RATING REPORT

Naveena Steel Mills (Pvt.) Limited

REPORT DATE:
July 09, 2024

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-2	A-	A-2
Outlook/Rating Watch	Negative		Stable	
Rating Date	July 09, 2024		25 July, 2023	
Rating Action	Maintained		Initial	

COMPANY INFORMATION	
Incorporated in 2017	**External auditors:** Ibrahim Shaikh & Co.
Private Limited Company	**Chairman of the Board:** Mr. Asif Riaz
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Saqib Riaz
Naveena Group (Pvt.) Limited – 99.99%	

APPLICABLE METHODOLOGY(IES)

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

RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Naveena Steel Mills (Pvt.) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Naveena Steel Mills (Pvt.) Limited was incorporated in 2017 as a private limited company. It is a wholly owned subsidiary of Naveena Group (Pvt.) Limited.

Principal activity of the Company is manufacturing and sale of steel bars and billets. Registered office and production plant are

Based in Karachi.

Corporate Profile

Naveena Steel Mills (Private) Limited ("NSML" or "the Company") is a Private Limited Company incorporated on 15 February 2017. The principal business of the Company is the manufacture and sale of steel bars and billets. It is a wholly owned subsidiary of Naveena Group (Pvt.) Limited ('NGPL'), with the group companies ('the Group') having exposure in the textile, energy and construction sectors. The registered office of NSML is located at B-21, Block 7/8, Banglore Town, main Shahrah-e-Faisal, Karachi.

Key Rating Drivers

High due to exposure to cyclicality and competition in the long steel sector.

VIS considers the business risk within long steel industry to be 'High'. In FY23, the country's economic landscape was constrained with various factors, including supply disruptions linked to the repercussions from the floods in the 1HFY23, surging inflation, the depreciation of the local currency, and dwindling foreign exchange reserves. Seeking to stabilize the economy, the State Bank of Pakistan raised interest rates, while the government introduced measures such as import restrictions, energy price hikes, and increase in corporate taxes. Resultantly, these fiscal and monetary actions inadvertently disrupted supply chains, leading to a significant contraction of GDP to 0.29% in FY23, a sharp decline from the 5.7% growth reported in FY22. The market size was notably reduced due to the contraction in construction activities in the country.

Moreover, the long steel sector in Pakistan is highly fragmented and intensely competitive, hosting more than 300 melting and re-rolling mills. However, only a handful of companies are considered top-tier players, with NSML being one of them. The Pakistan Association of Large Steel Producers (PALSP) comprises approximately 52 members, collectively controlling about 70% of primary steel production in the country. Nevertheless, NSML, along with other players, faced challenges in maintaining high-capacity utilization evident from the decline in the rebar production capacity utilization (in terms of Re-rolling Capacity) from 62.7% in FY22 to 40.0% in FY23, underscoring subdued demand in the sector.

While the high steel prices somewhat mitigated the impact of reduced capacity utilization on revenue, the sector witnessed a significant decline in profitability. The industry's gross margins were squeezed by high input costs, and elevated finance costs further constrained the bottom line. The spike in finance costs was attributed to the heightened interbank rates during the year.

Volumetric sales declined due to demand slump, contracting the topline in FY23. However, gross margin improved due to inventory gains during the period, although reporting significant erosion in 1HFY24 albeit improved volumes.

Demand slump resulted in reduced volumetric sales, leading to a contracted topline in FY23. Gross margin improved due to inventory gains during the period. Volumes depicted a recovery in 3QFY24; however, with increased costs amid stagnated prices, margins reported erosion. Gross margins contracted to 8.66% in 3QFY24, from 15.78% (FY22: 11.63%) in FY23. NSML opted to bear lower margins, to push out its inventory to reduce the build-up on its balance sheet.

Coverage profile depicting stress. However, support from the Group provides support to assigned ratings.

As a result of constrained cash flow from operations, with reduced quantum in FY23 and margins in 3QFY24, the coverage profile of the Company is depicting weakness. The debt service coverage ratio ('DSCR') weakened to 0.99x (FY22: 2.17x) in FY23 and further eroded to 0.57x in 3QFY24. However, management has asserted that if required, support from the Group is readily available. Meanwhile, NSML continues to maintain an adequate short-term debt coverage of 1.40x in 3QFY24, although down from 1.67x in FY23 and 1.72x in FY22.

Capitalization profile adequate.

The capitalization profile of the Company deteriorated slightly in FY23, with gearing and leverage ratio increasing slightly to 0.95x (FY22: 0.88x) and 1.37x (FY22: 1.17x). As a result of the buildup in inventory with reduced demand, the Company had to rely on short-term debt to bridge the consequential working capital gap. In 3QFY24, gearing and leverage ratios were reported at 0.95x and 1.18x, respectively.

Liquidity Profile adequate

The Company maintains an adequate liquidity profile with a current ratio of 1.33x (FY22: 1.43x) in FY23. The current ratio was reported at 1.35x in 3QFY24. Meanwhile, due to considerable inventory buildup, amid demand slowdown in FY23, the days to sale inventory increased to 158 days (FY22: 77 days). This was the main contributor to the extension of the cash conversion cycle ('CCC') to 175 days (FY22: 98 days). However, with improvement in volumetric sales, the inventory build-up eased, resulting in the CCC improving slightly to 148 days in 3QFY24.

Considerations for future reviews

Going forward, ratings will remain sensitive to the Company's ability to recover its profitability and coverage profile to be commensurate with assigned ratings. Moreover, ratings will also remain underpinned by the availability of the Group support to NSML to readily bridge its coverage gap.

Naveena Steel Mills (Pvt.) Limited **Appendix I**

REGULATORY DISCLOSURES

Name of Rated Entity	Naveena Steel Mills (Pvt.) Limited
Sector	Steel Industry
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Rating Watch	Rating Action
RATING TYPE: ENTITY				
09-Jul-24	A-	A-2	Negative	Maintained
25-Jul-23	A-	A-2	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.
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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Mirza Taimur Ali Baig	Chief Financial Officer	June 26, 2024
Mr. Saim Sher Janjua	Treasury Manager	