VIS
Credit Rating Company Limited

RATING REPORT

FRONTIER FOUNDRY STEEL LIMITED

Analyst:
Abdul Ahad Jamsa
ahad.jamsa@vis.com.pk

RATING DETAILS				
Ratings Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A1	A	A1
Rating Outlook/ Watch	Positive		Stable	
Rating Action	Maintained		Reaffirmed	
Rating Date	September 16, 2026		June 23, 2025	

Shareholding (5% or More)	Other Information
Zarak Khan - 80.2%	Incorporated in 1986
Nauman Wazir Khattak - 16.5%	Public Unlisted Company
	Chief Executive: Mr. Zarak Khan
	External Auditor: Yousuf Adil Chartered Accountants

Applicable Rating Methodology

VIS Entity Rating Criteria Methodology – Corporates Ratings
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

Rating Scale

https://docs.vis.com.pk/docs/VISRatingScales.pdf

Rating Rationale

The assigned ratings reflect Frontier Foundry Steel Limited's ('FFSL' or 'the Company') established track record in the long steel segment, supported by its manufacturing operations in Lahore. During FY25, the Company maintained a satisfactory operating profile despite subdued construction-linked demand and competitive pressures in the long steel market. Profitability and coverage indicators remained moderate, even though borrowings reduced significantly due to lower working capital requirement in line with lower sales and rationalized receivables. FFSL's financial performance improved during FY26, supported by margin recovery leading to stronger internal cash generation. The long-term debt also remained manageable, aligned with the strategic gradual shift to renewable energy, with the new long-term financing availed only for the solar projects at Lahore. 15MW Solar has been energized at Lahore plant with further expansion in full swing to achieve the targeted capacity of 43MW in coming 6-8 months. Coverage indicators also improved, supported by higher funds from operations and reduced debt servicing pressure. The Company's ongoing investment in solar energy is expected to support operating efficiency and margins over the medium term.

Going forward, the ratings remain sensitive to FFSL's ability to sustain profitability, maintain prudent leverage while increasing volumes, manage cost volatility and preserve working capital discipline. Continued improvement in financial performance, successful execution of the Karachi expansion and realization of planned energy cost efficiencies will remain important rating considerations. Potential supply chain disruptions due to the volatile situation in West Asia will also continue to be monitored.

Company Profile

Frontier Foundry Steel Limited ('FFSL' or 'the Company'), operating under the brand name FF Steel, was incorporated in Pakistan in 1986 as a private limited company and was converted into an unlisted public limited company in 2023. FFSL is principally engaged in the manufacturing and sale of deformed steel bars, including Grade-60 and Grade-80 bars, with products manufactured in line with international standards. The Company operates two steel manufacturing units located in Lahore and Peshawar, with annual production capacities of 252,000 tons and 144,000 tons, respectively. The Peshawar manufacturing facility is currently non-operational and is planned to be relocated to Karachi, with operations expected to commence in June 2028. More than 60% of its energy requirements are planned to be met through renewable sources, including solar and wind power. In addition, FFSL operates an export-oriented copper ingot production unit located in Gujranwala.

Management and Governance

CEO Profile

Mr. Zarak K. Khattak is the Chief Executive Officer of Frontier Foundry Steel Limited and has been associated with the Company since 2007. He holds a bachelor's degree in Electronic Engineering from GIKI with honors and has prior experience with ICI Soda Ash and Mobilink. Under his leadership, the Company has focused on strengthening its steel bar manufacturing operations, expanding its sales network, and pursuing growth initiatives.

Board & Senior Management

Frontier Foundry Steel Limited's governance framework is supported by an eight-member Board of Directors, comprising two Executive Directors, including the Chief Executive Officer, and six Non-Executive Directors, with the Chairman serving in a non-Executive capacity. The governance structure is further supported by dedicated Audit and HR & Remuneration Committees, with independent directors serving on both committees. The Audit Committee oversees financial reporting, internal controls, internal and external audit, risk management and compliance, while the HR & Remuneration Committee oversees executive compensation, performance management and succession planning.

