The Pakistan Credit Rating Agency Limited

ENTITY RATINGS REPORT

BILAL STEEL MILLS (PRIVATE) LIMITED

ENTITY	RATINGS	OUTLOOK	ACTION
Bilal Steel Mills (Private) Limited (Bilal Steel)	Long Term: BB Short Term: B	Stable	Initial

RATING RATIONALE

Bilal Steel is a distinct player in the steel industry. The company directly caters to the demand of corporate/ mega projects. It has multiple projects to its credit. The ratings reflect small market presence of the company in a large fragmented industry. The company operates on adequate business margins in order to compete in local market, hence Bilal Steel's profitability is commensurate to its size. Bilal Steel has large infrastructural orders in hand which bodes well for the company. The company holds an adequate financial risk profile. The brain of the company is Mr. Farrukh Shahzad Malik also reflecting key man risk. Bilal Steel is a private limited company with two member board – hence board oversight is desired.

KEY RATING DRIVER

The ratings are dependent upon the company's ability to sustain its market presence. Enhancement of business profile with improvement in financial risk indicators is crucial. Moreover, strengthening of governance framework and human resource is vital.

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DECEMBER 2017

BILAL STEEL MILLS (PRIVATE) LIMITED (BILAL STEEL) PROFILE	
Incorporated	2013
Major Business	▪ Manufacturing and sale of billets and D-formed steel bars.
Legal Status	Unlisted
Head Office	Karachi

INDUSTRY SNAPSHOT

Domestic steel industry is experiencing rapid growth on account of positive demand fundamentals emanating from large infrastructure projects. Improving macro-economic indicators are driving growth in retail segment as well. The industry is in expansion phase reflecting expected changes in the domestic landscape of the industry. Regulatory protection in the shape of anti-dumping duties coupled with increase in regulatory duties bodes well for domestic industry.

OWNERSHIP — GOOD

- Bilal Steel is a family owned business. Mr. Farrukh Shahzad Malik owns entire shareholding of the company.
- The sponsors – Malik family – carry decades of experience in steel and allied business.

GOVERNANCE — NEEDS IMPROVEMENT

- Bilal Steel has a two member board. Mr. Farrukh Shahzad Malik is an executive director with whereas his wife Mrs. Amber Shahzad Malik is a non-executive director with no formal experience.
- The overall board structure is weak with no independent director.

MANAGEMENT — ADEQUATE

- Mr. Farrukh Shahzad Malik is the CEO of the company. He is an MBA and carries over two decades of experience in steel and allied industries.
- Mr. Bilal Bashir Malik is the Managing Director of the company. Mr. Bilal is a graduate in business administration from Oxford International College, UK. He is the driving force behind the company as he now looks after all key departments of Bilal Steels.
- The CEO is supported by a team of experienced individuals equipped with necessary technical skills and relevant industry experience.

SYSTEMS & CONTROLS — NEEDS IMPROVEMENT

- The company employs SQL software for server database. The database consists of general ledgers with sale and purchase sub modules and petty cash daybook for mills and head office.

PERFORMANCE — ADEQUATE

- During FY17, Bilal Steel continued on the growth trajectory with revenue clocking-in at PKR 2,693mln (FY16: 1,895mln) resulting in a strong 42% growth on YoY basis.
- The surge in topline was led by higher rebar sale in terms of quantities amidst strong competition from dumped rebars originating from China; hence pricing was stressed. However, the company was able sustain its margins (gross: FY17: 8.6%, FY16: 8.6%; operating: FY17: 5.4%, FY16: 5%).
- Curtailed operating expenses coupled with income generated from bank placements were sufficient to absorb higher finance costs. As a result, profit before tax stood at PKR 78mln (FY16: 54mln), resulting in 44% growth on YoY basis.
- Top ten customer concentration improved to 60% for FY17 (FY16: 70%); although still considered high. Diversification in customer base is essential for Bilal Steel as it pushes for growth in the industry.
- During Jun-17, National Tariff Commission (NTC) imposed anti-dumping duty of 24.04% on continuous casting steel billets. Moreover, during Oct-17, NTC has also imposed anti-dumping duty of 19.15% on rebars originating from China in addition to 30% regulatory duty already in place. This would positively impact the sector, going forward.
- Going forward, the company envisages tremendous growth large government projects. Bilal Steel affiliation with sponsors of Bahria Town will also continue to drive growth in the future. The company now plans to expand its operations, herein, setting up a melting furnace plant of 20MT to utilize enhanced capacity from rolling section is on cards.

