VIS

Credit Rating Company Limited

DEFAULT NOTE - AGHA STEEL INDUSTRIES LIMITED

On May 22, 2024, VIS Credit Rating Company Limited (VIS) had assigned a 'D' (Default) instrument rating to Agha Steel Industries Limited's ('ASIL' or 'the Company') Sukuk 3 issue on account of non-payment of its obligations. The Sukuk 3 had previously been assigned a rating of 'BB-' (Double B Minus) with a 'Negative' outlook as a result of stress on the financial profile following operational interruption arising from a fire incident in December 2023 and subsequent constraint on production capacity. This rating action was announced on April 01, 2024.

Earlier on July 23, 2023, VIS had issued preliminary instrument ratings of A+ (Single A Plus) to the Sukuk 3 issue. ASIL had issued the Sukuk 3 amounting to PKR 3.4bln on August 17, 2023, as a debt swap for the Company's previous outstanding Sukuk issue. The instrument had a tenor of 4 years including a grace period of 1.5 years. While the profit on the Sukuk was to be paid on quarterly basis, the principal amount was to be redeemed in ten equal quarterly installments commencing from the 21st month after issuance. The issue was secured by way of first pari-passu charge over all present and future fixed assets of the Company with 25% margin. Additionally, the Company was required to deposit one-third of the upcoming coupon payment each month in a Debt Payment Account (DPA). To provide further reassurance to investors of timely payments, any shortfall in the DPA was to be made up by sponsors through fresh equity injection, as per the Sponsor Support Agreement. The assigned ratings were contingent on the unconditional sponsors backing provided in the aforementioned agreement.

Initially VIS had assigned an entity rating of 'A/A-1' (Single A/A-One) to (ASIL), on December 5, 2017. The initial ratings incorporated the Company's sound financial profile with adequate leverage indicators and cash flows in relation to outstanding obligations. Ratings also reflected strong demand dynamics of the steel sector at the time, supported by higher infrastructure development and demand for housing during the period. Moreover, improving corporate governance framework was also considered as an important rating driver.

Subsequently on October 18, 2019, VIS revised the entity ratings of ASIL from 'A/A-1' (Single A/A-One) to 'A-/A-2' (Single A Minus/A-Two). This revision was attributed to a weakened sector outlook due to a slowdown in demand, new capacities coming online, and a decline in the financial risk profile concerning profitability, liquidity, and capitalization indicators. Later, on January 18, 2021, the entity ratings were upgraded to 'A/A-1' (Single A/A-One) following an improvement in the financial risk profile, driven by enhanced profitability, DSCR, liquidity, and capitalization indicators. The assigned ratings also took into account sovereign protection extended to the industry through a favorable tariff regime and an improved demand outlook.

In March 2024, the Company defaulted on payment of the Sukuk 3 owing to production disruption following a fire incident in the plant. On December 29, 2023, an electric short-circuit incident occurred at the Company's plant, leading to damage to a part of the plant. Plant operations were suspended until January 16, 2024. The plant since then has been operating at limited capacity. Initially the Company estimated around six months for resumption of full-scale operations, which has not been achieved yet. Resultantly, the Company's financial profile came under significant stress, thereby impacting on its ability to meet its financial obligations. Given the recovery time needed, resumption of normal debt servicing would take some time. As a result, the Company's entity ratings and Sukuk 3 ratings were downgraded to 'BB-/B-3' ('Double B minus'/'B-Three') and 'BB-' ('Double B minus'), respectively. Following the non-payment of obligations on Sukuk 3, VIS assigned a 'D' (Default) rating to the instrument, while downgrading the entity ratings to 'CCC/C' ('Triple C'/'C') on May 22, 2024. The management has initiated discussions with lenders to restructure the debt, aiming to fully operationalize the plant to support operations and revenue generation for debt servicing as negotiated with the lenders.

	FY22	FY23	6MFY24
Sales	25,647.9	20,582.2	9,344.7
Gross Margin	5,490.3	4,820.0	1,808.8
Net Profit	1,854.8	904.9	-219.0
FFO to Total Debt*	14.6%	7.0%	-0.9%
DSCR*	0.9	0.6	0.7

Table 1: Key Financial Indicators (All Figures in PKR' Millions, except for percentages)

RATING TRANSITION

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
22-May-2024	D			Default
01-Apr-2024	BB-		Negative	Downgrade
21-Dec-2023	A+		Stable	Reaffirmed
25-Aug-23	A+		Stable	Final
07-Jul-23	A+		Stable	Preliminary