# RATING REPORT

# Crescent Steel & Allied Products Limited

**REPORT DATE:**
December 17, 2024

**RATING ANALYSTS:**

Saeb Muhammad Jafri
saeb.jafri@vis.com.pk
Fatima Asif
fatima.asif@vis.com.pk

| RATING DETAILS | | | | |
|---|---|---|---|---|
| Rating Category | Latest Rating | | Previous Rating | |
| | Long-Term | Short-term | Long-Term | Short-term |
| **Entity** | A- | A2 | A- | A2 |
| ***Rating Date*** | *December 17, 2024* | | *December 13, 2023* | |
| **Rating Outlook/Watch** | *Stable* | | *Stable* | |
| ***Rating Action*** | Reaffirmed | | Maintained | |
| ***Sukuk*** | A- | | A- | |
| ***Rating Date*** | *December 17, 2024* | | *December 13, 2023* | |
| **Rating Outlook/Watch** | *Stable* | | *Stable* | |
| ***Rating Action*** | Reaffirmed | | Maintained | |

| COMPANY INFORMATION | |
|---|---|
| **Incorporated in 1983** | **External auditors:** PWC A.F. Ferguson & Co. |
| **Public Listed Company** | **Board Chairman:** Mr. Ahmad Waqar |
| **Key Shareholders (10% or more holding):** | **Chief Executive Officer:** Mr. Ahsan M. Saleem |
| *Local Public – 44.35%* | |
| *Associated Companies, Undertakings, and Related Parties – 29.75%* | |

## APPLICABLE METHODOLOGY(IES)

***Applicable Rating Criteria:***
***https://docs.vis.com.pk/docs/CorporateMethodology.pdf***

## APPLICABLE RATING SCALE(S)

***VIS Issue/Issuer Rating Scale:***
***https://docs.vis.com.pk/docs/VISRatingScales.pdf***

## Crescent Steel & Allied Products Limited

| OVERVIEW OF THE INSTITUTION | RATING RATIONALE |
|---|---|

**Crescent Steel & Allied Products Limited** 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,

### Corporate Profile

Corporate Profile Crescent Steel and Allied Products Limited ('CSAP' or 'the Company') was established on August 1, 1983, as a public limited company in Pakistan. CSAP is publicly listed on the Pakistan Stock Exchange and has a registered office at E-floor, IT Tower, 73-E/1, Hali Road, Gulberg-III, Lahore. The Company's principal office is located on the 9th floor of Sidco Avenue Centre, 264 R. A. Lines, Karachi. The steel segment remains the major volume driver specialized in manufacturing of large diameter spiral welded pipes and various line pipe coatings.

Following are the main divisions of CSAP:

1. **Steel Segment:** In this sector, the Company produces large-diameter spiral arc-welded steel line pipes at a facility situated in Nooriabad, District Jamshoro, Sindh. CSAP also runs a coating facility capable of applying three layers of high-density polyethylene coating to steel line pipes. The coating plant commenced its commercial operations on November 16, 1992. Additionally, the Company operates a fabrication unit engaged in machinery fabrication and erection, located in Dalowal, District Faisalabad, Punjab.

2. **Investment and Infrastructure Division:**

   The Investment and Infrastructure Division oversees the Company's equity investments and real estate portfolio. Through its investment in Altern Energy Limited (AEL), the Company holds exposure in Rousch (Pakistan) Power Limited (RPPL). Historically, dividends from RPPL have contributed to the Company's other income, supporting profitability. Following the conclusion of RPPL's Power Purchase Agreement (PPA) with the government, the Company, along with its subsidiary CS Capital (Private) Limited, is expected to receive final dividends payment in FY25, contingent on the settlement of RPPL's outstanding receivables. Going forward, this source of other income will no longer be available.

3. **CSAP Approves Sale of Assets from Discontinued Billet Division**
   The Board of Directors of CSAP has approved the sale of plant, machinery, and pre-engineered building assets from the Crescent Hadeed (Billet) Division, which has been non-operational for several years. This transaction is pending final terms and the signing of a formal agreement. Consequently, the Crescent Hadeed (Billet) Division will be classified as "discontinued operations." This information was communicated via a notification to the Exchange on 4$^{th}$ October 2024.

