



MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

DEAR SHAREHOLDERS,

It is my pleasure to present the annual report for Fiscal Year 2024, which covers our annual sustainability, statutory and financial reporting. The report is supplemented with audited Financial Statements (Separate and Consolidated) for the year ended June 30, 2024.

I am proud of our team's strong performance in the outgoing fiscal year, delivering the best year in our 36-year operating history. It was a year marked by strong financial performance, excellent operating results, valuable product penetration, greater collaboration across our teams and with our customers, and larger commitments to our community partners.

The global economy remains resilient even though the world today is fragmented and uncertain. Globally, businesses are navigating challenges presented by the two ongoing wars, the polarization of politics, energy transition, and a divergence in inflation and monetary policy. Domestically, in addition to these factors, Pakistan is faced with slow growth/low demand, a weak infrastructure and human capital base and a weak economy.

Despite this, I am optimistic about the future generally and our company specifically. I'm hopeful because I still believe in the engineering sector being the engine for growth in Pakistan and, because Pakistan corporates have shown resilience over a long arc and during extremely challenging times.

During the outgoing fiscal year, Pakistan began inching out of the crisis spiral. FX reserves remained low, dipping to USD 2.9 billion in February 2023 however, pressures began to ease on the back of the IMF program. The PKR remained stable against the

greenback on PKR 283.24/USD average throughout the year. Although inflation remained high, it is on a downward trend; both fiscal and external positions also indicate increased stability. Projections for FY25 GDP indicate modest/gradual growth – this makes sense given local industry reliance on imports.

Despite these challenges, the past fiscal year was a rewarding one for Crescent Steel. Crisis tested our resilience as a business and enabled us to see more clearly, the important role we play in contributing to development throughout Pakistan.

2024 was a year of high performance for our line pipe manufacturing business; we achieved organic volume growth in both line pipe manufacturing and line pipe coatings, up 38.6% and 81.6% from FY23, respectively. The modifications and upgrades from the last fiscal year and our contribution to the KIV project, positions us among leaders in the API, large diameter line pipe manufacturing segment.

At the close of the outgoing fiscal year, we had delivered more than 98 KMs (80,926 tons) against the total project requirement of 210 KMs of line pipe for the K-IV Project Phase-I. I am happy to share that we have also secured additional order quantities of more than 65 KMs, valued at PKR 2.7 billion (total project value: PKR 8.6 billion) taking our contribution to Phase I of this project to 203KMs i.e. 96.7% of total line pipe requirement. Production on this project is expected to conclude during Q1FY26.

The Company posted sales of Rs. 9,112 million (FY23: Rs. 4,516 million), up 101.8% YoY; 99.4% constitutes sales attributable to the Steel Division; the revenue figures include line pipe sales on conversion basis as the steel raw material (HRC) for line pipe orders for the KIV project was client supplied – as such, deemed revenue (incl. of raw material value) stands

at Rs. 18,160 million. Rs. 5,831 million or 49.1% of sales constitute payments to suppliers while Rs. 666 million or 7.3% of sales was distributed to employees as compensation and benefits.

It gives me great pleasure that we were able to distribute profits to shareholders after a six-year hiatus – we distributed Rs. 155.3 million or 9.7% of PAT as interim dividend during the year. Including the final dividend our profit distribution to shareholders for FY24 will stand at 427 million or 26.6% of PAT. Rs. 92.5 million or 3.7% of PBT was donated towards various causes that we support. Of the community investments we made, c.94% was for education.

Our contribution to the exchequer and economy stood at Rs. 2,716 million (FY23: Rs. 1,038 million, up 161.8%), while Rs. 497 million represents payments to lenders. The Company's gearing ratio remained conservative at 11.6%, decreasing YoY on the back of better cashflows. During the year net payment in financing activities stood at Rs. 738 million or 8.1% of sales, as compared to financing received of Rs. 912 million 20% YoY while the weighted average cost of borrowing stood at 21.50% up 3.4% YoY.

During the year, we produced 59,453MTs / 301KMs of quality steel line pipe and applied coatings on 553,906 sq. meters or 230.3KMs. We supplied 301KMs / 59,453 MT of high-quality bare line pipes on time, including 246 KMs for national energy infrastructure projects and 55 KMs for the Greater Karachi Bulk Water Supply project.

Standalone EBIT at Rs. 3,024 million (FY23: Rs. 594 million) represents a margin on net sales of 33.2% (FY23: 13.2%) while underlying EBITDA stood at Rs. 3,367 million (FY23: Rs. 826 million); a margin of 36.9% (FY23: 18.3%). RoCE increased significantly to 18.6% (FY23: 2.3%).

