RATING REPORT

Crescent Steel & Allied Products Limited

REPORT DATE:
December 08, 2021

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Sukuk *(Initial)*	A-	-	-	-
Entity	A-	A-2	A-	A-2
Rating Date (Entity)	*Jun 25, 2021*		*April 08, 2020*	
Rating Outlook	Stable		Stable	

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 (August 2021)
https://docs.vis.com.pk/docs/SCB202106-1.pdf

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 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.

Sponsor Profile

Crescent Steel and Allied Products Limited (CSAPL) is a public listed entity with the operations segregated into five divisions, namely Steel Division, Crescent Hadeed (Billet) Division, Crescent Cotton Products, Investment and Infrastructure Development and Energy Division (IID). CSAPL also has two wholly owned subsidiaries, namely CS Capital (Pvt.) Ltd, and Solution de Energy (Pvt.) Ltd and associated companies Altern Energy Limited and Shakarganj Limited. The Company's long term investments represent 28.4% of the total asset base.

Proposed Sukuk Structure

CSAPL is in process of issuing secured, privately placed Sukuk to the tune of Rs. 1.0b; inclusive of green shoe option of Rs. 200m. The proceeds of the issue will be utilized to meet working capital requirement. The proposed pricing of the issue will be six month KIBOR plus yet to be finalized spread. The tenor of the instrument will be three years. Principal will be redeemed in six equal installments starting from the 6th month of drawdown. Security features of the Sukuk entail ranking charge on Fixed Assets.

Ratings incorporate CSAPL's diversified revenue stream including exposure to steel, textile, billet, capital markets and power sector.

Steel Division

This segment operates two spiral pipe (SP) production lines (ranging from 8 to 120 inches) & a coating line primarily manufacturing large diameter pipe 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. Since sales are majorly dependent on public sector and pipeline augmentation projects of gas utility companies, it exposes the business to volatility in demand. The revenue from the steel division was reported at Rs. 2.7b (FY20: Rs. 1.3b) during FY21 as the company produced and supplied 15,400 tons of steel pipe as against 7,675 tons in FY20. However, orders for coating were less at 22,587sq meter of line pipe coatings in FY21 as against 88,647 sq. meters in the corresponding year.

The start of the ongoing fiscal year witnessed sharp rise in international commodity prices transcending its effect on local economy and causing major jump in prices of several key inputs used in manufacturing industries including steel industry. Hence, CSAPL witnessed attrition in margins during Q1"FY22 owing to massive hike in raw material prices. This is due to bids being made based on current or expected HRC prices at the time of the contract while contract award and procurement of HRC is done with a time lag. However, exchange risk is mitigated as per contract terms. Quantum of sales and gross loss amounted to Rs. 846.8m (Q1'FY20: Rs. 1,812.5m) and Rs. (16.6m) (Q1'FY20: Rs. 333.9m) in Q1'FY22.

Steel segment (Rs.mn)	FY20	FY21	Q1'FY22
Sales - net	1,291.2	2,740.1	846.8
Cost of sales	1,257.5	2,319.9	863.4
Gross profit / (loss)	**33.7**	**420.2**	**(16.6)**
Gross margin	2.6%	15.3%	-2.0%
Profit / (loss) before tax	**(392.2)**	**85.1**	**(115.5)**

Management currently has Rs. 244.9m orders in hand. Company is projecting strong growth in FY22 in the steel division on account of two major projects of SSGC and SNGPL. While they remain confident of securing the same, the risk of execution of these projects by the gas utility companies over the rating horizon remains a concern given the delays experienced in the past.

Hadeed Billet Division

Hadeed (Billet) Division commenced operations in 2016. 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. 171.6m during FY21 and the trend continued in Q1'FY22 with net loss before tax of Rs. 21.2m mainly due to power constraint resulting in lesser absorption of fixed cost.. The power supply for this division is currently being met through in-house bagasse fired power plant (operational only during sugar season) operated by CS Energy Division. The Company is awaiting approval of grid connection from FESCO which has been met with unnecessary delay impacting ability to enhance production capacity and profitability of this division.

Hadeed (Billet) Rs. Mn	FY20	FY21	Q1'FY22
Sales - net	971.7	2,065.1	4.4
Cost of sales	960.7	2,203.7	18.5
Gross profit / (loss)	**11.1**	**(138.6)**	**(14.2)**
Gross margin	1.1%	-6.7%	-328.7%
Profit / (loss) before tax	**(35.4)**	**(171.6)**	**(21.2)**

Demand prospects are sound given the uptake in the construction activity on account of government's initiatives in the construction sector. However, the latest hike in the raw material prices can dent margins of the steel industry.

