

RATING REPORT

Faizan Steel

REPORT DATE:

March 31, 2023

RATING ANALYSTS:

Asfia Aziz

asfia.aziz@vis.com.pk

Basel Ali Assad

basel.ali@vis.com.pk

RATING DETAILS

Rating Category	Latest Rating	Previous Rating
Entity	BBB+/A-2	BBB+/A-2
Rating Outlook	Rating Watch-Developing	Stable
Rating Date	March 31, 2023	January 31, 2023
Rating Action	Maintained	Reaffirmed

COMPANY INFORMATION

Established in 1997	External auditors: M/s REANDA Haroon Zakaria & Company Chartered Accountants
Partnership Firm	Chairman: Mr. Asif Bhagani
Key Partners:	Managing Director: Mr. Aamir Bhagani
Mr. Mansoor Bhagani – 30%	
Mr. Asif Bhagani – 25%	
Mr. Faizan Bhagani – 20%	
Mr. Waseem Bhagani – 15%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (August 2021)

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

OVERVIEW OF THE INSTITUTION

Faizan Steel (the Firm) was registered on August 23, 1997 as a partnership firm under Partnership Act 1932. The Firm is principally engaged in manufacturing and supply of steel products. The registered office of the Firm is located at Suit No. 806, 8th Floor, Al-Khaleej Tower, B.M.C.H.S., Main Shabeed-e-Millat Road, Karachi.

RATING RATIONALE

Faizan Steel ('FS' or 'the Firm') is a partnership concern, which is engaged in the manufacturing and sale of steel bars. Being located at S.I.T.E. the Industrial hub of Karachi, manufacturing plant is equipped with a fully automatic direct steel re-rolling mill, a high-end melt shop, and a 230 ft. cooling bed. There is an integrated setup in place, where shredded scrap is used to manufacture steel billets, which are then directly converted into bars. Given direct re-rolling ability, energy efficiency is relatively better as compared to non-integrated players. FS's product range includes Premium bars, Seismic bars, Optimum bars, Heavy Duty bar and C-bar.

Power requirement of the entity stands at 20 MW and is met via electricity supplied by K-Electric. In this regard, the management is currently pursuing the project of installing a separate grid station with a total cost of around Rs. 1b (to be financed by long-term debt). This is expected to be completed by the end of calendar year 2023. Furthermore, solar panels with a capacity of 2 MW are also being installed (via a concessionary rate scheme of the State Bank of Pakistan for financing green energy projects), which are expected to become operational by 1QFY24. Additional debt of around Rs. 50m for this purpose is expected to be drawn, as part of the above-mentioned arrangement, in the ongoing year from Oct'22.

Over the past two years, the company incurred capex (purchase of plot, induction furnace, solar panels) to the tune of Rs. 1.1b financed through a debt: equity ratio of around 50:50. Hence, at end-June'22, production capacity of the entity was reported higher at 166,200 MT per annum for steel bars and 162,500 MT for billets.

Placement of the ratings on 'Rating Watch-Developing' status reflects elevated business and financial risk profile of the steel sector

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.

Financial Summary	(Rs. in Millions)					(Annexure I)	
BALANCE SHEET	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Property, Plant & Equipment	97	182	170	1,507	2,017	2,482	2,536
Long-term deposits	10	-	-	-	-	78	-
Stock in Trade	1,098	1,021	381	854	882	2,234	2,650
Trade Debts	397	532	1,300	3,798	5,024	7,539	7,275
Cash & Bank Balances	13	15	11	26	53	208	62
Other Assets	314	688	901	585	383	349	613
Total Assets	1,929	2,439	2,762	6,770	8,360	12,889	13,135
Trade and Other Payables	268	325	477	868	1,436	2,290	1,472
Short Term Borrowings	1,199	743	798	3,234	3,856	6,915	7,645
Long-Term Borrowings (Inc. current matur)	1	-	28	-	261	429	527
Total Liabilities	1,468	1,068	1,303	4,102	5,553	9,634	9,645
Total Debt	1,200	743	826	3,234	4,117	7,344	8,172
Equity	461	1,371	1,459	1,574	1,814	2,263	2,415
INCOME STATEMENT							
Net Sales	5,525	5,655	4,348	7,437	12,482	24,126	5,715
Gross Profit	298	357	303	761	1,067	1,710	545
Operating Profit	191	273	229	582	803	1,441	478
Profit Before Tax	154	207	173	313	504	835	158
Profit After Tax	154	207	173	147	317	533	101
RATIO ANALYSIS							
Gross Margin (%)	5.4%	6.3%	7.0%	10.2%	8.5%	7.1%	9.5%
Net Margin (%)	2.8%	3.7%	4.0%	2.0%	2.5%	2.2%	1.8%
FFO	53	111	131	285	649	780	163
FFO to Long-Term Debt	4681%	NA	466%	NA	248%	182%	123%
FFO to Total Debt	4.4%	14.9%	15.8%	8.8%	15.8%	10.6%	8.0%
Debt Servicing Coverage Ratio (x)		2.66	3.35	2.39	3.17	2.33	1.38
ROAA (%)	8.0%	9.5%	6.7%	3.1%	4.2%	5.0%	3.1%
ROAE (%)	33.4%	22.6%	12.3%	9.7%	18.7%	26.1%	17.2%
Gearing (x)	2.60	0.54	0.57	2.05	2.27	3.24	3.38
Debt Leverage (x)	3.18	0.78	0.89	2.61	3.06	4.26	3.99
Current Ratio (x)	1.24	1.96	1.85	1.28	1.19	1.12	1.16
Inventory + Receivables/Short-term Borrowings	1.25	2.09	2.11	1.44	1.53	1.41	1.30
No. of days inventory outstanding	77	70	34	47	28	36	47
No. of days receivable outstanding	26	34	109	186	147	114	116
No. of days payable outstanding	16	20	40	44	44	34	22
CCC	87	85	103	189	131	116	140

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 modest 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

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

(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

'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.

REGULATORY DISCLOSURES		Annexure III			
Name of Rated Entity	Faizan Steel				
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
	<u>RATING TYPE: ENTITY</u>				
	03/31/2023	BBB+	A-2	Rating Watch-Developing	Maintained
	01/31/2023	BBB+	A-2	Stable	Reaffirmed
	01/10/2022	BBB+	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.				
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Due Diligence Meetings Conducted	Name	Designation		Date	
	NA				