VIS
Credit Rating Company Limited

Analysts:
Saeb Muhammad Jafri
(saeb.jafri@vis.com.pk)

APPLICABLE METHODOLOGY(IES):
Corporate Rating
(https://docs.vis.com.pk/docs/CorporateMethodology.pdf)
Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

FRONTIER FOUNDRY STEEL LIMITED

Chief Executive: Mr. Zarak Khan

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	**Short-term**	**Long-term**	**Short-term**
ENTITY	A	A1	A	A1
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	June 23, 2025		July 24, 2024	

RATING RATIONALE

The reaffirmation of entity ratings at 'A/A1' with a Stable Outlook reflects the sustained risk profile of the Company within the context of Pakistan's long steel manufacturing sector, which remains exposed to cyclicality, cost volatility, and competitive pressures. Despite contraction in margins during the ongoing FY25, on account of a decline in selling prices and elevated cost pressures, net profitability cushioned by easing finance costs. Capitalization metrics normalized with a reduction in short-term borrowings as inventory and receivable regularized. Liquidity remains sound, providing adequate coverage for near-term obligations. Ongoing investments in renewable energy are expected to ease cost pressures going forward. The outlook remains Stable in view of the Company's evident cost efficiency efforts.

Going forward, ratings will remain sensitive to the Company's ability to maintain profitability amid cost pressures and price volatility, alongside sustaining improvement in coverage indicators. Capital structure and working capital management will continue to be key rating considerations. The outcome of the renewable energy project and its impact on energy cost reduction and margin support will also be important. Any deterioration in liquidity or weakening of operational cash flows may exert pressure on the ratings, while stabilization of key indicators and continued execution of cost rationalization initiatives may provide support.

COMPANY PROFILE

Frontier Foundry Steel Limited ('FFSL' or 'the Company') has been incorporated in Pakistan as a private limited company since 1986. As part of its plan for PSX listing, the Company transitioned into a Public Limited (unlisted) Company during the year 2023. The principal activity of FFSL is manufacturing and sale of steel bars. The Company also operates copper extraction and ingot casting facilities as an auxiliary business which is expected to add around PKR 3 bln to the company's revenue stream annually through exports.

The registered office of the Company is in Peshawar Cantt, Pakistan. The Company has two production plants for steel bar; one is situated in Peshawar and the other in Lahore. The Company has also one export-oriented production unit of copper ingots in Gujranwala.

GOVERNANCE

FFSL is a public limited company (Unlisted). The shareholding structure indicates that Zarak Khan holds approximately 80.2% of the shares, while Senator Nauman Wazir Khattak possesses around 16.5%. The Board of Directors is chaired by Senator Nauman Wazir Khattak, with Zarak Khan serving as the Chief Executive Officer. The Board lacks sub-committees, which could enhance supervisory oversight. The company has indicated that enhancements are on the management's agenda. The company's conversion to a public limited entity and its plans for an Initial Public Offering suggest a focus on strengthening governance structures.

INDUSTRY PROFILE & BUSINESS RISK

The overall business risk profile of Pakistan's long steel (rebar) manufacturing sector is categorized as Medium to High, reflecting the sector's pronounced cyclicality and structural cost vulnerabilities. Demand fluctuations, reliance on imported scrap (exposing manufacturers to exchange rate volatility), and energy-intensive operations collectively contribute to elevated risk levels. Intense competition in a fragmented market further pressures margins, as profitability is challenged by volatile input costs and constrained pricing power. In FY24, these risks were evident amid weak construction activity, rising production costs, and increased import competition, underlining the sector's high inherent business risk.

Demand for rebar is closely tied to construction and infrastructure cycles, making it highly sensitive to economic conditions. Sluggish economic growth in FY24 led to reduced construction and infrastructure activity, directly dampening steel consumption. Domestic steel demand saw only a marginal uptick (~1.8% YoY in FY24). High interest rates and inflation during FY24 curtailed financing for private projects, further suppressing steel bar uptake. Entering FY25, early signs of recovery have emerged: the central bank's monetary easing (policy rate cut to 11% by May 2025) has contributed to about 6.61% growth in construction sector output during 3QFY25. However, the combined construction & real estate sector grew only by 3.8%.

The long-steel sector remains highly competitive and fragmented, with hundreds of small to mid-sized mills operating nationwide. While a few dozen large players account for the majority of formal output, a substantial unregulated segment exists, reflecting moderate barriers on entry. Consequently, market fragmentation and oversupply (installed capacity exceeding demand) intensify price competition. Competitive pressures from both local producers and cheaper imported steel products – imports surged after restrictions were lifted in FY24 – have limited producers' ability to pass on cost increases. Notably, substitution risk is minimal, as steel rebar remains an irreplaceable reinforcement material in construction meaning demand, when present, is captive to steel; however, this also means industry players must vie for the same construction-driven demand pool.

Regulatory dynamics have a significant impact on the sector's risk profile. Policy measures in the past two years created mixed conditions: import curbs imposed amid economic stress were relaxed in FY24, improving raw material (scrap) availability, and the FY25 budget introduced tax measures (phasing out certain regional tax exemptions and bringing scrap transactions into the tax net) to promote a level playing field for steel makers. These changes aim to curb unfair competition from untaxed or lower-tax regions (FATA/PATA), but frequent shifts in policy (trade restrictions, tax changes, energy tariffs) add uncertainty to business planning. The industry is also capital intensive and energy sensitive. Steel manufacturing requires substantial fixed investment and working capital, resulting in high fixed costs and leverage needs, especially during expansion phases. At the same time, power and fuel constitute major input costs – Pakistan's steel producers face elevated electricity and gas tariffs and periodic energy supply disruptions, which have escalated operating costs in recent periods. These factors, combined with earlier high financing costs (driven by record-high interest rates in early FY24), have squeezed margins and cash flows for many operators.

