Companies and Intellectual Property Commission
Republic of South Africa

Form CoR 125.1

About this Form

- This form is issued in terms of section 132 and 141 of the companies Act, 2008, and Regulation 125 of the Companies Regulations, 2011.
- This Notice and the attached report must be published to every affected person, and to-
  - a) The Commission, if the business rescue proceedings were started by the company; or
  - b) The court, if the proceedings were ordered by the court.
- A report and Notice must be issued at the end of the first three months of the business rescue proceedings, and at regular monthly intervals after that

Contacting the Commission

The Companies and Intellectual Property Commission of South Africa

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Business Rescue Status Report

Date: 31 January 2021

Customer Code: IAN B03

Concerning

(Name and Registration Number of Company)

Name: Consolidated Steel Industries (Pty) Ltd

Registration No: 2006/031549/07

The above named company commenced business rescue proceedings on 13 July 2020.

Because the business rescue proceedings have not concluded within three months, the appointed business rescue practitioner provides the attached report in terms of section 132 (3).

Please see the annexed report below.

Name and Title of person signing on behalf of the Practitioner:

Sello Mkhondo

Authorised Signature:

This form is prescribed by the Minister of Trade and Industry in terms of section 223 of the Companies Act, 2008 (Act No. 71 of 2008).

CONSOLIDATED
STEEL INDUSTRIES

2 March 2021

CONSOLIDATED STEEL INDUSTRIES (PTY) LIMITED
(In Business Rescue) ("CSI" or the Company")

SECTION 132(3)(A) REPORT TO AFFECTED PERSONS
FOR THE MONTH ENDED 31 January 2021

The Company's directors and duly appointed Business Rescue Practitioners ("**BRP's**") have pleasure in submitting their report on the trading performance and financial position of the Company for the month ended 31 January 2021 ("**3rd Monthly Report**").

INTRODUCTION AND BACKGROUND

CSI is one of South Africa's market leading industrial conglomerates that comprised two distinct principal business units, namely:

- Global Roofing Solutions ("**GRS**"), one of the oldest and largest metal roofing and roofing accessory manufacturers in South Africa that services the construction, roofing and hardware merchanting industries in South Africa and Sub-Saharan Africa; and until recently,
- Stalcor, previously one of the top three 'Tier 1' distributors of stainless steel and aluminium products in South Africa, servicing customers in the fabrication sector and steel merchants.

The ravaging economic effects of the Covid-19 Lockdown exacerbated by an already recessionary South African economy, systemic challenges in local steel production and a delicately capitalized CSI balance sheet gave cause for the directors of CSI to place the Company into Business Rescue on 13 July 2020, whereafter the duly-appointed BRP's assumed operational control over the CSI business.

Within 5 weeks of being placed into business rescue, the BRP's published the CSI Business Rescue Plan ("**BR Plan**") on 18 August 2020, which was subsequently approved by more than 98% of creditors on 27 August 2020. As part of the approved plan, a post-commencement finance ("**PCF**") facility of R257 million was negotiated with CSI's biggest creditor to help ensure continuity of operations while the company implemented its 'back-to-basics' restructuring and business re-engineering.

The principal purpose of this report is to provide monthly feedback and insight as to the progress made in the implementation of the approved BR Plan, which highlighted the following key elements:

- Gross profit/margin maximisation
- Cost cutting
- Recovery of creditors funds
- Operational separation and restructuring
- Potential division/asset sales

As detailed in the Company's Report to Affected Persons at 30 November 2020 ("**1st Monthly Report**"), with effect from 1 November 2020 the Company disposed of all of the Stalcor inventories, which pre-empted the decision to wind down the Stalcor business. This decision was principally driven by Stalcor's low sales margins, onerous stocking requirements and Covid-19's negative impact on the high volume dependency of this business. Accordingly, the Company's only remaining on-business is that of GRS.

TRADING AND SALES MARGINS

Sales Revenues

	R'000		
	Actual	Forecast	Planned
Sales revenues for January 2021:			
- GRS	35,606	40,795	46,906
- Stalcor	11,610	13,759	n/a **
- **CSI (total)**	**47,216**	**54,554**	

***: No 'Planned' sales revenues for Stalcor as this business is in the process of winding down its operations*

	Percentage %
Percentage of Actual vs Forecast achieved for the month of January 2021	86,5%

Comment on Sales Revenues:

A decision was taken during late October 2020 to accept an offer to sell all Stalcor inventories to a trade buyer at an average price of approximately 78% of book value, effective from 1 November 2020. This included a significant amount of slow-moving inventory. Accordingly, the Stalcor sales revenues for the month of January 2021 represent a continuance of the 'winding down' of Stalcor's traditional business, as opposed to a normal trading month characterized by ongoing trading stock replenishment.

'Planned' sales revenues for GRS represent those projected sales as reflected in the BR Plan.