On a standalone basis, Crescent Steel closed the year with a profit after tax of Rs. 1,607 million (FY23: Rs. 177 million), up 8 times YoY. Gross profit margins improved to 28.9% at Rs. 2,636 million (FY23: 17.2%; Rs. 776 million) while operating profit margins stood at Rs. 2,841 million or 31.2%.

On a consolidated basis, the Group posted a profit after tax of Rs. 1,272 million (FY 23: Rs. 591 million). The consolidated PBT is primarily attributable Steel Division profitability and a Rs. 421 million share-

of-profit from equity accounted investees. On a consolidated basis underlying EBIT stood at Rs. 2,476 million (FY23: EBIT of Rs. 447 million) representing a margin on net sales of 27.2 %, while EBITDA stood at Rs. 2,744 million – a margin of 33.2% on net sales. Consolidated ROCE stood at 12.9%, compared to 6.7% last year. Similarly, the consolidated ROE of 14.6% was higher than last year's return of 8.0%.

Consequently, Standalone Earnings per share (EPS) for FY24 stood at Rs. 20.69 as against EPS of Rs. 2.28 in FY23 while on a consolidated basis FY24 EPS stood at Rs. 16.38 (FY23: EPS of Rs. 7.61).

Our balance sheet footing of Rs. 10,498 million (FY23: Rs. 9,948 million) continues to support business operations. Despite extremely volatile conditions over the last few years, our book value has grown at a CAGR of 7.4% since 1987 from Rs. 7.11 to Rs. 99.4 per share (when adjusted for gains on strategic investments held at cost, the indicative break-up value today is Rs. 115.2 per share) as on June 30, 2024. The share continues to trade at a discount; the price as on June 30, 2024 stood at Rs. 54.0 per share at an earnings multiple of 2.6 and a price to book value ratio of 0.54.

The flexibility and strength of our operating model, and the efforts of our leadership and teams, enabled us to end the year with strong performance despite continued idling at other business divisions and a huge increase in input costs. A key focus for us going forward will be to maintain a strong topline/revenues and keep the Company on a growth trajectory.

HAVING STATED SOME FISCAL FACTS, I WOULD NOW LIKE TO MOVE TO OPERATIONS

Incorporated in 1983, we commenced commercial production in 1987 with an API licensed line pipe manufacturing unit about 100 KMs from Karachi, in Nooriabad. Today, we operate four distinct businesses, in the engineering, textile, power, and capital markets sectors.

Our flagship operations manufacture and coat large diameter steel line pipes, used for hydrocarbons transportation in the energy cycle. Pipes transport oil and gas, safely across rivers and mountains, through towns and villages. Communities and the environment rely on long-term integrity of pipelines,

to ensure their well-being. Large diameter steel pipes are also used for transportation of water and wastewater systems, and for piling in the construction of ports, jetties and buildings.

Our yarn business contributes to the agricultural economy by generating demand for cotton and empowering farmers across Pakistan; investments in alternate power enable us to be energy independent and support the national grid; capital market investments reflect our conviction in the growth of Pakistan's corporate sector and, our billet manufacturing unit is well positioned to provide sustainable sources of steel to Pakistan's engineering sector.

Our purpose - **to contribute to sustainable national development and growth while maintaining our commitment to deliver value across all stakeholder groups** - serves as the link between our business strategy and our responsibility as a corporate citizen. It underpins our commitment to remaining competitive while contributing to greater economic, environmental, and social prosperity.

OUR BUSINESSES CONTINUE TO PROVIDE EQUAL OPPORTUNITY EMPLOYMENT TO HUNDREDS OF PEOPLE IN PAKISTAN.

We have made a clear prioritization of where we want to grow and remained focused on business where we can leverage inherent strengths. Our strategic thrust continues to remain in the engineering sector. Specifically, challenges of the last few years have helped us prioritize and refocus our efforts in this segment and at the same time pushed us to make difficult decisions on liberalizing value stuck in unproductive assets.

The engineering sector remains a key driver for growth in Pakistan; building the national energy and water infrastructure, leveraging pipelines as logistics solutions (for fluids) and for specialized construction (piling etc.) will trigger line pipe demand which Crescent Steel is well positioned to tap in the future.

We made a conscious decision to allocate capital to our pipe manufacturing unit for optimal asset utilization. Consequently, our manufacturing operations in textile spinning and steel billet

production remained closed during the fiscal year - this was a strategic decision as capital was allocated to core operations in steel line pipe manufacturing.

WE UNDERSTAND THAT OUR INDUSTRY AND COMPANY CAN HAVE A PROFOUND IMPACT ON PEOPLE'S LIVES.

