

RATING REPORT

Crescent Steel & Allied Products Limited

REPORT DATE:

March 31, 2023

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
<i>Rating Date (Entity)</i>	<i>March 31, 2023</i>		<i>Oct 11, 2022</i>	
Rating Outlook (Entity)	Rating Watch-Negative		Stable	
Rating Action (Entity)	Maintained		Reaffirm	
Rating Date (Sukuk)	A-		A-	
Rating Outlook (Sukuk)	Rating Watch-Negative		Stable	
Rating Date (Sukuk)	<i>March 31, 2023</i>		<i>Oct 24, 2022</i>	
Rating Action (Sukuk)	Maintained		Final	

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
- 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
<p><i>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.</i></p> <p>Profile of Chairman</p> <p><i>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.</i></p> <p>Profile of CEO</p> <p><i>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.</i></p>	<p>Corporate Profile</p> <p>Crescent Steel and Allied Products Limited (CSAP) 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 24.2% of the total asset base at end-Dec’22.</p> <p>Rationale for placement of ratings on ‘Rating Watch-Negative’</p> <p>The revision in outlook reflects change in VIS sector outlook on the back of elevated business risk due to import restrictions, limited raw material coverage, soaring raw material prices, exchange rate volatility, and higher interest rates, resulting in inflationary pressures and a decline in demand in the automobile, construction and infrastructure development projects. As a result, the financial risk profile of companies across the sector remains under pressure in the medium term.</p> <p>The ratings will remain under Rating Watch based on the unfolding of the economic and market developments going forward and updated over time line according to availability of financial information.</p>

Crescent Steel and Allied Products (CSAPL)
Appendix I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>					
<u>BALANCE SHEET</u>	FY19	FY20	FY21	FY22	1HFY23
Fixed Assets	2,493.7	2,274.3	2,058.9	2,216.8	2,230.8
LT Investments	2,264.8	2,303.8	2,468.9	2,362.6	2,359.7
Stock-in-Trade	821.4	2,130.7	1,236.5	1,190.1	1,582.3
Trade Debts	96.4	225.8	137.1	175.2	225.8
Cash & Bank Balances	27.8	23.4	4.0	6.7	21.1
Total Assets	8,287.0	9,660.8	8,705.7	8,445.1	9,744.1
Trade and Other Payables	691.9	1,068.5	755.2	1,136.9	1,429.1
Long Term Debt (including current maturity)	455.2	364.2	410.9	260.9	954.8
Short Term Debt	1,577.2	2,675.4	1,514.9	812.6	1,292.5
Total Debt	2,032.4	3,039.6	1,925.8	1,073.5	2,247.4
Total Liability	2,893.0	4,212.5	2,734.7	2,346.7	3,850.9
Paid up Capital	776.3	776.3	776.3	776.3	776.3
Total Equity (Without revaluation surplus)	5,394.1	5,448.3	5,970.8	6,098.4	5,893.2
<u>INCOME STATEMENT</u>					
Net Sales	4,066.5	3,822.2	7,259.3	7,089.9	2,216.5
Gross Profit	220.4	50.9	496.7	-65.3	10.6
Profit/Loss Before Tax	24.9	-117.8	426.5	315.1	-279.3
Profit/Loss After Tax	143.5	-17.1	351.9	366.7	-202.3
<u>RATIO ANALYSIS</u>					
Gross Margin (%)	5.4%	1.3%	6.8%	-0.9%	0.5%
Net Margin	3.5%	-0.4%	4.8%	5.2%	-9.1%
Adjusted FFO	-289.3	-17.6	311.5	861.6	-192.7
FFO-to-Total Debt	-0.14	-0.01	0.16	0.80	-0.17
FFO-to-Long-Term Debt	-0.64	-0.05	0.76	3.30	-0.40
Current Ratio (x)	1.19	1.11	1.45	1.33	1.08
(Stock+ Trade Debts)/ Short-term Debt	0.58	0.88	0.91	1.68	1.40
Debt Servicing Coverage Ratio (x)	(0.25)	0.59	1.67	2.62	(0.48)
Gearing (x)	0.38	0.56	0.32	0.18	0.38
Leverage (x)	0.54	0.77	0.46	0.38	0.65
ROAA (%)	1.6%	-0.2%	3.8%	4.3%	-4.4%
ROAE (%)	2.4%	-0.3%	6.2%	6.1%	-6.7%

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	
	<u>SUKUK RATING</u>					
	March 31, 2023	A-		Rating Watch-Negative	Maintained	
	Oct 24, 2022	A-		Stable	Final	
	Dec 08, 2021	A-		Stable	Preliminary	
	<u>ENTITY RATING</u>					
	March 31, 2022	A-	A-2	Rating Watch-Negative	Maintained	
	Oct 11, 2022	A-	A-2	Stable	Reaffirmed	
	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 6 th month of drawdown. Security features of the Sukuk entail ranking charge on Fixed assets/constructive mortgage charge					
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	Name	Designation	Meeting Date
Conducted	NA		