Industry Profile & Business Risk

The overall business risk profile of Pakistan's long steel/rebar manufacturing sector is considered medium to high, reflecting its cyclical demand pattern, fragmented industry structure and sensitivity to input costs. Demand for rebar is closely linked to construction, infrastructure and real estate activity; accordingly, sector performance remains influenced by broader macroeconomic conditions, public development spending and private-sector investment. During FY25, demand remained under pressure due to subdued construction activity, elevated energy costs and weak affordability; however, operating conditions showed signs of improvement in FY26, supported by easing financing costs and some recovery in construction-related activity.

The sector remains exposed to volatility in imported scrap and billet prices, exchange rate movements and energy tariffs, given the energy-intensive nature of steel manufacturing. Pricing power also remains constrained due to competition among organized and unorganized players, while excess capacity in the market continues to keep margins sensitive to demand fluctuations. Although substitution risk remains low, as steel rebar remains a key reinforcement material in construction, manufacturers continue to compete for the same construction-led demand pool.

Regulatory developments also remain relevant for the sector, particularly with respect to import duties, taxation of scrap transactions, regional tax exemptions and energy pricing. While recent policy measures have aimed to improve documentation and create a more level playing field for formal steel manufacturers, frequent changes in duties, taxes and energy tariffs continue to add uncertainty to business planning. Sector performance will remain subject to the pace of recovery in construction activity, input cost trends, energy pricing and policy continuity.

Operational Update

Production Capacity and Utilization	FY24	FY25	FY26
Installed Capacity (Metric Tonnes)	396,000	396,000	396,000
- Peshawar Plant (Metric Tonnes)	144,000	144,000	144,000
Peshawar Production (Metric Tonnes)	28,000	-	-
Peshawar Utlilization (%)	**19.44%**	**0.00%**	**0.00%**
- Lahore Plant (Metric Tonnes)	252,000	252,000	252,000
Lahore Production (Metric Tonnes)	170,014	188,304	193,791
Lahore Utilization (%)	**67.47%**	**74.72%**	**76.90%**
Actual Production (Metric Tonnes)	198,014	188,304	193,791
Utilization (%)	**50.00%**	**47.55%**	**48.94%**
Copper ingot*			
Actual Production (Metric Tonnes)	681	275	1228

Copper ingot production is raw-material driven, with imported motor and compressor scrap processed through third-party contractors for segregation and recovery.

During FY25, installed capacity in the steel bars segment remained unchanged, while overall capacity utilization declined to 47.5% from 50.0% in FY24. Operations at the Peshawar plant have remained suspended since 2024 following the Company's decision to relocate the facility to Karachi. The Karachi plant is tentatively expected to commence operations by mid-2028, with relocation costs budgeted at PKR 1.4bn. During FY26, capacity utilization at the Lahore plant improved to 76.9%, supported by higher production and improved operating efficiency. Meanwhile, copper ingot production increased significantly to 1,228 metric ton in FY26 from 275 metric ton in FY25.

The Company has installed 15MW of solar capacity at its Lahore facility in two phases, with an aggregate cost of PKR 1.18bn incurred in FY25. The operational capacity is expected to support energy cost optimization, resulting in estimated savings of approximately 7% of the Company's total power cost in FY26. A further 16MW solar project is under installation at its Lahore facility and is expected to become operational by September 2026, while an additional 12MW project is planned for commissioning by December 2026. Upon completion of these additions, the Company's total installed solar capacity is expected to increase to 43MW. Once fully operational, the expanded solar capacity is expected to meet around 30-35% of the Lahore facility's power requirement.

Profitability

The Company's topline declined by 23.2% year-on-year to PKR 37.69bn in FY25 (FY24: PKR 49.05bn), reflecting a combination of lower sales volumes and weaker average selling prices, in line with subdued construction-linked demand. Revenue remained largely domestic, with local sales of steel bars accounting for around 98% of gross turnover, while exports, representing copper ingots, contributed a modest share. The Company plans to expand copper ingot production to cater to demand from its existing customers in China. Client concentration increased moderately, with the top ten customers contributing around 31.5% of sales in FY25, compared with 24.1% in FY24.

