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DataPro

CORPORATE RATING REPORT

AFRICAN STEEL MILLS LIMITED

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By Marina Water Front
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March, 2023

AFRICAN STEEL MILLS LIMITED

Long-Term Rating:

A-

Short Term Rating: A1
Previous Rating: BBB+
Rating Outlook: Positive
Trend: UP
Currency: Naira
Date Issued: 2 Mar., 2023
Valid Till: 1 Mar., 2024

Reference:

Abiodun Adeseyoju, FCA.
Abimbola Adeseyoju
Oladele Adeoye

This report is provided by DataPro subject to the Terms & Condition stipulated in our Terms of Engagement

EXECUTIVE SUMMARY

	2021 ₦'000	2020 ₦'000	2019 ₦'000	2018 ₦'000
Turnover	55,438,121	35,931,287	38,178,788	34,781,213
Pre-Tax-Profit	6,809,913	4,237,327	3,155,851	2,490,229,
Shareholders Fund	22,253,872	16,900,270	15,016,289	12,654,399
Non-Current Asset	29,016,669	22,663,009	11,117,551	9,107,293
Borrowings	8,149,987	4,966,376	1,642,523	131,868

Rating Explanation

The Short-Term Rating of **A1** indicates ***Good Credit Quality*** and satisfactory capacity for timely payment of financial commitments.

The Long-Term Rating of *A-* indicates ***Low Risk***. It shows Very Good Financial Strength, Operating Performance and Business Profile when compared to the standard established by ***DataPro***. This Company, in our opinion, has strong ability to meet its ongoing obligations.

RATING SYNOPSIS

The Rating took into consideration all relevant qualitative and quantitative factors to arrive at the assigned risk indicator.

The qualitative information used were based on industry and market intelligence including public information. The quantitative information was obtained from the Company's Audited and Management Accounts.

The risk factors were assessed using the Company's Capitalization, Earnings Profile, Liquidity, Corporate Governance, Regulatory Compliance and Sustainability of its current healthy profile in the medium to long term period.

Overall, the following were observed:

Positive Rating Factors:

- Very Good Revenue Profile
- Very Good Funding Profile
- Very Good Asset Base
- Good Liquidity Profile

Negative Rating Factors:

- High Debt Profile
- High Input Cost

BACKGROUND

African Steel Mills Limited, ("The Company") is a steel manufacturing entity in Nigeria, incorporated as a Limited Liability Company on 7th of November, 2000. The Company is a wholly owned subsidiary of ***African Steel Holdings***.

The Company is one of the pioneers in Nigeria that deals in the trading and manufacturing of Steel Products. Its operations include the production, rolling, and forging of all types of manufacturing steel and steel products of all descriptions.

The factory began commercial production in 2004 with an installed capacity of 100,000MT, which was increased to almost 200,000MT in 2008. Currently, the factory can produce 225,000MT effective July 2022. The Company's products include ***Reinforcement Bars, Equal Angles, U Channels,*** and ***Steel Billets.***

African Steel Holdings Limited (***ASHL***) owns 99% of the Company's Shares. ***Mr. Alok Gupta*** owns the balance of 1%. ***ASHL*** is an Investment Company, which holds Steel Assets in Nigeria. The ownership of ***ASHL*** is equally distributed between ***Mr. Raj Kumar Gupta*** *and* ***Mr. Alok Gupta.***

DIRECTORS' PROFILE

The following served as directors during the year under review; ***Mr. Raj Gupta –*** *Chairman;* ***Mr. Alok Gupta –*** *Managing Director/CEO;* ***Mr. Richhpal Singh; Mr. Ogilo Apkomedaye Isaac; Dr John Akanya*** and ***Mr. Emeka Onwuka***

The Directors' profiles are as follows.

