.45%	
- Islamic Development Bank – 6.11%	
- Trustees Crescent Steel and Allied Products Provident Fund – 5.19%	
- General Public – 39.58%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Corporates (May 2019)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

Crescent Steel & 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 a conglomerate with predominantly operations in Steel manufacturing.

Profile of Chairman

Mr. Ahmad Waqar is the Chairman of CSAPL. He is also currently serving as the member Policy Board, Dept. of Auditor General Pakistan. Mr. Waqar has diversified experience across entities in both the Public and Private Sector.

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 35 years of extensive industry experience in managing multiple business operations across variety of sectors such as steel, sugar, power, textile and engineering.

RATING RATIONALE

Incorporated in 1983, Crescent Steel and Allied Products Limited (CSAPL) commenced its operations with a pipe manufacturing facility in March 1987 and gradually diversified its businesses within textiles, capital markets and energy sectors, thereby establishing its position as a conglomerate. The Company operations are segregated into five divisions, namely Steel Division, Crescent Hadeed (Billet) Division, Crescent Cotton Products, Investment and Infrastructure Development Division and Energy Division. Moreover, CSAPL also has two wholly owned subsidiaries, namely CS Capital (Pvt.) Ltd, and Solution de Energy (Pvt.) Ltd.

Steel Division

This 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. This division also has an engineering unit engaged in fabrication and erection of machinery located at Dalowal, District Faisalabad, Punjab. Given the dependence on public sector and pipeline augmentation projects of gas utility companies, cyclicality is observed in demand for large diameter pipes, which impacts performance of this division. The revenue from the steel division was reported lower at Rs. 1.2b (FY19: Rs. 2.3b) during FY20 on account of slowdown in infrastructure projects. However, initiation of the projects of the gas utility companies during the last quarter of FY20 contributed to higher revenue and profitability during 9M'FY21. Quantum of sales and gross profit amounted to Rs. 2.6b (9MFY19: Rs. 489.3m) and Rs. 455.5m (9MFY20 gross loss: Rs. 117.4m) in 9M'FY21.

Segment Performance (Rs. in m)	FY19	FY20	9M'FY21
Steel Segment			
Sales – net	2,381.4	1,291.2	2,657.8
Cost of sales	2,266.7	1,257.5	2,202.3
Gross profit / (loss)	**114.7**	**33.7**	455.5
Gross margin	4.8%	2.6%	17.1%
Profit / (loss) before taxation	**(198.4)**	**(392.2)**	**193.6**

Ongoing projects and projected pipeline tenders and coating orders are considered healthy. Majority of the ongoing and projected orders are from the two gas utility companies. Given the recent positive developments on North South Pipeline project (renamed as Pakistan Steam Gas Pipeline), the company may accrue benefit in the form of additional orders in the long run. Sound order pipeline is expected to support profitability profile of this division going forward.

Hadeed Billet Division

Crescent Hadeed (Private) Limited was incorporated in 2013 as a wholly owned subsidiary of CSAPL and commenced operations in 2016. However, in June 2019, the subsidiary was amalgamated into CSAPL. Located in Bhone, Punjab the plant has an annual production capacity of 85,000 MT of steel billets. This division manufacturers steel long products (billets) which are used as a raw material by re-rolling mills to manufacture other steel products for use in the construction and engineering sector. This division posted net loss before tax of Rs. 35.6m in 9MFY21 due to idling costs. The power supply for this division is currently being met through in-house bagasse fired power plant operated by CS Energy Division. As the power plant operates only during the sugar season, the power supply was available to Hadeed Divison for only three months during 9M'FY21. Resultantly, lesser absorption of fixed costs contributed to net loss.

Segment Performance (Rs. in m)	FY19	FY20	9M'FY21
Hadeed (Billet) Division			
Sales – net	-	971.7	1,206.9
Cost of sales	-	960.7	1,222.3
Gross profit / (loss)	**-**	**11.1**	**(15.4)**
Gross margin	-	1.1%	-1.3%
Profit / (loss) before taxation	**-**	**(35.4)**	**(35.6)**

The company is awaiting approval of grid connection from FESCO, which will enable the management to enhance production capacity and profitability of this division. Demand prospects are sound given the uptake in the construction activity on account of government's initiatives.

