RATING REPORT

Crescent Steel & Allied Products Limited

REPORT DATE:
December 17, 2024

RATING ANALYSTS:
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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: Corporates:
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
Rating the issue
https://docs.vis.com.pk/docs/Rating-the-Issue-Aug-2023.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 4th 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.

Sukuk 1 Structure:

CSAP 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 is maintained with the collection Bank which will be funded for the entire installment amount 20 days prior to the payment date. Currently only two payments of the Sukuk remain with maturity in October 2025.

Sukuk 1 performance:

The Company has maintained timely payments of its Sukuk obligations and continues to maintain adequate balance in the collection account as outlined in the term sheet during issuance.

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	3MFY25M
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.
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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	