4. **Cotton Segment:**

   The cotton segment remains non-operational as of the current period, with management actively evaluating potential options for its future. Deliberations are ongoing, and no definitive course of action has been disclosed regarding the segment's strategic direction.

### Operational Profile

**Steel Segment:**

| Pipe Plant | | |
|---|---|---|
| **Description** | **2023** | **2024** |
| Installed / Rated Capacity (tons) (Single shift) | 66,667 | 66,667 |
| Actual Production (tons) | 42,888 | 59,453.30 |
| Production in Notional Pipe Size (tons) | 68,095 | 97,542.90 |
| **Capacity Utilization (%)** | **102%** | **146%** |

| Coating plant | | |
|---|---|---|
| **Description** | **2023** | **2024** |
| Annual Capacity (sq. meters) | 600,000 | 600,000 |
| Surface Area Coated (sq. meters) | 305,098 | 553,906 |
| Pipes Coated (meters) | 51,795 | 230,275 |
| **Capacity Utilization (%)** | **50.85%** | **92.32%** |

**1. Pipe plant**

The plant's installed capacity is 66,667 tons annually based on a single shift, using a notional pipe size of 30" diameter x ½" thickness for SP1600 and 40" diameter x 5/8" thickness for SP 2003. Actual production increased by 38.6% to 59,453.3 tons in FY24 (FY23: 42,888 tons) of line pipes with varying sizes and thicknesses. When converted to the notional pipe size of 30" diameter, actual production is equivalent to 97,542.9 tons in FY24 (FY23: 68,095 tons). Capacity utilization rose to 146% in FY24 (FY23: 102%) due to higher demand requirements by water and gas supply projects.

The notional pipe size is used to standardize production and enable consistent capacity utilization comparisons, regardless of the variations in actual pipe sizes and thicknesses.

**2. Coating plant:**

The coating plant is capable of shot blasting and coating line pipes with single-layer FBE and multilayer polyolefin coatings, covering pipe sizes from 114 mm to 2134 mm in diameter. Its annual capacity is 600,000 square meters of surface area, based on a notional pipe size of 14" diameter on a single shift. During the year, 230,275 meters (FY23: 51,795 meters) of various pipe sizes were coated, covering 553,906 square meters (FY23: 305,098 square meters). Capacity utilization increased to 92.32% (FY23: 50.85%), aligning with market demand.

**Planned Diversification**

The management is actively seeking diversification opportunities to mitigate risks and enhance revenue streams, especially given the non-operational status of key segments like cotton, billets, and energy. Future investment plans of the Company remain important for business risk mitigation.

**Key Rating Divers:**

**Business Risk Profile**

**Industry Risk; Steel Pipes Sector: High.**

The business risk profile of Pakistan's steel pipes industry is assessed as high. This evaluation reflects the sector's exposure to fluctuating demand with dependence on large-scale infrastructure projects, reliance on imported raw materials, and sensitivity to macroeconomic variables.

In FY24, the industry experienced a contraction in production, influenced by reduced activity in key consuming sectors such as development and rehabilitation projects. Moreover, the industry's dependence on imported raw materials, particularly iron and steel scrap, introduces vulnerability to global price volatility and exchange rate fluctuations. The local industry also faces challenges like import substitution from regional countries.

Macroeconomic factors, including inflation and interest rates, have further impacted the sector's performance. Elevated inflation and high interest rates have constrained construction activity, a primary driver of steel pipe demand. Additionally, the industry's dependence on large-scale infrastructure projects further exacerbates the industry risk profile.

**Financial Risk Profile**

**Profitability**

Revenue in FY24 increased by 102% to Rs. 9.1 billion (FY23: Rs. 4.5 billion), primarily attributed to the Company's steel segment's involvement in Phase 1 of the K-IV Greater Karachi Bulk Water Supply Project, which commenced in FY23 and continued into FY24. The Company has disclosed that this project will extend through FY25. For this contract, hot-rolled coils are supplied by the client, reducing exposure to steel price volatility and supporting gross margins. Gross margins increased to 28.93% in FY24 (FY23: 17.18%). Net margins also rose to 17.63% (FY23: 3.92%), reflecting support from other income.