The 'Forecast' sales revenues included adjustments for the Stalcor winding-down together with the effects on GRS of the general steel shortages that continued to plague the South African roofing industry (refer below) during the month of January 2021.

During January 2021, GRS continued to suffer the effects of the shortages of galvanised and painted steel coil in South Africa, which shortages continued to affect numerous companies and industries in South Africa. This systemic steel shortage is referred to in the 1st Monthly Report for November 2020 ("**1st Monthly Report**")

Despite ArcelorMittal SA ("**AMSA**") having since resumed hot-rolled coil production in late December 2020, its downstream galvanizing and painting lines had not yet reached required production levels to satisfy January 2021 demand. Encouragingly, raw material receipts by GRS from AMSA showed encouraging signs of recovery in February 2021. However, it still remains challenging for GRS to predict quantities and timing of AMSA deliveries.

The achievement of 86,5% against Forecast sales revenues during the month of January 2021 was frustrating, particularly given the high levels of demand for GRS's products.

Sales margins

Similar to December 2020, the general steel shortages described above compelled GRS to once again buy parcels of steel offered on the open market at premium prices thus resulting in ~R3 million of its January 2021 sales transactions yielding significantly lower sales margins. In addition, GRS resorted to selling its inventories of aging 'odd lot' coils at discount-to-cost prices – the sum of these sales amounted to R250,000. These temporary anomalies were the principal contributor to GRS's negative Prime GP% variance.

The Stalcor inventory sale and winding down process progressed as planned during January 2021. As was expected, the slower moving inventories were sold at 4% discount to cost during January 2021. Although these discounts-to-cost are expected to deepen in February and March 2021, the targeted aggregate gross proceeds of 78% of book value of all Stalcor inventories (as referred to above) is expected to be achieved.

We thank both Stalcor's suppliers and customers for assisting the Company in this regard.

Sales Order Book

The GRS forward sales order book remains buoyant with over 4,450 tons on formal customer orders for February 2021 delivery. In addition to these formal customer orders, GRS expects its 'intra month' sales demand will continue to significantly augment monthly sales revenues.

Delivery against this sales order book is, in the short term, largely dependent on resumption of regular and predictive supply of raw material in the form of galvanised and painted coil from AMSA.

As referred to in the 1st Monthly Report, management and the BRP's instituted additional initiatives and control mechanisms to mitigate the risk of short supply. During late October and early November 2020, strategies were implemented to shift the reliance on local supply to imports. The implementation of this strategy garnered the support of CSI's funders with whom management and the BRP's are in constant contact.

In this regard, it is pleasing to note that imported raw material ordered by the Company is being received in increasing quantities and will contribute to the forecast February 2021 sales.

Purchase Order Book

At 31 January 2021, the Company had over R374 million of raw materials on purchase order for delivery during the three-month period ending 30 April 2021. Notably R79,4 million of these purchases represent imported product. These purchase orders are to satisfy the formal sales orders, the 'intra-month' sales demand and to increase inventory to sustainable levels.

As referred to above, a significant backlog of purchase orders made by GRS on AMSA remained undelivered by 31 January 2021, which had a significant negative impact on GRS's January 2021 sales and gross profit generation.

THE STALCOR WIND-DOWN

As referred to in the 1st Monthly Report the BRP's, with the assistance of Deloitte and CSI Management concluded a sale of Stalcor's entire steel inventories on a piece-meal basis, including all slow moving and redundant stock, to another trader in the market effective 1 November 2020.

These piece-meal sales of Stalcor inventories continue to progress as planned/agreed. This has resulted in the winding down of the traditional Stalcor business, and consequent retrenchments.

All affected Stalcor employees accepted the retrenchment terms as negotiated and agreed under the Section 189 consultation processes. All retrenchment obligations to affected Stalcor employees were paid by 31 December 2020. At 31 January 2021, CSI had retained a 'skeleton' Stalcor staff complement of 14 people to conclude the disposal of the remaining Stalcor inventories. The employment contracts relating to these staff members will be terminated in February (6 staff members) and March (8 staff members).

STEEL INDUSTRY CHALLENGES

AMSA supply shortages

Towards the end of October, it became alarmingly apparent to both CSI Management and the BRP's that ArcelorMittal South Africa's (AMSA) production problems, following its wildcat strikes and plant maintenance issues, would lead to critical raw material shortages for GRS in the months of November and December 2020. As described above, these shortages did in fact occur and, regrettably extended in January 2021.

AMSA's inability to supply steel resulted in a domino effect felt by steel merchants and fabricators throughout the country. Thus far, AMSA has been by far the major supplier of raw material to GRS, and this delay or loss of supply negatively affected GRS' projected sales by circa R90 million during the four-month period ended 31 January 2021 thereby depriving GRS of trading profits of approximately R18 million. Most of GRS's customers have been negatively impacted, but have been kept abreast of the situation. The delays/backlogs have also had an effect on payments due to creditors according the BR Plan.