Energy and water security are essential to economic and social development and have a profound impact on lives everywhere. These projects have been the single most important contributor to growth and hiring for us in the past and, remain material to business sustainability for us today. Our Company has contributed 35.0% of the national gas transmission infrastructure, contributing significantly to infrastructure development in Pakistan.

Our pipe manufacturing business caters to local demand for steel line pipes; which is imported at very high freight costs as final products to meet local demand-supply gaps.

Planned projects to augment the country's pipeline infrastructure - particularly for the transportation of imported fuels - and much-needed water and sanitation projects are, therefore, material for both, our business as well as for sustained growth and development in Pakistan.

OUR SUCCESSES MEAN A DURABLE AND SUSTAINABLE, ENERGY AND WATER INFRASTRUCTURE FOR PAKISTAN.

During the year produced and supplied 59,453 tons of steel line pipe in diameter sizes ranging from 16 inches to 96 inches, as against 42,888 tons in FY23. On a notional basis, this works out to 97,543 tons on an installed notional capacity of 200,000 tons. Line pipe coatings saw a significant increase at 553,906 sq. meters on an installed notional capacity of 600,000 sq. meters and as against 305,098 sq. meters in FY23. A total of 301 KMs of line pipe was dispatched during FY24.

Much of this (45,006 tons i.e., 75.7% of Steel Division Production) was produced on conversion basis for China Harbour Engineering Company (CHEC), the JV contractor for the K-IV pipeline project.

Partnering with CHEC on this project has been extremely rewarding for us as it allowed us to showcase our engineering capability, and the strength and quality of our teams – we have executed approximately 52.5% of the order placed on us with a 0% rejection rate. This is a testament to quality being fundamental to how we do business at Crescent Steel. The project enabled us to keep our pipe and coating plant operational at a utilization rate 48.8% and 92.3%. The grid tied 561.2 KWh solar plant we installed in FY23, generated Rs. 61.9 million in energy savings till date and helped reduce 985 tons of Co2 emissions when compared with grid supplied power. We plan to double capacity of renewable energy production during FY25 to capture savings and further reduce our impact on the environment.

Revenues from the Steel Division stood at Rs. 9,056 million (FY23: Rs. 3,396 million) – generating gross profit of Rs. 2,868 million i.e. 28.9% (FY23: GP of Rs. 776 million i.e. -17.2%). Adjusting for deemed revenue of approximately Rs. 9,049 million, sales are estimated at Rs. 18,105 million, representing a gross margin of 15.8%. The Division posted a profit before tax (PBT) of Rs. 1,758 million (FY23: PBT of Rs. 307 million), contributing 109.5% to the EPS of Rs. 20.69/share, which was eroded by operating losses from other business units.

Our line pipe business is tightly linked with development; as with all development, it goes through cycles of feast and famine. To buffer the periods of famine, we have built a strong corporate structure, including ancillary revenue wallets and cash flow buffers.

Through our portfolio management division, we remain active investors in Pakistan capital markets. On the back of improving macroeconomic indicators the KSE-100 posted record gains of 89.2% during FY24. In USD terms returns stood at 92% during the fiscal year, on the back of a 3% PKR appreciation. All-Share Market capitalization increased 62.88% to PKR 10.37 trillion; up 67.4% in USD terms to USD 37.27 billion. The PSX was ranked the top performing equity market globally for FY24.

The investments division continued to provide working capital and cashflow support to our core business, generating Rs. 895 million in cash flow support through investment income (mainly from

dividend income flows) and Rs. 1,919 million through the pledge of assets for funded and non-funded limits.

The portfolio (on a consolidated basis including CS Capital) holds Rs. 1,133 million or 22.1% in trading investments while Rs. 2,997 million or 58.6% make up strategic investments that include a 17.6% stake in Altern Energy Limited. Portfolio dividend yield stood at 11.1% against the KSE-100 dividend yield of 11.9%. The division posted a PBT of Rs. 988 million, including Rs. 421 million in share of profits from equity accounted investee, contributing 77.7% to the consolidated EPS of Rs. 16.38.

The KSE-100 is currently trading at a forward P/E of 4.2 – compared to regional market averages of 12.1x. Similarly, in terms of price-to-book (P/B) ratio of 0.8x vis-à-vis regional P/B average of 1.6x. FY24 saw significant earnings growth up 25% and 10% YoY on a PKR and USD basis respectively. Similarly, dividend payouts were up 30% YoY. This is indicative of the resilience of Pakistan corporates – we remain bullish on Pakistan and will continue to remain invested in top Companies in high performing sectors through the PSX.

We also operate a 19,680 spindle yarn manufacturing unit that goes by Crescent Cotton Products. The unit has a capacity to produce 9.2 million Kgs of high quality yarn per annum. As mentioned above the unit remained inoperative during the year and consequently posted a loss before tax of Rs. 196.7 million.