1. **Name:** Mr. Raj Gupta
   Position: Chairman
   Years of Experience: 25 years
   Education: • B.Sc. – India and UK
   Job Experience: • Trading and manufacturing

2. **Name:** Mr. Alok Gupta
   Position: Managing Director/CEO
   Years of Experience: 21 years
   Education: • B.Sc. – Cambridge University
   Job Experience: • Trading and Manufacturing

3. **Name:** Dr. John Ndanusa Akanya
   Position: Independent Director
   Years of Experience: 20 years
   Education: • B.Sc. – Bio Chemistry

- M.Sc - Analytical Chemistry
- Ph.D – Analytical Chemistry

Job Experience:
- ABU, Zaria, UMIST, Manchester
- Federal University of Technology

4. **Name:** Mr. Emeka Onwuka
Position: Independent Director
Years of Experience: 25 years
Education:
- B.Sc. – University of Nigeria
- M.Sc – University of Benin
- ICAN, LBS, HBS
- Wharton Business School, University of Pennsylvania, USA

Job Experience:
- Arthur Anderson LLP
- Diamond Bank
- Diamond Capital Limited
- Enterprise Bank Limited

5. **Name:** Mr. Ogilo Apkomedaye Isaac
Position: Non-Executive (Independent) Director
Years of Experience: 43years
Education:
- University of Lagos

Job Experience:
- Nigeria Custom Service
- Comptroller, Federal Operations Unit
- Comptroller, Zone C Maiduguri and Zone E, Owerri
- Comptroller, Inspections and investigations Department, Gwagwalada
- Comptroller, Zonal Headquarters.
- Commandant, Service Training College
- Assistant Comptroller, Borno Command
- Daye Enterprises Limited

6. **Name:** Mr. Ravi Kant Sharma
Position: Executive Director
Years of Experience: 35years
Education:
- University of Lagos

Job Experience:
- Kew Metal Works
- Rajgarhia Group of Industries, India
- Bird and Company Kolkata and Krishna Steel, Mumba, India.
- African Steel Mills, Ikorodu Steel
- African Foundries Limited
- Abuja Steel Mills.

7. **Name:** Mr. Pradeep Kumar Srivastava

Position: Executive Director
Years of Experience: 34 Years
Education:
- Bsc. in Chemistry, India
- Havard Business School

Job Experience:
- Head of Sales Division of AIG for Steel Products

8. **Name:** Mr. Adamu Ahmed Abdulkadir
Position: Non-Executive (Independent) Director
Education:
- ND - National School of Salesmanship
- Advanced National Diploma in Sales Management, Market Research & Advertising

Job Experience:
- Senator – Elect, FCT
- National Chairman, Alliance for Democracy, Abuja
- Special Adviser to the President on Manufacturing and Private Sector
- Chellco Textile Mill, Kaduna
- Chellarams, Nig, Plc
- Ministerial committee on afforestation and deforestation, Fed. Min. of environment, Abuja

SECTORIAL REVIEW

Nigeria is Africa's largest economy with GDP in excess of $500b. It is equally the most populous African country with an estimated population in excess of 200million. However, the country is facing challenges of infrastructure as well as housing deficit. Addressing these challenges therefore require continuous investments in the construction industry and by extension the steel sector.

The Government of Nigeria is emphasizing policies on infrastructure spending, through public-private partnerships thereby encouraging long-term investment in the infrastructure and construction sectors.

The ***Ministry of Mines & Steel Development (MMSD)*** released a road map for the development of the solid minerals and steel sector in August 2016. The road map revealed the intention of the Nigerian government to build a Steel sector that can serve both domestic and export market.

Other specific actions to enhance the sector involve the inclusion of steel rebars in the list of 41 items not eligible for forex. This is in addition to the imposition of total effective duty of 46.5% excluding VAT on imported rebars, the ban on the export of steel scrap and tax holidays for steel manufacturers under pioneer status.

However, the sector is yet to realize its full potentials. This has been due to non-availability of spare parts, consumables, plant and machineries in Nigeria. In addition, poor infrastructure such as bad road as well as ineffective traffic management affects the logistic front and creates dissatisfaction to customers.