CSI response to the shortages

Having experienced the shock of the shortages, referred to above, GRS has increased the level of imports going forward as can be seen from the above review of the Purchase Order Book. The positive effects of this strategy are expected to increasingly manifest from about the middle of Q3. Forecasts have been updated to reflect these challenges and new the strategies.

Notably, in response to the worldwide steel shortages, the local and international price of hot rolled coil, has over recent months, increased considerably. Both management and the BRP's are acutely aware of this and, as part of the Company's import strategy, continue to strive to seek out parcels of high-quality steel from international mills and steel traders at discounted/competitive prices.

COST REDUCTIONS IMPLEMENTED

Prior to the Covid-19 Lockdown, CSI typically generated *circa* R210 million in monthly revenues against a total manufacturing and overhead cost-base averaging around R25 million per month, the majority of which were 'fixed costs' in nature.

The BR Plan anticipated that 'post Covid-19' trading activity would reduce to *circa* 60% of pre-Covid levels and, accordingly, the CSI cost base had to be urgently and decisively reduced to stop further losses. Under the guidance and direction of the BRP's, the implementation of this much needed cost-reduction and cost optimization plan was accelerated in July 2020.

We are pleased to again report that through continued monitoring and intervention, the cost-base of GRS (in relation to continuing operations) for the month of January 2021 was R2.0 million less than that originally budgeted and was R1,9 million below the forecast of R11,7 million. Comparatively, the January 2020 (prior year) cost base amounted to R17,4 million.

CASH FLOW

The BRP's and CSI management continue to successfully focus on and manage cash flow on a daily basis.

During the month of January 2021, the Company continued to achieve close to a +95% accuracy in terms of its budgeted/forecast cash flows and remain confident and committed to the settlement of all remaining 'ring-fenced' historical creditor obligations (amounting to *circa* R102 million) together with the payment, within terms, of all trade payables arising post business rescue.

Regrettably, the impact of below 'Planned' sales, increased reliance on imports and the abnormal cost variances associated with the discontinuance of the traditional Stalcor business resulted in delayed payment expectations pertaining to Ring-fenced historical creditors. It is pleasing to report that, notwithstanding the above constraints and as referred to in the 2nd Monthly Report (for the month of December 2020), limited payments to Ring-fenced creditors resumed in January 2021 with a total amount of R22.8 million being disbursed in the latter part of the month. The target for completion of the Ring-fenced payments remains end of June 2021.

In this regard, it is pleasing to report that cash balances, together with available banking facilities at 31 January 2021 were R38 million higher than those forecast for the month then ended. This higher than forecast liquidity bodes well for additional Ring-fenced creditor payments in February and March 2021.

Management and the BRP's remain committed to executing on the Business Rescue Plan according to schedule, to the extent possible barring all external influences. Management and BRP's further wish to thank creditors for their patience and assistance whilst they navigate the abovementioned challenges.

SALE OF CSI ASSETS

Disposal/discontinuance of non-core operations

The BRP's, with the assistance of Deloitte Corporate Finance ("**Deloitte**") and CSI management have:

- Concluded the sale of Stalcor's Botswana-based subsidiary and collected the sale proceeds;
- Concluded the disposal of GRS's Zimbabwean-based operation. It is envisaged that proceeds for the sale of this operation, Global Roofing Solutions Zimbabwe (Pvt) Limited, will be collected in parts over 3 months ending March 2021. At 31 January 2021 a total of R3 million of the sale proceeds remained outstanding, all of which is expected to be recovered by 31 March 2021;
- Concluded the disposal of GRS's Robertson Ventilation Industries (RVI) and progress in winding-down of RVI's South African operations is progressing as planned. It is intended that GRS will continue to manufacture against order, the Orion ventilation systems, the design and intellectual property rights for which remain the ownership of GRS.

SALE OF GRS

Plans to sell GRS as a going concern or CSI remain ongoing. In accordance with the sales process, the BRP's, with Deloitte's guidance, are currently actively engaging with potential buyers on final offers.

If successful, it is anticipated that the sale process will be completed by end of Quarter 3.

CONCLUSION AND APPRECIATION

The business rescue of CSI is still progressing well. The BRP's and CSI Management remain confident of ultimately achieving the financial projections set out in the BR Plan, albeit it delayed as a consequence of the steel shortages and mitigating import strategies referred to above.

CSI is grateful for the continued support of its valued customers, suppliers, financiers, creditors and landlords. The forward sales order book remains an achievable beacon to take the CSI business forward into 2021.

The BRP's together with CSI management remain committed to maintaining and increasing the momentum of this successful business turnaround so as to maximize the return for all affected persons.

Thank you.

Chris Ransome
Executive Chairman

Andrew Winter
Chief Executive Officer

Ian Fleming
Business Rescue Practitioner

Sello Mkhondo
Business Rescue Practitioner