RATING REPORT

Faizan Steel

REPORT DATE:
December 30, 2024

RATING ANALYSTS:
Saeb Muhammad Jafri
saeb.jafri@vis.com.pk
Zunain Arif
zunain.arif@vis.com.pk

RATING DETAILS		
Rating Category	**Latest Rating**	**Previous Rating**
Entity	BBB+/A2	BBB+/A2
Rating Date	*December 30, 2024*	*January 31, 2024*
Rating Outlook/Watch	Stable	Stable
Rating Action	Reaffirmed	Maintained

COMPANY INFORMATION	
Incorporated in 1997	**External auditors:** Reanda Haroon Zakaria & Company Chartered Accountants
Partnership Firm	**Chairman of the Board:** Mr. Asif Bhagani
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Faizan Bhagani
Mr. Mansoor Bhagani – 30%	
Mr. Asif Bhagani – 25%	
Mr. Faizan Bhagani – 20%	
Mr. Waseem Bhagani – 15%	
Ms. Fahmeeda Abdul Wahid – 5%	
Mrs. Najma Muhammad Usman – 5%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Corporates: 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

Faizan Steel

OVERVIEW OF THE INSTITUTION	RATNG RATIONALE

__Faizan Steel__ 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 Shaheed-e-Millat Road, Karachi.

Company Profile

Faizan Steel ("FS" or "the Firm") is a partnership concern, engaged in the manufacturing and sale of steel bars. The Firm's manufacturing plant is located at S.I.T.E area, Karachi and is equipped with a fully automatic direct steel re-rolling mill, a high-end melt shop, and a 230 ft. cooling bed. FS has an integrated setup in place, where shredded scrap is used to manufacture steel billets, and is then directly converted into bars. FS's product range includes Premium bars, Seismic bars, Optimum bars, Heavy Duty bar and C-bar.

Industry Review

In the fiscal year 2024 (FY24), Pakistan's steel bar sector encountered significant challenges, including fluctuating demand, rising production costs, and increased competition from imports. These factors collectively influenced the industry's performance during the year.

A notable development in FY24 was the substantial rise in the import of finished iron and steel products. Data from the State Bank of Pakistan (SBP) indicates that imports of finished iron and steel products increased by 22% to $2.062 billion during July-May FY24, up from $1.686 billion in the same period of the previous fiscal year. The local steel bar industry relies heavily on imported scrap as a primary raw material. During the first 11 months of FY24, imports of iron and steel scrap grew by 46.5%, reaching $1.556 billion, compared to $1.062 billion in the entire FY23. These increases are attributed to the ease in import restrictions in FY24 compared to FY23, as demand mostly remained constrained due to the prevailing weak economic conditions.

Entering the fiscal year 2025 (FY25), the sector continues to navigate a complex landscape. The State Bank of Pakistan projects real GDP growth between 2.5% and 3.5% for FY25, supported by a gradual recovery in large-scale manufacturing (LSM) and services sectors. This anticipated economic improvement is expected to positively influence the steel bar industry given the continued ease in policy rates.

Additionally, the federal budget for 2024-25 introduced tax reforms aimed at supporting the steel industry. The phased reduction of tax exemptions for FATA/PATA and the inclusion of local scrap transactions within the tax net are expected to promote fair competition.

Key Rating Drivers

Business Risk profile

Industry Risk: High.

The business risk profile of the steel bar industry in Pakistan is assessed as high, primarily characterized by demand fluctuations, imported raw material dependency, and energy-intensive operations. While infrastructure development and urbanization provide opportunities of demand, profitability is challenged by raw material supply chain weaknesses, input-cost volatility, energy costs, and competitive market dynamics.

Demand for steel bars is closely tied to the construction sector, public infrastructure projects, and housing development. Government spending on infrastructure supports demand; however, cyclical downturns in private construction activity and delays in public projects can create volatility. Additionally, higher interest rates and inflation limit construction financing, adversely affecting steel bar consumption.

The industry is heavily reliant on imported raw materials, such as scrap steel and billets, exposing manufacturers to exchange rate risks and global commodity price fluctuations. Currency depreciation further heightens input costs, compressing margins. Energy is a significant operational expense, with power supply disruptions along with rising power and gas tariffs contribute to higher production costs.

Competitive pressures from local producers and imported steel products restrict pricing flexibility, limiting the ability to pass on increased costs to customers. Overall, while government infrastructure projects support demand, the industry's exposure to input volatility, energy costs, and cyclical risks elevates its business risk profile.

Financial Risk Profile

Profitability Profile

In FY24, the Firm's topline declined by approximately 4% due to a 14% reduction in volumetric sales of deformed bars and no revenue contribution from the billets segment. Revenue from deformed bars decreased by 3% despite a 13% increase in prices, as the impact of higher prices was offset by lower sales volumes.

Gross margins improved to 12.04% (FY23: 9.68%) during the year, driven by higher closing inventory levels, which reduced the cost of sales as a percentage of revenue under the accrual accounting principle. This mitigated the impact of a 14% increase in energy costs. Going forward, the holding cost of inventory is expected to impact the Firm's gross margins and normalize them to historic levels.

The elevated inventory levels also led to increased short-term debt utilization, resulting in higher finance costs amid elevated interest rates. Consequently, net margins declined to 1.50% (FY23: 2%) in FY24. Going forward, net margins are expected to receive relief from declining interest rates in the country.

Capitalization profile

The Firm's capitalization profile remains elevated, despite capital injection from partners and sustained profit retention. In FY24, gearing and leverage ratios worsened to 3.40x (FY23: 3.02x) and 4.10x (FY23: 4.03x), respectively, with increased short-term debt drawdowns to meet working capital needs, amid increasing inventory levels thus impacting the financial risk profile.

Liquidity and Coverage Profile

The Firm has historically maintained a healthy liquidity profile with a 5-year average current ratio of 1.30x. In recent years, while lower due to constraints from expanding operations, it remains commensurate with assigned ratings. The current ratio remained stable at 1.08x (FY23: 1.07x) in FY24. Similarly, short-term debt coverage while increasingly lower remains in line with assigned ratings with a short-term debt coverage ratio of 1.22x (FY23: 1.34x) in FY24.

Likewise, the Firm has sustained a healthy coverage profile, however, with the increasing finance burden, the debt service coverage ratio (DSCR) contracted to 1.12x (FY23: 1.30x, FY22: 1.75x) in FY24. Nevertheless, remaining at adequate levels. Going forward, the coverage profile is expected to receive support from declining interest rates in the country.

REGULATORY DISCLOSURES — Appendix I

Name of Rated Entity	Faizan Steel
Sector	Steel
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
RATING TYPE: ENTITY				
30/12/2024	**BBB+**	**A2**	**Stable**	**Reaffirmed**
31/01/2024	BBB+	A2	Stable	Maintained
31/03/2023	BBB+	A2	Rating Watch-Dev	Maintained
31/01/2023	BBB+	A2	Stable	Reaffirmed
10/01/2022	BBB+	A2	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
1.	Mr. Faizan Bhagani	Partner/Director	18-Dec-2024
2.	Mr. Muhammad Mustafa	Senior Manager – Finance & Audit	
3.	Mr. Yasir Iqbal	Senior Manager – Finance & Audit	