Cotton Division

This unit has 19,680 spindles installed and 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 increased to Rs. 2.0b (FY20: Rs. 1.3b) in FY21, owing to higher yarn prices and upbeat textile demand. Going forward, textile sector's demand is expected to remain sound given growing export numbers. In view of rising demand, the Company has undertaken to increase its production capacity with installation of 7,920 spindles which are expected to come online by February 2022. Going forward, sales of the cotton division are expected to remain strong although margins may fluctuate depending upon cotton price dynamics.

Cotton Segment (Rs. Mn)	FY20	FY21	Q1'FY22
Sales - net	1,346.0	2,000.1	597.8
Cost of sales	1,320.2	1,788.6	491.1
Gross profit / (loss)	**25.8**	**211.5**	**106.6**
Gross margin	1.9%	10.6%	17.8%
Profit / (loss) before taxation	**(26.7)**	**171.1**	**97.1**

Investment and Infrastructure Development Division (IID)

This division acts as a liquidity buffer for the company providing liquidity in times of cash flow constraints and earns income through dividends and capital gains emanating from investing in multiple asset categories. During the period under review, the division recorded investment loss of Rs. 15.5m (Q1'FY20: Rs. 29.9m). Historically, dividend income emanating from Altern Energy has lent support to the profitability of the Company. However, given the liquidity constraints faced by the IPPs due to circular debt, dividend income from this source depleted during FY21 and Q1'FY22.

CSAPL holds 16.6% shareholding in Altern Energy which holds 100% shares of Power Management Company (Private) Limited (a Special Purpose Vehicle) which in turn holds 59.98% shares of Rousch (Pakistan) Power Limited (RPPL). While payments to Rousch have been approved under the recent IPPs payment negotiations with government, the same has not been distributed to the shareholders due to corporate restructuring underway within the sponsor companies of Rousch. Once the same has been completed, CSAPL is expected to receive higher dividend income.

In Rs.mn	FY19	FY20	FY21	Q1'FY22
Dividend income	208.9	353.4	19.3	4.8
G\L on sale of FVTPL investments	(16.1)	(4.3)	6.6	1.3
Unrealized gain on FVTPL investments	(3.9)	37.7	200.7	(22.6)
Rental income-investment properties	2.6	2.6	5.9	1.0
Investment Income	**191.6**	**389.3**	**232.6**	**(15.5)**

Energy Division

The bagasse fired power plant under CS Energy Division has an installed production capacity of 118,856 MWh and actual production during FY21 stood at 26,207MWh (FY20: 16,341MWh). The reason for underutilization is due to power being restricted to only 2 customers; Hadeed Billet Division and Shakarganj Limited. CSAPL is awaiting approval from FESCO to supply excess electricity produced to the national grid.

Profitability is expected to remain constraint by business risk of the steel segment.

Rs mn	FY20	FY21	Q1'FY22
Net Sales	3,822.2	7,259.2	1,448.9
Gross Profit	50.9	496.7	60.1
Gross Margin	**1.3%**	**6.8%**	**4.1%**
Net Profit/Loss	**(17.1)**	**351.9**	**(49.5)**
Net Margin	**-0.4%**	**4.8%**	**-3.4%**

Ease in lockdown and increase in business activity contributed to improvement in demand dynamics during FY21 and resulted in a significant growth in net profit at Rs. 351.9m (FY20: loss of 17.1m). However, the commodity uptrend, since the start of ongoing fiscal year, driven by demand-supply imbalances caused the prices of the CSAPL's key inputs to rise significantly and the inability to pass on price risk of raw material led to losses in steel division. Overall loss posted within steel, billet, energy and investment and infrastructure division absorbed the healthy profits posted in cotton division, resulting in overall loss of Rs. 49.5 (Q1'FY21: Rs. 140.1m) during Q1'FY22.

Going forward, profitability is expected to remain constrained by business risk of the steel segment which comprises sizable proportion of the company's revenues. Thin gross margins of the company provide limited cushion. The inherent cyclicality and dependence on large infrastructure projects, especially pipeline augmentation projects of gas utility companies results in wide variation in profitability in the steel division which is compensated to an extent from income from cotton division and investments. Going forward, increasing and sustaining profitability will be important for ratings.