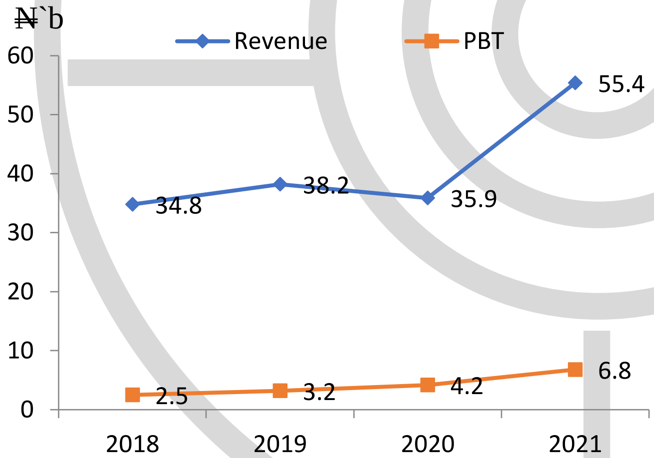
The Russia-Ukraine war which started in Q1 of 2022 has added to the energy crisis globally by way of increased oil prices. Manufacturers in Nigeria are facing huge energy crisis with poor public supply and high cost of diesel threatening continuous production. Survival in the sector depends on ability to pass increase in cost of inputs to the consumer without jeopardizing customer loyalty.

Presently, the country is faced with the challenges of implementing the Central Bank of Nigeria (CBN) Naira Redesign Policy (Cashless Policy), long queues for PMS at Gas Station and epileptic power supply. This has further eroded the purchasing power among Nigerians in addition to compounding manufacturing challenges.

FINANCIAL PERFORMANCE

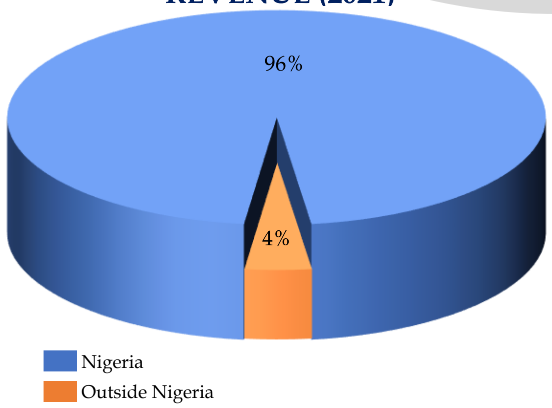
• EARNINGS PROFILE

REVENUE GROWTH (2018 – 2021)



Source: African Steel Mills Ltd

GEOGRAPHICAL DISTRIBUTION OF REVENUE (2021)



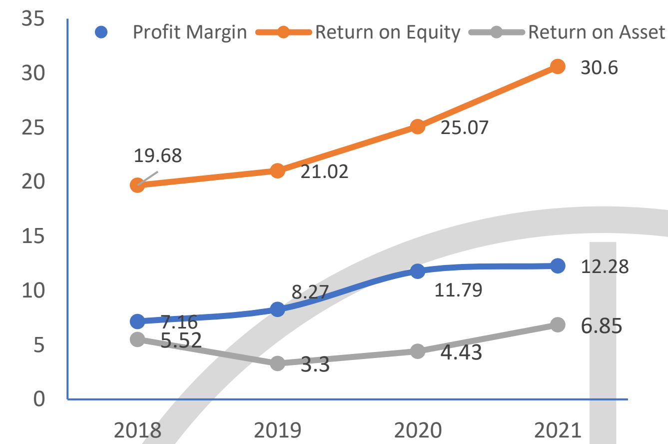
Source: African Steel Mills Ltd

In the year 2021, the Company recorded significant growth in revenue by 54%. Total Earnings grew from ₦35.9b (Yr. 20) to ₦55.4b (Yr. 21). Earnings were derived from sales of Steel Rods. Revenue generated in the period ended September 2022 was ₦52b indicating a potentially strong Earnings for the financial year 2022.

Growth in revenue was largely attributed to an increase in sales volume. A total of 96% of the sales were made locally while the remaining came through exports.

Cost of Sales grew at a similar rate to Revenue from ₦28b (Yr. 20) to ₦45.8b (Yr. 21). In absolute term, Gross Profit recorded a significant increase during the year 2021. However, efficiency level considering the Gross Profit Margin declined to 17% (Yr.21) from 22% (Yr.20).

PROFITABILITY TREND (2018 – 2021)



Source: African Steel Mills Ltd

Total Operating Expenses remained at ₦2.8b for 2020 & 2021. This comprised of Selling and Distribution as well as Administration expenses. Finance Cost grew marginally from ₦1.7b (Yr. 20) to ₦1.8b (Yr.21). This was due to the general decline in interests incurred on Bank Loans during the year.

