VIS
Credit Rating Company Limited

RATING REPORT

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APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Corporate Rating
(https://docs.vis.com.pk/docs/CorporateMethodology.pdf**)**
Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

NAVEENA STEEL MILLS (PVT.) LIMITED

Chief Executive: Mr. Saqib Riaz

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	**Short-term**	**Long-term**	**Short-term**
ENTITY	A-	A2	A-	A2
RATING OUTLOOK/ WATCH	Stable		Negative	
RATING ACTION	Maintained		Maintained	
RATING DATE	July 07, 2025		July 09, 2024	

RATING RATIONALE

The maintenance of entity ratings at 'A-/A2' for Naveena Steel Mills (Pvt.) Limited with a revision in outlook from 'Negative' to 'Stable' is supported by easing pressure on the Company's financial risk profile. Improved gross margins in the ongoing FY25, along with better managed stock-in-trade levels, have facilitated some reduction in short-term borrowing and supported improvement in debt servicing coverage. Recovery has also been aided by declining raw material and energy costs, supported by internal energy generation and lower benchmark interest rates. Liquidity remains sufficient to address any short-term coverage concerns.

COMPANY PROFILE

Naveena Steel Mills (Private) Limited ("NSML" or "the Company") is a Private Limited Company incorporated in 2017. The principal business of the Company is the manufacture and sale of steel bars and billets. The registered office of NSML is on main Shahrah-e-Faisal, Karachi. The plant is located at Port Qasim, Karachi.

GOVERNANCE

NSML operates as a wholly owned subsidiary of Naveena Group (Private) Limited, which holds a 99.99% shareholding. The company's Chief Executive Officer is Mr. Saqib Riaz.

GROUP PROFILE

Established in 1989 in Karachi, the Naveena Group is a diversified Pakistani business conglomerate with operations across textiles, steel manufacturing, renewable energy, and real estate development. The Group initially entered the market through textile exports and has since developed integrated spinning, weaving, and denim production facilities in Karachi and Lahore. In 2021, the Group diversified into long steel manufacturing through the establishment of a rebar production facility at Port Qasim with a capacity of 270,000 TPA. Further diversification occurred in 2022 with the commissioning of a 50 MW wind power project, Lakeside Energy, located in Jhimpir. In the real estate segment, the Group operates under Naveena Developers, undertaking residential and commercial projects that are LEED-certified.

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.

FINANCIAL RISK

Capital Structure

The Company maintained a stable capitalization profile in FY24, with gearing recorded at 0.99x (FY23: 0.93x) and leverage at 1.21x (FY23: 1.37x). The slight increase in gearing was driven by a reduction in equity, affected by net loss during the period, while short-term borrowings remained largely unchanged. The decline in leverage was primarily attributable to the settlement of bill payables and other payables, funded through a combination of short-term debt and internal cash generation. These settlements reduced non-debt liabilities on the balance sheet, while debt liabilities remained elevated.

Inventory levels declined as the Company managed to reduce its finished inventory build-up from FY23 and fresh procurement was scaled back in response to prevailing economic uncertainties, this was partly offset by the increase in Trade Debts. However, the net cash generated from the reduced inventory buildup was offset by an equivalent debt servicing requirement during the year. Cash flows from operations, supported by lower inventory requirements, remained adequate to meet coverage obligations during FY24.

The management has continued to focus on maintaining adequate inventory levels, limiting further build-up, keeping procurement on a just in time basis as much as possible in FY25. This contributed to a gradual easing of short-term debt and supported improvement in gearing and leverage indicators during this period.

Profitability

In FY24, NSML's revenue increased by approximately 35%, primarily on account of higher average selling prices. However, sales volumes remained constrained due to ongoing macroeconomic challenges. The increase in pricing was not sufficient to fully offset rising cost pressures, with the cost of sales increasing by 46%. This rise was driven by elevated utility expenses and the impact of higher-cost inventory carried over from the previous year. Consequently, it led to decline in gross margins and net margins of the Company in FY 2024.

In the ongoing FY25, gross margins have shown a decent recovery which is now aligned with the five-year historical average. Gross margin recovery is supported by lowering raw material and energy costs. This recovery, along with a gradual decline in benchmark interest rates, has also supported an improvement in net margin.

Debt Coverage & Liquidity

The Company has historically maintained an adequate coverage profile, as indicated by a four-year average debt service coverage ratio (DSCR) of 1.54x. However, in FY24, elevated finance costs coupled with compressed gross and operating margins exerted pressure on coverage metrics, resulting in a DSCR of 0.61x (FY23: 1.05x). Cash flows generated through normalization of inventory levels, primarily supported by improved inventory management by NSML, contributed to the fulfillment of debt servicing obligations during the period. By 3QFY25, coverage metrics had recovered to adequate albeit sensitive levels, driven by improvement in gross and operating margins as well as a relatively lower interest rate environment.

Going forward, coverages are expected to further improve as easing debt levels, and interest rates provide relief to the Company's debt servicing needs. Meanwhile, NSML continues to maintain adequate liquidity and short-term debt coverage to meet any immediate coverage concerns.

REGULATORY DISCLOSURES	Appendix I
Name of Rated Entity	Naveena Steel Mills (Pvt.) Limited
Sector	Steel Industry
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
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	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Rating Watch	Rating Action
RATING TYPE: ENTITY				
07-Jul-25	**A-**	**A2**	**Stable**	**Maintained**
09-Jul-24	A-	A2	Negative	Maintained
25-Jul-23	A-	A2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Mirza Taimur Ali Baig	Chief Financial Officer	June 20, 2025
Mr. Muhammad Yassir	Finance Manager	