For 1QFY25, the company recorded a gross margin of 19.7% (1QFY24: 24.3%), reflecting a decline primarily due to delays in the K-IV project, attributed to the non-delivery of raw materials by the client. Additionally, the absence of dividend income from Altern Energy during 1QFY25 contributed to a reduction in the net margin, which stood at 6.4% (1QFY24: 24.1%). Dividend income from Altern Energy was, however, received in 2QFY24. Going forward, the termination of the power purchase agreement (PPA) and the transfer of operational control of RPPL to the government are expected to reduce the contribution from dividend income following FY25.

During 1QFY25, the Company obtained a second extension for the K-IV project, with manufacturing scheduled to commence in the second quarter of the ongoing financial year. The project is expected to be completed by the second quarter of the next financial year. This projected is expected to continue to support margins till its completion.

**Capitalization profile**

The Company's capitalization profile remained conservative, with improvements noted in FY24 as gearing and leverage ratios decreased to 0.17x (FY23: 0.34x) and 0.36x (FY23: 0.63x). During the period the Company generated sufficient cash from operations to meet its working capital needs. Furthermore, with the client providing the raw materials for the K-IV project the Company had lower requirement for short-term debt. Moreover, equity enhancement from profit retention further supported the capitalization profile in FY24. In 1QFY25, gearing and leverage ratios continued to improve to 0.16x and 0.34x, respectively.

**Coverage Profile**

The Company's coverage profile improved in FY24, with the Debt Service Coverage Ratio (DSCR) increasing to 3.0x (FY23: 0.91x), driven by higher Funds from Operations (FFO) from increased profitability. In 1QFY25, however, DSCR fell to 0.79x, reflecting lower annualized FFO of Rs. 49 million. The reduction in FFO during 1QFY25 was influenced by lower quarterly sales and higher taxation accrued in FY24. The taxation increase resulted from the implementation of the 10% super tax under the Finance Act 2023, which introduced revised slab rates applicable to all sectors with income exceeding Rs. 500 million. As a result of higher profitability in FY24, the applicable tax rate for the Company rose from 30% to 39%.

The FFO/Total Debt ratio increased to 142.82% in FY24 (FY23: 11.32%), supported by a reduction in total debt levels and higher FFO. In 1QFY25, this ratio declined to 16.24%, reflecting the decrease in FFO. Similarly, the FFO/Long-Term Debt ratio rose to 274.55% in FY24 (FY23: 30.23%) but decreased to 29.34% in 1QFY25 due to the same factor. While the coverage metrics depict constraints in 1QFY25, management expects the metrics to recover by the end of the fiscal year, based on ongoing as well as the addition of new contracts.

**Liquidity Profile**

The Company's liquidity profile has been maintained at healthy levels, as indicated by a three-year average current ratio of 1.56x. In FY24, the current ratio increased to 2.03x (FY23: 1.28x), primarily driven by adjustments in working capital management and a decrease in short-term borrowing. Further improvement was observed in 1QFY25, with the current ratio reaching 2.11x.

**Crescent Steel & Allied Products Limited** **Appendix I**

## Financial Summary

| Balance Sheet (PKR Millions) | FY23A | FY24A | 1QFY25M |
|---|---|---|---|
| Property, plant and equipment | 2,437.57 | 2,194.97 | 2,162.25 |
| Right-of-use Assets | 0.00 | 228.87 | 217.00 |
| Long-term Investments | 2,544.68 | 2,809.51 | 2,808.74 |
| Stock-in-trade | 1,268.96 | 1,447.60 | 1,203.96 |
| Trade debts | 464.04 | 1,472.25 | 1,263.37 |
| Short-term Investments | 552.38 | 667.73 | 725.98 |
| Cash & Bank Balances | 30.27 | 303.20 | 300.44 |
| Other Assets | 2,648.95 | 1,374.04 | 1,787.59 |
| Total Assets | 9,948.28 | 10,498.17 | 10,469.33 |
| Creditors | 44.06 | 43.78 | 98.37 |
| Long-term Debt (incl. current portion) | 772.19 | 682.45 | 668.35 |
| Short-Term Borrowings | 1,289.52 | 629.49 | 539.13 |
| Total Debt | 2,061.71 | 1,311.94 | 1,207.48 |
| Other Liabilities | 1,723.08 | 1,426.38 | 1,374.56 |
| Total Liabilities | 3,828.85 | 2,782.10 | 2,680.41 |
| Paid up Capital | 776.33 | 776.33 | 776.32 |
| Revenue Reserve | 4,322.20 | 5,918.82 | 5,991.69 |
| Other Equity (excl. Revaluation Surplus) | 1,020.91 | 1,020.91 | 1,020.91 |
| Equity (excl. Revaluation Surplus) | 6,119.44 | 7,716.06 | 7,788.92 |