Adequate liquidity profile

Fund From Operations (FFO) has varied in line with the profitability of the company. In line with higher profits during FY21, FFO turned positive to Rs. 311.5 (FY20: Rs. -17.6m). However, with net losses in Q1'FY22, FFO was also negative at Rs. -43.4. Debt Service Coverage remained adequate during FY21. Going forward, based on projected profitability levels provide an adequate debt servicing capability. Liquidity profile remains adequate with current ratio of 1.3x and stock in Trade and Trade Debts providing close to adequate coverage for short term borrowings at 99.7%. Moreover, liquid investments carried on balance provide support to liquidity profile. However, with increasing raw material price there is pressure on working capital which is expected to ease with issuance of proposed Sukuk.

Conservative financial management lends support to leverage indicators

Increase in quantum of short term borrowings contributed to higher total debt (Q1'FY22: Rs. 2.4b; FY21: Rs. 1.9b). Consequently, gearing (Q1'FY22: 0.40x; FY21: 0.32x) and leverage (Q1'FY22: 0.60x; FY21: 0.46x) ratios inched nominally higher. With the proposed Sukuk, gearing is expected to increase, albeit remaining within manageable levels. Company expects that projected dividend income from Altern Energy will provide further support to the equity base.

Crescent Steel and Allied Products (CSAPL) Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**Q1'FY22**
Fixed Assets	2,493.7	2,274.3	2,058.9	2,018.0
LT Investments	2,264.8	2,303.8	2,468.9	2,499.2
Stock-in-Trade	821.4	2,130.7	1,236.5	1,461.5
Trade Debts	96.4	225.8	137.1	540.5
Cash & Bank Balances	27.8	23.4	4.0	108.2
Total Assets	8,287.0	9,660.8	8,705.7	9,460.8
Trade and Other Payables	691.9	1,068.5	755.2	1,083.0
Long Term Debt (including current maturity)	441.8	351.0	397.6	383.2
Short Term Debt	1,577.2	2,675.4	1,514.9	2,008.8
Total Debt	2,019.0	3,026.3	1,912.6	2,391.9
Total Liability	2,893.0	4,212.5	2,734.7	3,541.5
Paid up Capital	776.3	776.3	776.3	776.3
Total Equity (Without revaluation surplus)	5,394.1	5,448.3	5,970.8	5,919.3
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**Q1'FY22**
Net Sales	4,066.5	3,822.2	7,259.3	1,449.0
Gross Profit	220.4	50.9	496.7	60.1
Profit/Loss Before Tax	24.9	-117.8	426.5	-75.3
Profit/Loss After Tax	143.5	-17.1	351.9	-49.5
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**Q1'FY22**
Gross Margin (%)	5.4%	1.3%	6.8%	4.1%
Net Margin (%)	3.5%	-0.4%	4.8%	-3.4%
FFO	-289.3	-17.6	311.5	
Current Ratio (x)	1.19	1.11	1.45	1.32
(Stock+ Trade Debts)/ Short-term Debt (x)	0.58	0.88	0.91	1.00
Debt Servicing Coverage Ratio (x)	-0.25	0.59	1.67	
Gearing (x)	0.37	0.56	0.32	0.40
Leverage (x)	0.54	0.77	0.46	0.60
ROAA (%)	1.6%	-0.2%	3.8%	
ROAE (%)	2.4%	-0.3%	6.2%	

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

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
		SUKUK RATING		
Dec 08, 2021	A-			
		ENTITY RATING		
Jun 25, 2021	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

Instrument Structure	CSAPL intends to issue a secured Privately Placed Sukuk of Rs. 1,000m; inclusive of green shoe option of Rs. 200m. . The funds will be used to meet working capital requirements. Proposed pricing of the issue is six month KIBOR plus yet to be finalized spread. The tenor of the instrument is three years. Principals will be redeemed in six equally installments starting from the 6th month of drawdown. Security features of the Sukuk entail ranking charge on Fixed assets.
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	

	Name	Designation	Meeting Date
1	Mr. Azeem Sarwar, FCA	Senior Manager Finance & Control	Nov 04th, 2021
2	Mr. M. Haseeb Iqbal	Manager Treasury	
3.	Mr. Saad Thaniana	Chief Financial Officer	