

# RATING REPORT

## Frontier Foundry Steel (Private) 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-1	A	A-1
Rating Date	March 31, 2023		Feb 22, 2023	
Rating Outlook	Rating Watch-Developing		Stable	
Rating Action	Maintained		Reaffirmed	

### COMPANY INFORMATION

Incorporated in 1986	External Auditors: Yousuf Adil, Chartered Accountants
Private Limited Company	Chairman: Mr. Nauman Wazir Khattak
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Zarak Khan
Zarak Khan ~80.2%	
Nauman Wazir Khattak ~16.5%	

### APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Industrial Corporates (August 2021)

<https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf>

**Frontier Foundry Steel (Private) Limited**

**OVERVIEW OF THE INSTITUTION**

**RATING RATIONALE**

*Frontier Foundry Steel (Private) Limited (FF Steel) was incorporated as a Private Limited Company in 1986. The company’s core business relates to manufacturing of rebars with the production units situated in Peshawar and Lahore. In addition, an export-oriented production unit of copper ingots is located in Gujranwala.*

**Profile of Chairman**

*Mr. Nauman Wazir Khattak, a sitting senator, graduated as an Aeronautical Engineer in 1977 and holds directorship in SNGPL, Pakhtunkhwa Energy Development Organization, FATA Development Authority, Engineering Development Board, Water and Sanitation Services Peshawar, City University Peshawar and Sarhad University of Science and Technology, Peshawar.*

**Profile of CEO**

*Mr. Zarak Khan has an undergraduate degree in mechanical engineering from Gbulam Ishaq Khan Institute of Engineering Sciences & Technology. He was awarded a gold medal in his bachelor’s degree for his academic achievement.*

**Corporate Profile**

Frontier Foundry Steel (Private) Limited (FF Steel), with over 37 years of operations, is a medium-sized producer of long steel, specializing in the production of rebars and billets with presence in north and central regions of Pakistan. Based on capacity, FF Steel holds market share of approx. 4-5%. It is a family-owned business, with majority ownership distributed between two members. Product line includes deformed steel bars in grades 60 and 80. FF Steel holds multiple ISO certifications and has a workforce of over 900 employees. Present power capacity is 82MW and entire requirement is met through national-grid.

The company has two production sites for steel bars, with present capacities of 400 and 700 metric tons per day located in Peshawar and Lahore, respectively. With the completion of BMR project (Phase II) of the Lahore plant in Nov’22, both plants have full in-house billet production capacity resulting in notable cost savings by eliminating the need to buy and reheat billets for the rolling process. Additionally, the company has diversified into non-ferrous products through the establishment of an export-oriented production unit for copper ingots in Gujranwala which began operations in June’22.

**Rationale for revision in rating outlook to ‘Rating Watch-Developing’**

The business and financial risk of the steel sector has increased on a timeline basis emanating from 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 construction, engineering, automobiles and infrastructure development projects. The ongoing situation is expected to persist in the mid-term impacting the financial risk profile of companies across the sector. Accordingly, VIS Credit Rating Company Limited (VIS) has placed the steel sector and the companies rated therein by VIS under ‘Rating Watch’ status.

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.

**Frontier Foundry Steel (Private) Limited**
**Annexure I**

<b>FINANCIAL SUMMARY</b>				
<i>(amounts in PKR millions)</i>				
<b>BALANCE SHEET</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>1H'FY23</b>
Non-Current Assets	3,267	7,537	8,484	8,015
Receivables	1,343	2,285	5,835	5,984
Stock in Trade	2,726	3,274	3,556	6,918
Advances, Deposits & Prepayments	976	1,614	2,058	2,225
Store, Spares	108	64	160	449
Cash & Bank Balance	477	294	803	2,435
<b>Total Assets</b>	<b>8,896</b>	<b>15,068</b>	<b>20,896</b>	<b>26,026</b>
Trade & Other Payables	425	1,482	2,110	1,957
Short-Term Borrowings	3,434	3,356	5,572	10,327
Long-Term Borrowings <i>(Incl. current maturity)</i>	556	542	1,978	2,064
Deferred Tax	231	1,416	1,387	1,438
Other Liabilities	378	74	228	300
<b>Total Liabilities</b>	<b>5,024</b>	<b>6,870</b>	<b>11,274</b>	<b>16,086</b>
Paid-up Capital	2,891	3,631	4,931	4,931
<b>Total Equity <i>(Excl. revaluation surplus)</i></b>	<b>3,639</b>	<b>5,043</b>	<b>6,817</b>	<b>7,259</b>
<b>INCOME STATEMENT</b>				
Net Revenue	7,878	20,517	29,497	15,653
Gross Profit	1,053	2,335	2,935	1,527
<b>Profit Before Tax</b>	<b>451</b>	<b>1,484</b>	<b>1,445</b>	<b>389</b>
<b>Profit After Tax</b>	<b>453</b>	<b>1,346</b>	<b>1,423</b>	<b>321</b>
FFO	697	1,711	2,392	985
<b>RATIO ANALYSIS</b>				
<b>Gross Margin (%)</b>	13.4%	11.4%	9.9%	9.8%
<b>Net Margin (%)</b>	5.7%	6.6%	4.8%	2.0%
<b>Net Working Capital</b>	1,330	2,440	4,334	5,353
<b>Current Ratio (x)</b>	1.31	1.48	1.54	1.42
<b>Short-term Borrowing Coverage Ratio (x)</b>	1.18	1.66	1.69	1.25
<b>FFO to Long-Term Debt (x)</b>	1.26	3.15	1.21	0.95
<b>FFO to Total Debt (x)</b>	0.17	0.44	0.32	0.16
<b>Debt Servicing Coverage Ratio (x)</b>	4.63	5.73	5.64	2.90
<b>ROAA (%)</b>	6.1%	11.2%	7.9%	2.7%
<b>ROAE (%)</b>	12.4%	22.3%	16.0%	6.6%
<b>Gearing (x)</b>	1.10	0.77	1.11	1.71
<b>Debt Leverage (x)</b>	1.38	1.36	1.65	2.22
<b>Net Operating Cycle (days)</b>	131	63	68	111

## ISSUE/ISSUER RATING SCALE &amp; DEFINITIONS

## Annexure 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 moderate 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](http://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](http://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](http://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.

<b>REGULATORY DISCLOSURES</b>				<b>Annexure III</b>	
<b>Name of Rated Entity</b>	Frontier Foundry Steel (Private) Limited				
<b>Sector</b>	Steel Industry				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Ratings				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	03/31/2023	A	A-1	Rating Watch-Developing	Maintained
	02/22/2023	A	A-1	Stable	Reaffirmed
	01/11/2021	A	A-1	Stable	Upgrade
	24/08/2020	A-	A-2	Positive	Maintained
	11/05/2019	A-	A-2	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meeting Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>		
	NA				