RATING REPORT

Aisha Steel Mills Limited

REPORT DATE:
October 6, 2017

RATING ANALYSTS:
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RATING DETAILS		
	Initial Rating	
Rating Category	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	*October 5, 2017*	

COMPANY INFORMATION	
Incorporated in 2005	**External auditors:** M/s A. F. Fergusons & Co.
Public Limited Company	**Chairman of the Board:** Mr. Arif Habib
Key Shareholders as on June 30, 2017 (with stake 5% or more):	**Chief Executive Officer:** Dr. Munir Ahmed
Muhammad Arif Habib – 19.4%	
Arif Habib Equity (Pvt.) Ltd – 30.76%	
Metal One Corporation – 9.11%	
Others including General Public – 35.19%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Industrial Corporates (May, 2016) http://www.jcrvis.com.pk/kc-meth.aspx

Aisha Steel Mills Limited (ASL)

OVERVIEW OF THE INSTITUTION

Aisha Steel Mills Limited (ASL) was incorporated in Pakistan on May 30, 2005 as a public limited company. The company was formed to carry out its principal business of manufacturing and selling cold rolled steel in coils and sheets. The company commenced its operations on October 1, 2012 with annual capacity of 220,000 MT.

Mr. Arif Habib and his group companies have a cumulative shareholding of 50.2% in ASL as on June 30, 2017. Other investors on that date include Metal One Corporation and Universal Metal Corporation, Japan with holding of 9.11% and 3.64% respectively. General local public held 17.84% shares in the company, corporate entities and funds etc. held 16.13% whereas foreign investors had a stake of 1.22% in the company. The paid up capital of the company has been increased subsequent to June 30, 2017 consequent to allotment of rights issue.

The board is chaired by Mr. Muhammad Arif Habib who is an experienced investment professional and has founded the group. Mr. Arif Habib has significant experience in the brokerage sector. The Management team of ASL is spearheaded by Dr. Munir Ahmed who has 15 years of experience in the steel industry. Dr. Munir holds a PHD in Metallurgy and Material Engineering.

RATING RATIONALE

Aisha Steel Mills Limited (ASL) is involved in the principal business of manufacturing and selling Cold Rolled Coil (CRC) products in the country. The current production capacity stands at 220,000 MT and represents around 30% of the local CRC capacity. Total demand for CRC was 1.1m tons in FY17. Around two-third of the demand is currently being catered by the two local producers with remaining demand being met through imports. Besides regulatory duty protection (5% duty advantage compared to CRC imports from FTA countries), local players also benefit from anti-dumping duty (ADD) on imports from China and Ukraine.

With industry capacity utilization at 86% during FY17 and healthy demand growth, both local players have announced capacity expansions which are expected to come online in FY19. Resultantly, installed CRC capacity of local producers will increase to 1.7million tons from 0.7million tons currently. Assuming imports decline to 250,000tons (FY16: 359,000) due to full year impact of imposition of ADD and annual demand growth of 10%, capacity utilization levels will decline to 71% (FY21: 80%) in FY20. Utilization levels may fall further in case of imports exceeding assumed levels. Both industry players will look to tap export markets in order to enhance utilization levels.

During FY17, ASL's capacity utilization stood at 89.5% which has facilitated in reducing conversion costs. Moreover, dealer network has been expanded while direct sales have been increased to one-fourth of total sales in FY17 from 5% in FY16. In order to cater to rising demand, ASL plans to increase installed capacity to 700,000 tons. The proposed expansion has a cost of Rs. 5.4b and will be funded through a mix of debt (60%) and equity (40%). Enhanced capacity will also include a galvanized line with a capacity of 250,000 tons and facilitate in diversifying sales mix.

Business Risk

- JCR-VIS considers steel sector in general and flat steels sector in particular to comprise high business risk given the significant volatility in HRC- CRC margins and threat of dumping. This is also evident from significant volatility in quarterly gross margins of both players over the last 8 quarters. Dumping risk has been partly mitigated by imposition of ADD on imports from China and Ukraine which has also improved pricing power as evident from recent price increases by both players. However, dumping from countries on which ADD has not been levied remains a risk.
- Demand outlook for the sector benefits from widespread product usage and healthy sales growth forecast for industries (autos, consumer durables & construction) catered by ASL.
- Post expansion by both players, excess capacities of CRC coming online may intensify competition and necessitate tapping export market to enhance capacity utilization levels.

Profitability: Profitability of the company has posted growth in FY17 on the back of higher production & sales, increase in prime margins and reduction in finance cost. Given that the company is expected to operate at high utilization levels during FY18, prime margins will be the single most important factor in determining quantum of profits. Post capacity expansion, profitability and cash flows are projected to depict healthy growth on the back of increased sales volumes.

Liquidity & Capitalization: Capitalization levels of the company have strengthened on a timeline basis due to increase in equity base resulting in declining leverage indicators. However, gearing continues to remain on the higher side at over 2(x) at end-9M17. Cash flows in relation to outstanding obligations have witnessed noticeable improvement. Besides improving cash flows, debt servicing is projected to remain adequate due to extended repayment period on long term debt that the company enjoys. Debt servicing for fresh loan for expansion will commence in FY21 while the plant is targeted to be online in Jan'2019.

Aisha Steel Mills Limited

Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	FY14	FY15	FY16	9MFY17
Fixed Assets	10,219	9,996	9,689	9,680
Stock-in-Trade	3,347	2,433	2,814	3,056
Trade Debts	192	76	77	65
Cash & Bank Balances	60	132	45	187
Total Assets	16,281	15,337	15,352	15,591
Trade and Other Payables	4,858	3,009	2,969	1,928
Long Term Debt	5,489	5,605	5,324	4,985
Short Term Debt	3,384	3,889	4,373	3,943
Total Equity	1,905	2,420	2,274	4,320
INCOME STATEMENT				
Net Sales	9,259	9,492	9,634	10,774
Gross Profit	59	40	980	1,679
Operating Profit	(117)	(122)	804	1,529
Profit After Tax	(347)	(1,211)	(155)	972
RATIO ANALYSIS				
Gross Margin (%)	0.6%	0.4%	10%	16%
Net Working Capital	(2,971)	(2,731)	(2,873)	(1,457)
FFO to Total Debt (%)	-25%	-18%	4%	19%
FFO to Long Term Debt (x)	-25%	-18%	4%	35%
Debt Servicing Coverage Ratio (x)	NA	(98.8)	20.6	3.4
ROAA (%)	-2%	-8%	-1%	6%
ROAE (%)	-18%	-56%	-7%	29%

ISSUE/ISSUER RATING SCALE & DEFINITION
Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES
Appendix III

Name of Rated Entity	Aisha Steel Mills Limited
Sector	Steel Industry
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
October 5, 2017	A-	A-2	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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