Cotton Division

The Crescent Cotton Products (CCP) division of the company has 19,680 spindles installed with a production capacity of 385 bags a day. The spinning unit is situated at Jaranwala, near Faisalabad. The company produces a variety of yarn, with a count range from 6s to 40s, for greige, towels and work wear. The sales revenue from this unit decreased to Rs. 1.3b (FY19: Rs. 1.6b) in FY20, owing to production halt due to lockdown enforced on account of COVID-19. Reduction in topline coupled with higher inputs contributed to lower profitability in FY20. However, textile companies in Pakistan have witnessed diversion of orders from the neighboring countries due to comparably lesser severity of COVID-19. Resultantly, demand dynamics for the CSAPL have also improved, thereby culminating to higher revenue and profitability in 9M'FY21. Given the increasing demand and high capacity utilization, the management is considering increasing capacity through addition of new spindles.

Segment Performance (Rs. in m)	FY19	FY20	9M'FY21
Cotton Division			
Sales – net	1,685.1	1,346.0	1,406.6
Cost of sales	1,579.5	1,320.2	1,244.8
Gross profit / (loss)	**105.7**	**25.8**	161.8
Gross margin	6.3%	1.9%	11.5%
Profit / (loss) before taxation	**70.2**	**(26.7)**	**132.1**

Investment and Infrastructure Development Division (IID)

The function of this division is to manage multiple asset categories within equity market, debt securities and real estate for the purpose of earning dividend income and capital gains. This division acts as a liquidity buffer for the company providing liquidity in times of cash flow constraints. Profit before tax from this division witnessed considerable increase to Rs. 363.2m (FY19: Rs. 153.1m) during FY20 on account of higher dividend income from investments. Majority of the dividend income emanated from Altern Energy Limited. However, given the liquidity constraints faced by the IPPs due to circular debt, dividend income from this source has decreased considerably in 9M'FY21 in comparison to the corresponding period from the preceding year. Also, the stock market performance stood stagnant during first half of FY21 impacting the investment income. Resultantly, profit before taxation from IID was reported lower at Rs. 171.6m (9M'FY20: Rs. 314.9m). Profitability profile of this division was supported by considerable gain on sale of disposal of fixed asset. The improvement in stock market performance during second half of FY21 and the recent ECC approval of payments to IPPs is expected to augment dividend income; both events will enhance profitability of IID, going forward.

CS Energy Division

The CS Energy Division operating under CSAPL provides electricity internally to Crescent Hadeed (Billet) manufacturing unit. With increase in production, the division posted profit before tax of Rs. 20.7m at end Mar'21.

Subsidiaries and Associates

The company owns two subsidiaries namely CS Capital (Pvt.) Ltd and Solution De Energy (Pvt.) Ltd. The principal activity of CS Capital is to manage investment portfolios in shares, real estate, commodities and other securities. The principal activity of the Solution De Energy is to build, own, operate and maintain a 100MW solar power project. Other significant holdings (classified as associates) include Altern Energy Ltd and Shakarganj Ltd with 16.6% and 21.9% ownership respectively.

In Rs. Mn	FY19	FY20	9M'FY21
Subsidiaries	**525**	**525**	**525**
CS Capital (Private) Limited	525	525	525
Solution de Energy (Private) Limited	0	0	0
Associates	**1,286**	**1,286**	**1286**
Altern Energy Limited	595	595	595
Shakarganj Limited	691	691	691
Other Long Term Investments	453	492	496.7
Total Investments	2,265	2,303	2,308.1

Profitability

Rs mn	FY19	FY20	9M'FY21
Net Sales	4,066.5	3,822.2	5,723.7
Gross Profit	220.4	50.9	626.3
Gross Margin	5.4%	1.3%	10.9%
Net Profit	143.5	(17.1)	362.5
Net Margin	3.5%	-0.4%	6.3%

Given the decline in volumetric sales of the steel segment due to slowdown in public sector infrastructure projects, overall topline depicted decrease of 6% during FY20. With imposition of lockdown due to COVID-19, input costs also increased on account of supply chain disruptions, while production of some divisions was halted which resulted in lesser absorption of fixed costs. Hence, the company posted net loss of Rs. 17.1m (FY19: Rs. 143.5m). Ease in lockdown and increase in business activity have contributed to improvement in demand dynamics during the ongoing year. During 9MFY21, the company has posted higher net profit of Rs. 362.5m (9M'FY20: Loss of Rs. 5.3m). Healthy order book and sizeable quantum of projected orders is expected to support profitability profile of the company going forward. Sustaining profitability indicators is considered important from the ratings perspective.