On account of the increase in Revenue, Pre-Tax Profit improved significantly from ₦4.2b (Yr. 20) to ₦6.8b (Yr. 21). Therefore, all profitability metrics increased during the year under review.

• CAPITALIZATION

Profit retention led to a considerable increase in Equity in 2021. It climbed by 32% from ₦16.9b (Yr. 20) to ₦22.3b (Yr. 21). Share Capital, however remained at ₦1.5b in the reviewed period.

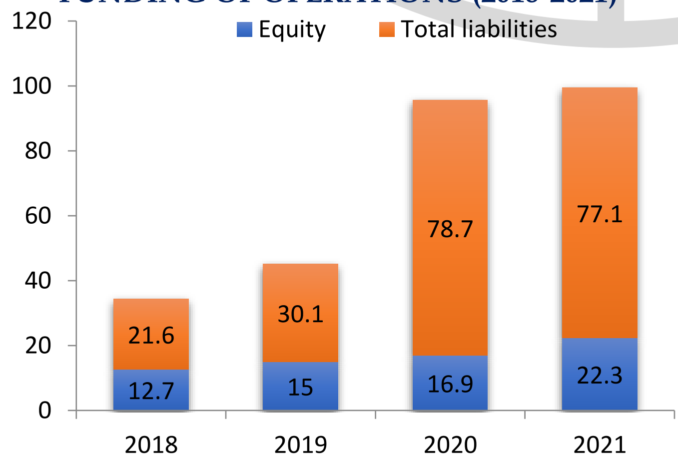
BREAKDOWN OF TOTAL LIABILITIES (2020-2021)

Item	2021 ₦'000	%	2020 ₦'000	%
Short-Term Liabilities	65,276,202	85	71,227,676	91
Long-Term Liabilities	11,836,827	15	7,469,154	9
Total Liabilities	77,113,029	**100**	78,696,830	**100**

Source: African Steel Mills Ltd

Total Liabilities deployed to operation decreased marginally from ₦78.7b (Yr. 20) to ₦77b (Yr. 21). Short term obligation constituted a major portion of Total Liabilities to the tune of 85% and also contributed majorly to the downward shift in Total Liabilities due to payment of Loans and Borrowings secured by the Company.

FUNDING OF OPERATIONS (2018-2021)



Source: African Steel Mills Ltd

Long Term Liabilities for the year 2021 amounted to ₦11.8b, a rise from ₦7.4b (Yr.20). Growth in Long Term Liabilities was due to a ₦4.5b Interest free Loan acquired from Related Company. Interest Bearing Loans and Borrowings dropped to ₦29.0b (Yr. 21) from ₦46.58b (Yr. 20). These are mostly short termed. Other components include Trade Payables and Deferred Tax Liabilities.

In view of the improved profitability, Equity funding of operation was significantly enhanced during the year 2021. It rose from 18% (Yr. 20) to 25% (Yr. 2021).

- ## ASSET UTILITY

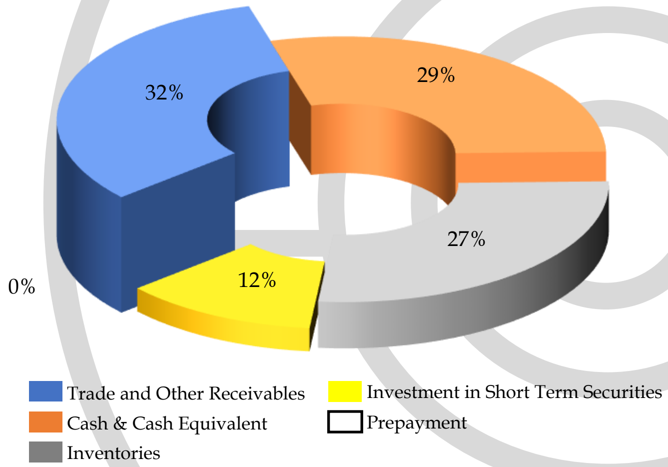
BREAKDOWN OF TOTAL ASSETS (2020-2021)

Item	2021 ₦'000	%	2020 ₦'000	%
Non-Current Assets	29,016,669	30	22,663,009	24
Current Assets	70,350,232	70	72,934,091	76
Total Assets	99,366,901	**100**	95,597,100	**100**

Source: African Steel Mills Ltd

In the year 2021, the Company had a combined installed production capacity of 400, 000 metric tons per annum. This is distributed between ***Melting*** (200,000MT) and ***Rolling*** (200,000MT) with capacity utilization of 85% and 76% respectively. As at July 2022, Installed Capacity was increased to a combined capacity of 450000 metric tons shared evenly between the Rolling and Melting divisions of the Company. The Company maintained a capacity utilization of 85% and 77% for the melting and rolling division respectively.