FINANCIAL RISK — ADEQUATE

- Bilal Steel's working capital needs slightly improved during FY17 owing to recoveries from debtors, however, inventory needs remained high. As a result, net cash cycle was marginally reduced to 104days at end-Jun17 (end-Jun16: 107days).
- During FY17, on account of higher YoY profitability, FCFO improved to PKR 229mln (FY16: PKR 177mln). However, higher finance cost and addition of STBs resulted in lower coverages (interest: end-Jun17: 3.4x, end-Jun16: 4.2x; debt service: end-Jun17: 3.4x, end-Jun16: 4.2x).
- During FY17, the leveraging increased on account of higher STBs, hence, the debt to debt plus equity ratio climbed to 43% (end-Jun16: 37%). All of the debt outstanding pertains to short-term. However, the current capital structure is considered good.

PKR mln

Bilal Steel Mills (Pvt.) Limited (Bilal Steels)

BALANCE SHEET	30-Jun-17	30-Jun-16	30-Jun-15
	Annual	Annual	Annual
Non-Current Assets	**920**	**937**	**1,012**
Investments (Incl. Associates)	**-**	**-**	**-**
Equity	-	-	-
Debt Instruments	-	-	-
Current Assets	**1,332**	**1,025**	**682**
Inventory	300	221	88
Trade Receivables	603	606	479
Others	429	197	115
Total Assets	**2,252**	**1,961**	**1,694**
Debt	**896**	**646**	**861**
Short-Term	896	646	370
Long-Term (Incl. Current Maturity of Long-Term Debt)	-	-	492
Other short-term liabilities	159	200	269
Other long-term liabilities	18	14	5
Shareholders' Equity	**1,179**	**1,101**	**559**
Total Liabilities & Equity	**2,252**	**1,961**	**1,694**

INCOME STATEMENT	30-Jun-17	30-Jun-16	30-Jun-15
Turnover	**2,693**	**1,895**	**1,401**
Gross Profit	231	163	76
Net Other Income	0	0	0
Financial Charges	(68)	(42)	(38)
Net Income	**78**	**50**	**14**

Cashflow Statement	30-Jun-17	30-Jun-16	30-Jun-15
Free Cashflow from Operations (FCFO)	229	177	128
Net Cash changes in Working Capital	(322)	(363)	(132)
Net Cash from Operating Activities	(157)	(221)	(37)
Net Cash from InvestingActivities	(101)	(45)	(174)
Net Cash from Financing Activities	165	283	233

Ratio Analysis	30-Jun-17	30-Jun-16	30-Jun-15
Performance			
Turnover Growth	42.1%	35.2%	-26.1%
Gross Margin	8.6%	8.6%	5.4%
Net Margin	2.9%	2.7%	1.0%
ROE	6.8%	6.1%	2.5%
Coverages			
Interest Coverage (FCFO/Gross Interest)	3.4	4.2	3.3
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	3.4	4.2	3.3
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	3.4	4.2	3.3
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO- Gross Interest)	0.0	0.0	5.5
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	104.2	107.1	72.5
Capital Structure			
Total Debt/Total Debt+Equity	43.2%	37.0%	60.6%

CREDIT RATING
SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.
AA+ **AA** **AA-**	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ **A** **A-**	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ **BBB** **BBB-**	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ **BB** **BB-**	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ **B** **B-**	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC **CC** **C**	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short Term Ratings

A1+: The highest capacity for timely repayment.

A1:. A strong capacity for timely repayment.

A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.

A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Outlook (Stable, Positive, Negative, Developing)
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.