| Income Statement (PKR Millions) | FY23A | FY24A | 3MFY25M |
|---|---|---|---|
| Net Sales | 4,515.58 | 9,111.61 | 1,145.82 |
| Gross Profit | 775.87 | 2,636.37 | 226.01 |
| Operating Profit | 594.22 | 3,023.98 | 147.29 |
| Finance Costs | 359.96 | 497.40 | 62.54 |
| Profit Before Tax | 234.26 | 2,526.58 | 84.75 |
| Profit After Tax | 176.84 | 1,606.51 | 73.55 |

| Ratio Analysis | FY23A | FY24A | 3MFY25M |
|---|---|---|---|
| Gross Margin (%) | 17.18% | 28.93% | 19.72% |
| Operating Margin (%) | 13.16% | 33.19% | 12.85% |
| Net Margin (%) | 3.92% | 17.63% | 6.42% |
| Funds from Operation (FFO) (PKR Millions) | 233.44 | 1,873.69 | 49.03 |
| FFO to Total Debt* (%) | 11.32% | 142.82% | 16.24% |
| FFO to Long Term Debt* (%) | 30.23% | 274.55% | 29.34% |
| Gearing (x) | 0.34 | 0.17 | 0.16 |
| Leverage (x) | 0.63 | 0.36 | 0.34 |
| Debt Servicing Coverage Ratio* (x) | 0.83 | 2.89 | 0.76 |
| Current Ratio (x) | 1.28 | 2.03 | 2.11 |
| (Stock in trade + trade debts) / STD (x) | 1.61 | 5.28 | 5.20 |
| Return on Average Assets* (%) | 1.92% | 15.71% | 2.81% |
| Return on Average Equity* (%) | 2.89% | 23.22% | 3.79% |
| Cash Conversion Cycle (days) | 143.69 | 112.87 | 233.40 |

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

## REGULATORY DISCLOSURES — Appendix II

| | |
|---|---|
| **Name of Rated Entity** | Crescent Steel & Allied Products Limited |
| **Sector** | Steel |
| **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** | | |
| **17-Dec-24** | A- | A2 | Stable | Reaffirmed |
| 13-Dec-23 | A- | A2 | Stable | Maintained |
| 31-Mar-23 | A- | A2 | Rating Watch - Developing | Maintained |
| 11-Oct-22 | A- | A2 | Stable | Reaffirmed |
| 25-Jun-21 | A- | A2 | Stable | Reaffirmed |
| 08-Apr-20 | A- | A2 | Stable | Downgrade |
| 26-Dec-18 | A | A2 | Stable | Downgrade |
| 29-May-18 | A+ | A2 | Negative | Maintained |
| 03-Jul-17 | A+ | A2 | Stable | Initial |
| | | **RATING TYPE: SUKUK** | | |
| **17-Dec-24** | A- | - | Stable | Reaffirmed |
| 13-Dec-23 | A- | - | Stable | Maintained |
| 31-Mar-23 | A- | - | Rating Watch – Developing | Maintained |
| 24-Oct-22 | A- | - | Stable | Final |
| 08-Dec-21 | A- | - | Stable | Preliminary |

| | |
|---|---|
| **Instrument Structure** | CSAP has issued a privately placed Sukuk of Rs. 800m to meet its working capital needs. The Sukuk has a tenor of three years with six equal installments of principal redemption starting from the 6th month of drawdown. The pricing of the issue is 6M-KIBOR plus 2% spread. Security structure of the Sukuk entails ranking charge on Fixed Assets/constructive mortgage charge. Moreover, a collection account will be maintained with the collection Bank which will be funded for the entire installment amount 20 days prior to the payment date. |
| **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. 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.  |

**Due Diligence Meetings**

| Name | Designation | Date |
|---|---|---|
| Azeem Sarwar | Senior Manager Finance & Control | 21-Nov-2024 |
| Syed Muhammad Sheraz | Manager Treasury | |
| Abdullah A. Saleem | Business Unit Head – Steel Division | |