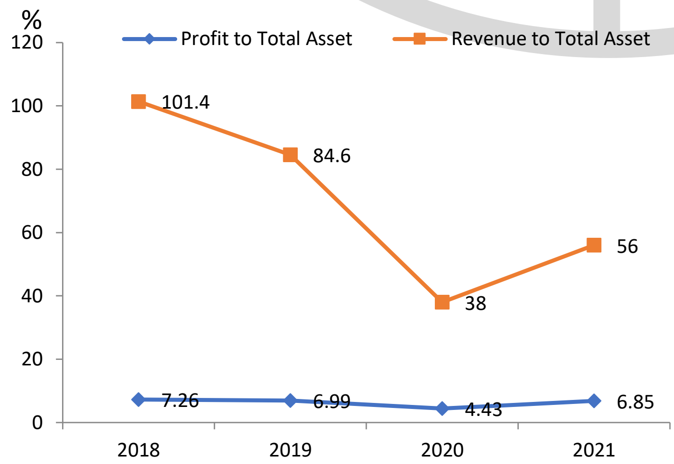
COMPOSITION OF CURRENT ASSETS (2021)



Source: African Steel Mills Ltd

Total Assets deployed to operation amounted to ₦99.4b (Yr.21) as compared to ₦95.6b (Yr.20). Total Assets is majorly concentrated in Current Assets. This class accounted for 70% of the Total Assets. Current Assets decreased marginally by 3%. This was due to payment of $15m received from ***Coronation Merchant Bank*** for currency swap. However, Cash Balances in the year rose significantly from ₦11b (Yr. 19) to ₦20b (Yr. 21). There were no significant changes in other components such as inventories, investment in securities and prepayments.

ASSET UTILIZATION TRENDS (2018-2021)



Source: African Steel Mills Ltd

The Non-Current Assets constituted 29.2% of the Total Assets. It increased from ₦22b (Yr. 20) to ₦29b (Yr. 21). The growth can be largely attributed to additional investment of ₦8.1b in the expansion and acquisition of Property, Plant and Equipment. Other items of Non-Current Assets include Right-of-use Assets and Investments in Subsidiary.

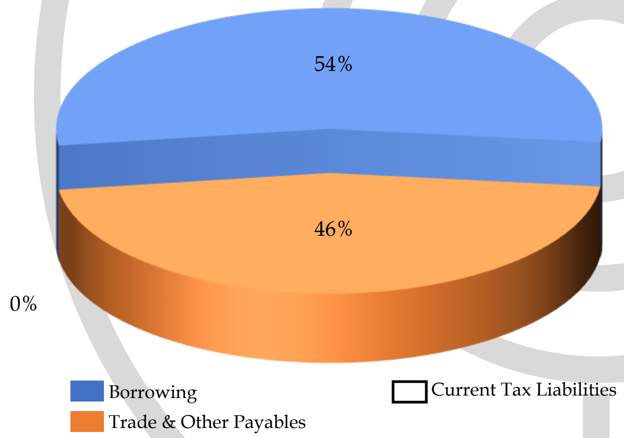
Following the growth in Total Assets backed with strong profitability, the Company's ability to utilize Assets for profit generation appreciated from 4% (Yr. 20) to 7% (Yr.21). Likewise, ability to effectively generate Revenue using Assets, increased from 38% (Yr. 20) to 56% (Yr. 21).

- **LIQUIDITY**

The Total Liabilities of the Company comprised only of Non-Current and Current Liabilities in the year 2021. It scaled down to ₦77b (Yr.21) from ₦78.7b (Yr.20). This was due to the decline in Loans and Borrowings.