Gross margin contracted to 9.9% in FY25 (FY24: 12.1%), reflecting lower operating scale, input cost pressures and elevated energy cost incidence. Operating profitability also weakened, while net profit declined to PKR 579m (FY24: PKR 844m), translating into a net margin of 1.5% (FY24: 1.7%), despite lower distribution expenses, impairment charges and finance costs.

During FY26, performance improved, with net sales increasing 11.8% YoY to PKR 42.14bn, although remaining below FY24 levels. Gross margin strengthened to 14.8%, the highest level in the last five years, supported by improved supply chain planning and a shift in major procurement toward the Middle East from the USA and Europe. Consequently, net profit increased to PKR 2.65bn, with net margin improving to 6.3%, supported by lower finance costs and reversal of impairment losses. Going forward, profitability will remain dependent on sustained demand from infrastructure and construction activity, raw material price stability, effective power cost management and continued deleveraging.

Financial Risk

Capital Structure

Total equity, excluding revaluation surplus, stood at PKR 10.50bn at June 30, 2025 (FY24: PKR 9.66bn), further strengthening to PKR 13.40bn in FY26, primarily supported by profit retention. Total borrowings declined to PKR 11.57bn in FY25 (FY24: PKR 16.67bn), mainly reflecting lower utilization of short-term financing facilities, which decreased to PKR 10.33bn from PKR 15.10bn. The reduction was supported by lower trade receivables, which declined broadly in line with sales. In FY26, total borrowings increased to PKR 14.15bn, with short-term borrowings rising to PKR 11.85bn amid higher working-capital requirements, particularly increased inventory levels. Long-term borrowings also increased to PKR 2.29bn, primarily reflecting financing obtained for the ongoing solar energy investment, partly offset by scheduled repayments on existing facilities.

Capitalization indicators improved during FY25, with gearing and leverage declining to 1.10x and 1.46x, respectively, from 1.73x and 2.18x in FY24, supported by lower debt and a stronger equity base. In FY26, gearing remained broadly stable at 1.06x, while leverage moderated further to 1.41x, as the increase in borrowings was more than offset by continued growth in equity. Despite the improvement in capitalization metrics, the Company's capital structure remains exposed to short-term borrowing requirements given the working-capital-intensive nature of steel operations and sensitivity to raw material inventory cycles and construction-linked demand.

Debt Coverage & Liquidity

The Company has historically maintained an adequate liquidity profile, with a five-year average current ratio of around 1.50x. In FY25, the current ratio improved to 1.56x from 1.39x in FY24, primarily supported by lower short-term borrowings, and further strengthened to 1.65x by end-June 2026. Short-term debt coverage improved to 1.45x in FY25 from 1.25x in FY24, supported by lower short-term borrowings and a reduction in inventory and receivables. The ratio moderated to 1.27x by end-June 2026, mainly due to higher short-term borrowings and increased inventory levels, while remaining adequate.

Cash flow indicators strengthened notably in FY26, supported by improved gross margins, stronger operating profitability and a lower finance cost burden. Accordingly, FFO-to-total borrowings improved to 14% in FY26 from 5% in FY25, though remaining below 18% in FY24. Debt servicing capacity also strengthened, with DSCR improving to 1.89x in FY26 from 1.18x in FY25 and 1.68x in FY24. Working capital efficiency improved primarily on account of a reduction in receivable days to 75 days from 105 days in FY25, partially offset by an increase in inventory days to 77 days from 65 days. Consequently, the net operating cycle moderated to 151 days in FY26 from 169 days in FY25.

REGULATORY DISCLOSURES — Appendix II

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 Action
RATING TYPE: ENTITY				
09/16/2026	A	A1	Positive	Maintained
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. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2026 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Fayyaz Ahmed Jarral	Executive Director	19th June 2026
Mr. Abrar Wasim	CFO	
Mr. Baleeghuddin	Company Secretary & Head of Finance	
Mr. Adnan	In-Charge Capital Markets	