

RATING REPORT

Frontier Foundry Steel (Private) Limited

REPORT DATE:

June 22, 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	June 22, 2023		March 31, 2023	
Rating Outlook	Stable		Rating Watch - Developing	

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
<i>Zarak Khan ~80.2%</i>	
<i>Nauman Wazir Khattak ~16.5%</i>	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates (May 2023):

<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>

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 Ghulam 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 large -sized producer of long steel, specializing in the production of rebars with presence all across Pakistan. Based on capacity, FF Steel holds market share of approx. 5-6% in the domestic long steel market, as per Company estimates. 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.

Outlook has been revised from 'Rating Watch – Developing' to 'Stable' with efforts to manage supply-side issues being evident in the financial and business risk profile of the Company

Revision in the rating outlook takes into consideration the Company's efforts to alleviate supply side constraints brought about by import restrictions. According to management, while efforts to increase import quotas with banks are underway, FFSL has currently diversified its procurement of raw materials to local sources through purchasing teams across North, Lahore and Karachi areas. Additionally, digitization efforts through the development of a mobile app to provide centralized deal approval has also helped streamline procurement procedures.

On the demand front, long-term contracts for major infrastructure projects have been secured which is expected to provide stable revenue streams while business relationships with many large corporate entities are being enhanced. Also, the management is focusing on expanding retail sales in order to boost revenue generation. Moreover, the Company has increased its export base of non-ferrous (copper) goods, resulting in about USD 7.3 m in revenue in the ongoing year. The Company's reliance on public projects, however, continue to remain on the higher side.

During 9MFY23, net sales amounted to Rs. 27.3b (FY22: Rs. 29.5b, FY21: Rs. 20.5b) attributable largely to higher prices because capacity utilization remained on the lower side due to supply constraints in major part of the ongoing year. Gross margins rose to 13.3% (FY22: 9.9%, FY21: 11.4%) due to inventory gains in 9MFY23, however, net margins decreased slightly to 4.3% (FY22: 4.8%, FY21: 6.6%) owing to higher finance costs amounting to Rs. 1.1b (FY22: Rs. 606.7m, FY21: 263.9m). Debt-servicing, albeit lower vis-à-vis FY22, remains strong at 3.64x (FY22: 4.39x, FY21: 4.59x) in 9MFY23. Liquidity profile remains satisfactory as well with current ratio and short-term borrowing coverage both standing at 1.65x (FY22: 1.42x, FY21: 1.54x) and 1.65x (FY22: 1.25x, FY21: 1.68x), respectively, at end-Mar'23. Total stock-in-trade increased to Rs. 5.6b (FY22: Rs. 3.6b, FY21: Rs. 3.3b) at end-Mar'23 comprising raw materials bearing high cost. Moreover, gearing rose slightly to 1.20x (FY22: 1.11x, FY21: 0.77x) owing to higher debt levels to meet

increased working capital requirements, while leverage stood at 1.62x (FY22: 1.65x, FY21: 1.36x) at end-Mar'23.

Frontier Foundry Steel (Private) Limited
Annexure I

FINANCIAL SUMMARY (amounts in PKR millions)						
<u>BALANCE SHEET</u>	FY18	FY19	FY20	FY21	FY22	9MFY23
Non-Current Assets	2,211	2,941	3,267	7,537	8,484	7,876
Receivables	1,162	1,909	1,343	2,285	5,835	6,972
Stock in Trade	497	213	2,726	3,274	3,556	5,626
Advances, Deposits & Prepayments	525	660	976	1,614	2,058	2,257
Store, Spares	12	64	108	64	160	337
Cash & Bank Balance	445	259	477	294	803	1,020
Total Assets	4,852	6,047	8,896	15,068	20,896	24,088
Trade & Other Payables	322	125	425	1,482	2,110	1,176
Short-Term Borrowings	1,605	1,693	3,434	3,356	5,572	7,652
Long-Term Borrowings (Inc. current matur)	114	371	556	542	1,978	2,130
Deferred Tax	242	246	231	1,416	1,387	1,484
Other Liabilities	109	192	378	74	228	847
Total Liabilities	2,393	2,626	5,024	6,870	11,274	13,289
Total Equity (Exc. Reval. Surplus)	2,191	3,170	3,639	5,043	6,817	8,180
Paid-up Capital	1,391	1,991	2,891	3,631	4,931	4,931
<u>INCOME STATEMENT</u>						
FY18	FY19	FY20	FY21	FY22	9MFY23	
Net Revenue	7,021	10,519	7,878	20,517	29,497	27,347
Gross Profit	757	1,556	1,053	2,335	2,935	3,649
Profit Before Tax	414	986	451	1,484	1,445	1,859
Profit After Tax	261	947	453	1,346	1,423	1,178
FFO	505	1,208	697	1,711	2,392	3,051
<u>RATIO ANALYSIS</u>						
Gross Margin (%)	10.8%	14.8%	13.4%	11.4%	9.9%	13.3%
Net Margin (%)	3.7%	9.0%	5.7%	6.6%	4.8%	4.3%
Net Working Capital	603	1,100	1,330	2,440	4,334	6,386
Current Ratio (x)	1.30	1.55	1.31	1.48	1.54	1.65
Short-term Borrowing Coverage Ratio (x)	1.03	1.25	1.18	1.66	1.69	1.65
FFO to Long-Term Debt (x)	4.41	3.26	1.26	3.15	1.21	1.91
FFO to Total Debt (x)	0.29	0.59	0.17	0.44	0.32	0.42
Debt Servicing Coverage Ratio (x)	NA	8.03	4.63	4.59	4.39	3.64
ROAA (%)	7.0%	17.4%	6.1%	11.2%	7.9%	7.0%
ROAE (%)	14.0%	32.2%	12.4%	22.3%	16.0%	15.4%
Gearing (x)	0.79	0.65	1.10	0.77	1.11	1.20
Debt Leverage (x)	1.09	0.83	1.38	1.36	1.65	1.62
Net Operating Cycle (days)	71	63	131	63	68	98

REGULATORY DISCLOSURES				Annexure II	
Name of Rated Entity	Frontier Foundry Steel (Private) Limited				
Sector	Steel Industry				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	06/22/2023	A	A-1	Stable	Maintained
	03/31/2023	A	A-1	Rating Watch – Developing	Maintained
	02/16/2023	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
Instrument Structure	N/A				
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 Meeting Conducted	Name	Designation	Date		
	NA				