The Current Assets of the Company accounted for 70% of its Total Assets. This is largely dominated by Inventories, Cash & Cash Equivalents as well as Trade and Other Receivables. Other Components of Current Assets include: Prepayments and Investment in short term Securities. The value of Short-Term Assets as at the year 2021 was ₦70.3b as against ₦72.9b in the prior year

COMPOSITION OF CURRENT LIABILITIES



Source: African Steel Mills Ltd

Current Liabilities constituted 84% of the Total Liabilities. The major components of Current Liabilities were Trade and Other Payables, Borrowings and Current Tax Liabilities. The decline in the size of the Current Liabilities as at the year-end 2019 was due to significant pay off in borrowings from ₦71b (Yr. 20) to ₦65b (Yr. 21).

The Company's Interest-Bearing Borrowings are largely current in nature. Borrowing due for payment within 12 months' period amounted to ₦35b (Yr.21) as against ₦60b (Yr. 20). The current Borrowings are Bank Loans, Related Party Loan, Bank Overdraft and Import Finance Lease. The Related Party Loan is a Non-Interest-Bearing credit.

Non-Current Borrowing constituted 18% of Total Loans in the years 2021. Total interest-Bearing Loans and Borrowings as at the year ended 2021 amounted to ₦29b.

The Company maintained a healthy liquidity ratio of 108%. It also recorded a positive cash flow of ₦40b from its operation in the year 2021.

CORPORATE GOVERNANCE & RISK MANAGEMENT

The affairs of the Company are directed by its Board of Directors which comprised of three (3) Executive and five (5) Non-Executives. All the Non-Executives are Independent Directors.

The oversight function of the Board is carried out by various Board Committees and implemented by the Unit Heads.

The Company recognizes that it has Market, Credit, Exchange Rate and Liquidity Risks. In line with details contained in its annual report and information provided, the Company has in place measures to deal with its various risks.

CORPORATE GOVERNANCE & RISK MANAGEMENT

The affairs of the Company are directed by ***its Board of Directors which comprised*** of three (3) Executive and five (5) Non-Executives. All the Non-Executives are Independent Directors.

RISK FACTORS

In the course of our review, we observed the following significant risks.

- **EXCHANGE RATE RISK**

This is the risk of loss to income as a result of adverse movement in the Exchange Rate.

Based on our review, we observed that the Company exports 4% of its products outside Nigeria. Therefore, adverse movement in Exchange Rate could have effect on the profitability of the Company.

- **INTEREST RISK**

This is the risk of loss to income arising from adverse changes in interest rates.

Based on our review, the Company incurred interest bearing Borrowings of ₦29b (Yr. 21) that are largely short term in nature. Therefore, adverse movement in interest rate could affect the Company's profitability.

- **CREDIT RISK**

This is the risk arising from the inability of counterparties to honor their obligations as at when due.

Based on our review, we observed that Trade receivables and Other Receivables from suppliers constituted 23% (Yr.21) of the Company's Total Asset. Therefore, the Company has a significant exposure to credit risk.

FUTURE OUTLOOK

The Company has continuously updated and modified its production facilities. It also plans to install a new reheating furnace with a 35MT capacity-reheating furnace with automatic technology to set temperature, which will save gas consumption in rolling production process.

The Company is currently working on setting up a new continuous re-bar mill, which can roll Billets of 6-meters size at a higher speed along with automatic bounding system that will lead to higher productivity at a lower cost.

It is also working on putting a new 10MT induction furnace in place. The Company hopes to increase productivity level whilst reducing gas, power and labor cost.

CONCLUSION

The Rating of the Company is supported by its Strong Revenue Profile, Experienced Management Team and Good Liquidity.

Consequently, we assigned a Rating of *"A-"*

FINANCES

Financial Position as at

	Dec., 2021 ₦'000	Δ%	Dec., 2020 ₦'000	Δ%	Dec., 2019 ₦'000
ASSET/LIABILITIES					
Non-current asset	29,016,669	28.04	22,663,009	103.85	11,117,551
Net Current assets/(liabilities)	5,074,030	197.35	1,706,415	(75.07)	6,844,410
Non-current liabilities	(11,836,827)	58.48	(7,469,154)	153.56	(2,945,672)
	22,253,872	31.68	**16,900,270**	12.55	**15,016,289**
share capital	283,764	-	283,764	16.79	242,964
Share Premium	1,266,939	-	1,266,939	(1.62)	1,287,739
Other reserve	38,659	-	38,659	-	38,659
Retained earning	20,664,510	34.97	15,310,908	13.86	13,446,927
Total equity	**22,253,872**	31.68	**16,900,270**	12.55	**15,016,289**
TURNOVER AND PROFIT					
Turnover	55,438,121	54.29	35,931,287	(5.89)	38,178,788
Profit before tax	6,809,913	60.71	4,237,327	34.27	3,155,851
Profit after tax	5,353,602	103.87	2,626,025	11.18	2,361,891