Liquidity

Fund From Operations (FFO) has varied in line with the profitability of the company. With net losses in FY20, FFO was also negative during that period. However, due to considerable reduction in taxes and sizeable dividend income, FFO in FY20 depicted improvement vis-à-vis FY19. Improved profitability levels translated to higher FFO of Rs. 531.3m (FY20: Rs. -17.6m; FY19: Rs. -289.3m) in 9M'FY21. Debt Servicing ability is considered sound with adequate cash flows in relation to outstanding liabilities. Stock in Trade and Trade Debts provide adequate coverage for short term borrowings. The current ratio has consistently stayed over 1x on a timeline basis.

Capitalization

Equity base of the company augmented to Rs. 5.8b (FY20: Rs. 5.4; FY19: Rs. 5.4b) at end-9M'FY21 on account of profit retention. Total debt of the company primarily comprises short term borrowings as the same represented approximately 82% of the total debt at end-9M'FY21. Reduction in quantum of short term borrowings have contributed to lower total debt of Rs. 2.1b (FY20: Rs. 3.0b; FY19: Rs. 2.0b) during 9MFY21. The capital structure of the company has remained conservative with 73% of the capital being equity financed. Consequently, gearing (9MFY21: 0.37x; FY20: 0.56x; FY19: 0.37x) and leverage (9MFY21: 0.58x; FY20: 0.77x; FY19: 0.54x) ratios remain at manageable level. With projected improvement in profitability, leverage indicators are expected to remain sound.

Crescent Steel and Allied Products (CSAPL) Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**9M'FY21**
Fixed Assets	1,039.0	2,493.7	2,274.3	2,090.1
Long term Investments	4,538.3	2,264.8	2,303.8	2,308.2
Stock-in-Trade	1,542.7	821.4	2,130.7	1,765.6
Trade Debts	106.9	96.4	225.8	128.2
Cash & Bank Balances	133.5	27.8	23.4	60.3
Total Assets	10,079.0	8,287.0	9,660.8	9,213.4
Trade and Other Payables	1,349.1	691.9	1,068.5	1,154.2
Long Term Debt	496.7	441.8	351.0	396.1
Short Term Debt	1,458.2	1,577.2	2,675.4	1,755.3
Total Debt	1,954.9	2,019.0	3,026.3	2,151.5
Paid-Up Capital	776.3	776.3	776.3	776.3
Total Equity	6,723.8	5,394.1	5,448.3	5,815.1
INCOME STATEMENT				
Net Sales	7,043.8	4,066.5	3,822.2	5,723.7
Gross Profit	811.3	220.4	50.9	626.3
Income from Investments	495.5	191.6	389.3	59.9
Profit Before Tax	971.4	24.9	(117.8)	482.3
Profit After Tax	751.8	143.5	(17.1)	362.5
RATIO ANALYSIS				
Gross Margin (%)	11.5%	5.4%	1.3%	10.9%
Net Margin	10.7%	3.5%	-0.4%	6.3%
FFO	292.5	(289.3)	(17.6)	531.3
FFO to Total Debt (%)	15.0%	-14.3%	-0.6%	32.9%*
FFO to Long Term Debt (%)	58.9%	-65.5%	-5.0%	178.8%*
Current Ratio (x)	1.4	1.2	1.1	1.3
Debt Servicing Coverage Ratio (x)	1.3	(0.3)	0.6	2.9*
Gearing (x)	0.29	0.37	0.56	0.37
ROAA (%)	6.8%	1.6%	-0.2%	5.1%*
ROAE (%)	11.1%	2.4%	-0.3%	8.6%*
(Inventory+ Trade Debts)/Short term debt	113.1%	58.2%	88.1%	107.9%

** Ratios annualized*

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	See table below
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.
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Due Diligence Meetings Conducted	See table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
Jun 25, 2020	A-	A-2	Stable	Reaffirmed
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

Due Diligence Meetings Conducted

	Name	Designation	Meeting Date
1	Mr. Azeem Sarwar, FCA	Senior Manager Finance & Control	Jun 03, 2021
2	Mr. Muhammad Haseeb Iqbal	Manager Treasury	Jun 03, 2021