Our business unit in secondary steel manufacturing, operating as Crescent Hadeed, manufactures high quality steel billets by processing steel scrap through induction melting and continuous casting process. Our billets are used as inputs by steel re-rolling operations to produce a range of steel construction products. We feel there is ample room for growth in this sector as Pakistan's per capita consumption of steel ~ 49 Kgs is significantly lower than the world average and regional peers; of this Pakistan produces only ~ 17 Kgs per capita indicating significant room for growth in this segment.

Adjacent to this unit is a 16.5 MW bagasse-fired thermal co-generation plant, that generates and supplies energy and steam; the plant is augmented with a 15 MW condensing turbine that converts low pressure steam to power.

Both, the steel long products and bagasse fired thermal co-generation unit remained closed during the entirety of fiscal year 2024. Collectively, the units posted a gross loss of Rs. 122 million. The aggregate losses from all three units for the year stood at Rs. 318.7 million.

The Company also holds investments in a 100 MW solar park through a wholly owned subsidiary, Solution de Energy (Private) Limited. The project aims to develop, own, operate, and maintain a 100 MW solar power project in Solar Power Park, established by the Government of Punjab in the Cholistan desert. The Company has been granted an electricity generation license from the National Electric Power Regulatory Authority (NEPRA) for its 100MW Solar Power Plant.

We employ a diverse workforce with varying skill sets across 6 locations; on average, we had 434 people in employment during the outgoing fiscal year, receiving compensation and benefits of Rs. 669 million during the year. We closed the fiscal year with a workforce of 433 (FY23: 434).

From our earliest beginnings, our commitment has always been to deliver quality products responsibly, efficiently, and economically, and in doing so to make positive contributions to our community, provide fair returns to our shareholders and a desirable workplace for employees.

As a long-term industrial concern, our values are rooted in sustainable principles. Since we opened our first mill in Nooriabad in the 1980s to the start-up of our state-of-the-art steel melt shop in Bhone in 2016, with all our acquisitions and expansions during this time, we have grown with the communities where we work and live, have remained invested in the overall well-being of Pakistan, minimizing our environmental footprint and being a reliable partner for suppliers and customers.

I am proud that our entire leadership team displays an unwavering commitment to ethical business practices that are insisted upon by managers and the leadership team. Our Core Values and Governing Principles articulate our collective belief that all aspects of our Company's business should be conducted based on standards of honesty, openness, fair play, and decency. These principles were adopted before any Code of Corporate Governance was mandated on a publicly listed Company and before the Company was listed in 1987. They still serve as Crescent Steel's North Star, informing our thinking, behaviors, and expectations around doing what is right and responsible for our business and for all Crescent Steel stakeholders.

This demands the highest ethical standards, a culture of care embodied by safety first, a commitment to environmental stewardship, strong relationships with all our stakeholders, and the discipline and focus to stay the course in good times and bad. At Crescent Steel, we are proud of what we have been able to accomplish over the last 40 years, and we look forward to the opportunities in front of us to continue to make a lasting difference.

LOOKING AHEAD

In the upcoming fiscal year, we expect to execute the additional quantities we have secured against the K-IV project. We also have orders in hand from both gas utilities that will keep us busy during FY25.

We expect tendering of up to 100 KM for assorted sizes large diameter pipes within the first half of FY25, with expected execution to begin Q1FY26. In the water sector we expect that projects allied with K-IV will continue to keep us occupied over the next three years, including the K-IV Augmentation Project and the K-IV Project, Phase-II.

We remain bullish on Pakistan and expect strong returns from our investments division in the medium term. Our investment portfolio is strong and supports our cashflow and financing needs – this fiscal year as the government moves to rationalize anomalies in the power sector, we expect healthy payouts from this sector to add to our bottom line and cashflows.

I know that Crescent Steel is a strong Company – one that can absorb shocks and deliver in difficult times, from a long-term viewpoint.

We have faced some extraordinary challenges across our all-business segments; however, as a Group we stayed true to our mission and guiding principles. We put in place the building blocks to ensure that we emerged from these challenges a stronger and more focused business, able to respond to the changing dynamics of the markets and world we operate in.

We have a clear strategy and our focus for the year ahead remains on strengthening our position in the engineering sector and on reviewing our existing asset base to get leaner and more agile as we continue to build pathways towards future sustainable and long-term gains and growth.

I would like to thank the Board and its committees for their proactive role in guiding us, and to all our employees and my management team for their strong commitment and their outstanding contribution in challenging times.

Finally, I would like to recognize 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

August 07, 2024