MESSAGE FROM THE
CHIEF EXECUTIVE OFFICER

I am pleased to report that Crescent Steel had a good year. We continued to fulfil our promises and commitments to our various stakeholders and assisted many clients while delivering robust performance, both financial and non-financial.

Dear shareholders and business partners,

It is a great pleasure for me to present our 2017 annual report.

We have just finished another eventful year both locally and globally - especially on the economic and political front – and for us at Crescent Steel. At the end of fiscal year 2016 we had just commissioned our second spiral pipe manufacturing line and were getting ready to commission the second furnace at our steel melt-shop.

It was a year of sustained higher performance at Crescent Steel. We achieved good organic volume growth, with an operating profit margin of more than 15% and an EBITDA margin of 16.5 %(FY16: 22.6%). The consistent performance from our line pipe manufacturing business resulted in strong cash generation with an EBITDA of PKR 1,682 million. The underlying profit for the year was PKR 1,012.4 million – 4.7% higher than in FY16. The Separate and Consolidated EPS stood at PKR 13.04 and PKR 15.29, respectively; an earnings growth of 0.6% over last year and 110.8% over the last five years. Our operating profit margin declined to 15.5% (FY16: 21%) primarily due to higher HRC prices toward the end of 2016. ROCE also declined from 18.3% to 15.9% on account of an increase in borrowings in line with higher working capital requirements. We proposed a final dividend of PKR 2.25 per share, bringing the total dividend per share over FY17 to PKR 5.25. This is a payout ratio of 40.3% of the reported net profit. We have delivered 108% growth in our share price during the year and an average dividend growth rate of 13.24% p.a over the last 5 years.

We were also able to enhance our impact on society – we have covered our non-financial performance in our Corporate Responsibility Report in greater detail. We strive to keep moving forward along our journey towards achieving the true potential of Crescent Steel.

During fiscal year 2017, the incremental production capacity and service capabilities enabled us to ensure on time supply to our customers and offer collaborative solutions to help manage their operational challenges. The Company is contributing towards key energy infrastructure projects including RLNG II and RLNG III by consistently providing high quality steel line pipes and was the only local manufacturer in this space during the outgoing year.

We closed the year with record line pipe production and financial performance of 88,110 tons, 380 KMs of line pipe during the year and there is great pride in being in a position to contribute to Pakistan's energy and water infrastructure landscape as the most reliable line pipe manufacturer in Pakistan.

At an operational level Crescent Steel did well and was supported by a strong balance sheet. Our spinning operations continue to face challenging market and structural conditions. We are putting arrangements in place to mitigate impacts. Crescent Hadeed (Private) Limited was not able to generate enough cash from operations resulting in tight liquidity positions; with the addition of a second furnace, resulting in doubling of capacity to 85,000 tons, we will be able to lower input costs, strengthen margins and improve cash generation. CS Capital (Private) Limited posted healthy earnings in line with capital market performance.

Fiscal year 2018 looks promising with respect to our line pipe business and we will strive to maintain our earnings performance from the segment, although margins will remain squeezed as steel prices trend upwards. We are not expecting significant returns from our investments division as looming political and regional uncertainty is expected to keep capital markets volatile. We have shifted our portfolios to hedge against imminent devaluation and capital losses. We will continue to invest in the future and we aim to achieve sustainable growth – meaning we will be selective in our pursuit of growth, focusing on sectors in which we have proven expertise.

Pursuing our Vision – "To excel across all our operations and deliver sustainable value to all stakeholders" – we have taken actions that have made us stronger as a company.

We have made a clear prioritization of where we want to grow and have narrowed our focus on those parts of the business where we can leverage our strengths. We have also taken measures to remove complexity from processes and plant operations. We continue to invest in a skilled Pakistan and strive to ensure that there is no ill impact on the communities where we operate.

In response to growing demand for line pipes and enhanced working capital requirements, we demonstrated strong access to capital with the support of our lenders and other financial advisers. We secured credit ratings of A (long term) and A-2 (instrument/short term rating) through JCR-VIS.

In addition to this we have ring-fenced our business. Our ancillary business lines help buffer the any periods of famine in the business by protecting our Group top and bottom lines; separating them as subsidiaries help protect independent balance sheets.

During late fiscal year 2017 we extended the scope of our change programs to supply chain excellence and we expect to start seeing the benefits during the course of fiscal year 2018.

I am pleased that we have been able to sustain our FY2016 performance in FY2017 and I am hopeful that, while there will be cycles of sluggish demand, we have undertaken to establish strong earnings bases centered on diversified revenue streams and a corporate structure that can overcome a severe environment through various measures, based on a long-term viewpoint.

LOOKING AHEAD

Located at the junction of South Asia, Central Asia China and the Middle East, Pakistan has important strategic geopolitical advantage and development potential to connect vast regional markets with a large population, diverse resources, and untapped potential for trade.

Growth accelerated last year and ADB estimates put growth rates at 5% in 2017 and on an increasing trajectory for the next three years. The outlook is favorable; however, sustained growth requires consistent reforms. An educated Pakistan, energy and water security, alongside permanent improvement in security is critical to economic growth in Pakistan. Operational readiness to manage the skills gap, regional security conditions, and local political conditions could also affect the pace of progress on key milestones.

We have a clear strategy and our focus for the year ahead remains on expanding our position in the engineering sector with ongoing investment in our two engineering sector businesses as we continue to build pathways toward future, sustainable and long-term growth.

We operate in a dynamic and competitive environment where new investment in the region is catapulting us into a world of rapid growth, change and competition; likely to force innovation. We see great opportunity to embrace this growth, great opportunity for those of us that will view this from a prism of sustained national security and great opportunity for Pakistani businesses and Pakistan.

We understand that we need to continue to innovate and to ensure we can build our capability in our growth areas. Our business is highly dependent on key infrastructure development projects in the energy and water sectors. Development is deeply rooted to society and so demand in this segment fluctuates significantly.

As economic activity picks up on the back of OBOR/CPEC we can expect demand for products from our core businesses - line pipes and steel long products - to deliver double digit growth as vital water, energy and trade/port infrastructure development becomes necessary and construction activity picks up. Steel pipes are also increasingly being used for construction and piling.

Multiple projects that have been on the cards are yet to be awarded and are likely to materialize in the medium term. These include the Karachi Bulk Water Supply (K4) project, Thar Coal Power Project and, Islamabad Water Supply Project.

The Federal Budget for FY18 has targeted an aggregate outlay of PKR 4.75 trillion and allocated PKR 1 trillion to the Public-Sector Development Programme (PSDP). In the immediate short term, the 1,100 km Karachi-Lahore pipeline is due to be completed by October 2018 and is likely to progress seamlessly triggering demand for pipes and coating applications. The project, valuing PKR 120 billion has been partially tendered (550Km) and the remainder is likely to be tendered during H1FY18. In addition to orders in hand upcoming business should keep our line pipe operations busy throughout the fiscal year. We will be exposed to higher raw material prices and lower margins on some of the orders we secured early on in FY18, however, prices are likely to remain range bound and we are taking measures to protect margins across all manufacturing processes with greater focuses on coil quality parameters.

In concluding, I would like to thank our people for their extraordinary efforts. While this year has presented rewards and challenges alike, we can look to the future with increasing optimism and confidence.

Finally, I would like to recognise and thank our other key stakeholders – our customers, the communities in which we operate, our business partners and particularly you, our shareholders for your ongoing support.

I look forward to your continued support in our collective journey to build a sustainable and value creating enterprise.

Ahsan M. Saleem
Chief Executive Officer
12 August 2017