Going forward, the operating environment is expected to gradually improve with macroeconomic stabilization: easing finance costs and government initiatives in housing and infrastructure could stimulate construction demand. Nevertheless, any sustained recovery in the sector will depend on the actual uptick in development activity and continued policy support. In the interim, the overall business risk remains at the higher end of the spectrum, given the enduring cyclicality, competitive pressures, regulatory uncertainties, and cost structure challenges highlighted above.

Product Profile & Capacity

During FY24, the Company's capacity utilization remained modest at 50% (FY23: 44%). Production levels remained affected by subdued demand amid a constrained economic environment. A partial recovery in utilization was observed during the period, supported by market development efforts in the southern region which contributed to offtake during the year.

Production Capacity and Utilization	FY23A	FY24A
Installed Capacity (Metric Tonnes)	396,000.00	396,000.00
- Peshawar Plant (Metric Tonnes)	144,000	144,000
- Lahore Plant (Metric Tonnes)	252,000	252,000
Actual Production (Metric Tonnes)	174,423.00	198,014.00
Utilization (%)	**44.05%**	**50.00%**

FINANCIAL RISK

Assigned ratings also incorporate the Company's financial risk profile. Revenue growth in FY24 was primarily driven by higher average selling prices, which offset the impact of elevated utility costs and supported gross margins. However, gross margins have come under pressure in the ongoing FY25 due to a decline in selling prices and continued cost escalation. Net margins in FY24 were adversely affected by increased finance costs. In the ongoing period, net margins have remained comparatively stable despite weaker gross margins, supported by a reduction in finance costs following monetary easing. Capitalization indicators deteriorated in FY24 owing to an increase in short-term borrowings to meet working capital needs but have since stabilized in FY25. Coverage metrics in FY24 indicated adequate debt servicing capacity. However, lower profitability in the current period has resulted in some tightening of coverage indicators. Liquidity remains sound and continues to provide a cushion against near-term funding requirements. The Company has initiated an energy cost reduction plan through the addition of renewable energy capacity, expected to reduce grid reliance and support future profitability and help improve coverage.

Capital Structure

During FY24, the Company's gearing and leverage ratios increased to 1.73x (FY23: 1.27x) and 2.18x (FY23: 1.70x), respectively. The rise in leverage was primarily driven by higher short-term borrowings, which typically account for 80–90% of the debt profile. The additional debt was utilized to address a widened working capital gap, arising from an elevated inventory and trade receivables in FY24. The increase in inventory resulted from advance procurement of raw material aimed at maintaining production volumes and securing increased market share amidst declining overall demand. The rise in trade receivables was attributable to an increase in institutional credit sales during the year. This build up has normalized during the ongoing FY25 period which has eased short-term borrowing reflected in gearing and leverage ratios normalizing to 1.23x and 1.54x, respectively. The normalization reflects the utilization of available inventory to support sales volumes and the recovery of outstanding receivables from prior-period credit sales. Additionally, the Company has renegotiated more favorable payment terms with customers to manage future working capital requirements.

Profitability

In FY24, the Company reported a 33% increase in net sales, driven by a 24% rise in average and a 9% growth in sales volumes. The upward price trend supported a marginal improvement in gross margins to 12.10% (FY23: 11.99%), despite elevated utility costs. However, during 3QFY25, average selling prices recorded a downward trend, resulting in a contraction of gross margins to 8.86% while production costs remained elevated due to sustained pressure from utilities.

Net margins in FY24 were further impacted by higher finance costs stemming from increased borrowings under a high-interest rate environment, declining to 1.72% (FY23: 4.01%). In 3QFY25, net margins have remained comparatively stable at 1.07% despite weaker gross margins, supported by a reduction in finance costs following monetary easing.

The Company is in the process of adding approximately 15 MWph of renewable energy generation capacity to mitigate the impact of rising energy costs. According to management, 3.15 MW is expected to become operational by October 2025, with the remaining capacity scheduled for commissioning in December 2025. Upon completion, grid reliance is projected to decline to approximately 88% from 100%, which is expected to support profitability and margins through cost rationalization.

Debt Coverage & Liquidity

In MY24, the Company's debt service coverage ratio (DSCR) was recorded at 1.68x (FY23: 1.72x), supported by an increase in operational profitability that mostly offset the impact of a higher financial burden. However, during the ongoing FY25, the DSCR declined to 1.00x due to a reduction in gross and operational profitability, resulting in constrained operational cash flows. Sustained margin pressure at current levels may lead to challenges in meeting coverage obligations, despite easing interest rates. Nonetheless, FFSL maintains a sound liquidity position, which continues to provide a buffer to address near-term funding requirements.

REGULATORY DISCLOSURES	Appendix I
Name of Rated Entity	Frontier Foundry Steel 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 Watch	Rating Action
RATING TYPE: ENTITY				
06/23/2025	A	A1	Stable	Reaffirmed
07/24/2024	A	A1	Stable	Reaffirmed
06/22/2023	A	A1	Stable	Maintained
03/31/2023	A	A1	RW- Dev	Maintained
02/22/2023	A	A1	Stable	Reaffirmed
01/11/2021	A	A1	Stable	Upgrade
24/08/2020	A-	A2	Positive	Maintained
11/05/2019	A-	A2	Stable	Initial

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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2025 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Fayyaz Ahmed Jarral	Executive Director	June 10, 2025
Mr. Baleeghuddin	Head of Finance	
Mr. Adnan	Incharge Capital Market	