Signed:
Name: **Oladele Adeoye**
Designation: Chief Rating Officer
Date: 2nd March, 2023

For and on behalf of:
DataPro Limited
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By Marina Water Front
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USER GUIDE

DataPro's credit rating is an opinion of an issuer's/issues overall creditworthiness and its capacity to meet its financial commitment.

Our ***short-term*** ratings have a time horizon of less than 12 months in line with industry standards reflecting risk characteristics. The ratings place greater emphasis on the liquidity to meet financial commitment in a timely manner.

The long-term risk indicator is divided into 8 bands ranging from AAA through DD. Each band could be modified by + or –. With + representing slightly less risk than –. Such suffixes are not added to the 'AAA' long –term rating category and to categories below 'CCC'. Or to short-term rating older than A1+.

LONG-TERM RATING

Investment Grade

Indicator	Meaning	Explanation
AAA	Lowest Risk.	*(Superior)* Assigned to companies which have superior financial strength, operating performances and profile when compared to the standards established by *DataPro Limited.* These companies, in our opinion, have a Excellent ability to meet their ongoing obligations.
AA	Lower Risk	*(Excellent)* Assigned to companies which have excellent financial strength, operating performance and profile when compared to the standards established by *DataPro Limited*. These companies, in our opinion, have a very strong ability to meet their ongoing obligations.
A	Low Risk	*(Very Good)* Assigned to companies which have very good financial strength, operating performance and profile when compared to the standards established by *DataPro Limited*. These companies, in our opinion, have a strong ability to meet their ongoing obligation.
BBB	Slight Risk	*(Fair)* Assigned to companies which have fair financial strength, operating performance and profile when compared to the standards established by *DataPro Limited*. These companies, in our opinion, have an ability to meet their

current obligations, but their financial strength is vulnerable to adverse changes in economic conditions.

Non-Investment Grade

Indicator	Meaning	Explanation
BB	Moderate Risk	*(Marginal)* Assigned to companies which have, marginal financial strength, operating performance and profile when compared to the standards established by *DataPro Limited.* These companies, in our opinion have an ability to meet their current obligation, but their financial strength is vulnerable to adverse changes in economic conditions.
B	High Risk	*(Weak)* Assigned to companies which have, weak financial strength, operating performance and profile when compared to the standard established by *DataPro Limited*. These companies, in our opinion have an ability to meet their current obligation, but their financial strength is vulnerable to adverse changes in economic conditions.
CCC	Higher Risk	*(Poor)* Assigned to companies, which have poor financial strength, operating performance and profile when compared to the standards established *DataPro Limited.* These companies, in our opinion may not have an ability to meet their current obligation and their financial strength is extremely vulnerable to adverse changes in economic conditions.
DD	Highest Risk	*(Very Poor)* Assigned to companies, which have very poor financial strength, operating performance and profile when compared to the standards established by *DataPro Limited.* These companies, in our opinion may not have an ability to meet their current obligation and their financial strength is extremely vulnerable to adverse changes in economic conditions.

SHORT-TERM RATING

Indicator	Meaning	Explanation
A1+	Highest credit quality	Indicates the strongest capacity for timely payment of financial commitments. May have an added "+" to denote any exceptionally strong credit feature.
A1	Good credit quality	A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
A2	Fair credit quality	The capacity for timely payment of financial commitments is adequate. However, near term adverse changes could result in reduction to non-investment grade.
B	Speculative	Minimal capacity for timely payment of financial commitments, plus vulnerability to near term adverse changes in financial and economic conditions.
C	High default risk	Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favorable business and economic environment. Indicates an entity that has defaulted on all its financial obligations.