

RATING REPORT

Aisha Steel Mills Limited

REPORT DATE:

December 13, 2022

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
Entity	BBB+/A-2	A-/A-2
Rating Date	December 13, 2022	March 10, 2022
Rating Action	Downgraded	Reaffirmed
Rating Outlook	Stable	Stable

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, 2021 (with stake 10% or more):	Chief Executive Officer: Dr. Munir Ahmed
Arif Habib Equity (Pvt.) Ltd Ltd – 32.54%	
M. Arif Habib – 19.59%	
Arif Habib Corporation Limited – 13.32%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (August, 2021)
[CorporateMethodology202108.pdf \(vis.com.pk\)](#)

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 has an annual capacity of 730,000 MT including CRC and HDGC.

ASML produces Cold Rolled Coils (CRC) and Galvanized Iron (GI) of international quality standards from imported Hot Rolled Coils (HRC). Company's products are used in automotive, construction, and engineering sectors as a premier raw material for further processing into a wide variety of value-added products.

RATING RATIONALE

Aisha Steel Mills Limited, incorporated in 2005, is one of the three producers of flat steel products in the country. At present, the company has the production capacity of 700,000 MT per annum. This is divided into 450,000 MT for Cold Rolled Coils (CRC) and 250,000 for Hot Dipped Galvanized Coils (HDGC). As per management, the company is undertaking a project to enhance operational efficiency and raise production capacity. It is expected to be finalized soon, after which the overall installed capacity will go up to 850,000 MT per annum. The plan has a total cost of Rs. 3.2b out of which Rs.2b will be financed by debt.

Operating Data	FY19	FY20	FY21	FY22
CRC Capacity (MT)	450,000	450,000	450,000	450,000
CRC Production (MT)	168,944	156,663	195,796	141,045
Capacity Utilization (CRC)	38%	35%	44%	31%
CRC Sales (MT)	178,441	146,144	199,944	143,514
Galvanized Iron Capacity (MT)	250,000	250,000	250,000	250,000
Galvanized Iron Production (MT)	33,571	121,137	169,478	165,482
Capacity Utilization (Galvanized)	13%	48%	68%	66%
Galvanized Iron Sales Sales (MT)	27,017	112,309	179,678	162,699
Capacity Utilization (Total)	29%	40%	52%	44%

Ratings have been downgraded on the back of weakening financial risk profile particularly debt servicing ability of the company.

ASL's rating factors in the business risk of the flat steel industry, which is considered high, given its sensitivity to changes in exchange rate, interest rate, and commodity prices. Considering the slowdown in automobile and construction industries, the demand outlook for flat steel products is considered to be depressed, which is expected to restrict the level of overall profitability.

VIS captures significant demand slowdown in the automobile industry in view of the weak economic fundamentals of the country, high benchmark rates, political uncertainty, inflationary pressures, floods in the country and the restrictions on quantity of imports of CKD kits imposed by State Bank of Pakistan to conserve the dwindling foreign reserves of the country. Moreover, cyclicity in sales due to slow down in GDP growth remains a key business risk factor.

Financial performance of the company during FY22 and the ongoing year was noticeably affected by a fall in HRC prices globally leading to inventory losses, depreciation of local currency, and shrinking local market demand. The entity posted revenue of Rs. 6.4b (FY22: Rs. 64.8b, FY21: Rs. 55.1b), gross margin of 2.33% (FY22: 8.5%, FY21: 20.3%) and net loss of Rs. 1.4b in Q1FY23. Out of the total loss of Rs. 1.4b, Rs. 1.2b emanated from exchange loss. With losses incurred, cash flow coverages of the entity were also adversely impacted, bringing the liquidity profile under stress. With management's plan to draw additional debt for debt servicing if projected level of profitability is not achieved leading further pressure on leverage indicators and bottom-line of ASL emanating from higher finance charges

Improvement in the overall financial risk profile of the company is important from the ratings perspective considering a weak macroeconomic outlook and depressed automotive demand.

FINANCIAL SUMMARY- Aisha Steel <i>(amounts in PKR millions)</i>						
BALANCE SHEET	FY18	FY19	FY20	FY21	FY22	Q1FY23
Fixed Assets	13,374	20,133	19,007	19,399	19,124	19,003
Deferred Tax Asset	933	1,344	2,159	449	736	1,379
Stock-in-Trade	4,312	6,920	7,916	11,053	14,999	21,111
Trade Debts	105	599	163	970	223	430
Cash & Bank Balances	46	209	183	238	208	180
Total Assets	20,426	32,731	34,531	36,524	46,805	51,612
Trade and Other Payables	1,210	1,234	6,314	6,938	9,334	16,264
Current portion of LTD	508	511	50	1,552	1,511	1,511
Long Term Debt	5,390	7,720	9,410	7,701	6,464	6,084
Short Term Debt	5,045	14,112	9,946	6,796	15,869	15,726
Total Debt	10,435	21,832	19,357	14,497	22,333	21,811
Paid Up Capital (Ordinary Shares)	8,323	7,655	7,655	7,717	9,248	9,248
Total Equity	6,933	7,235	6,652	13,062	12,730	11,329
INCOME STATEMENT						
Net Sales	18,904	20,231	29,777	55,116	64,830	6,543
Gross Profit	3,314	1,678	2,366	11,185	5,514	153
Operating Profit	2,995	1,453	2,043	10,112	3,574	(1,206)
Profit Before Tax	1,916	(412)	(1,343)	8,588	1,275	(2,016)
Profit After Tax	1,284	254	(617)	6,368	1,146	(1,411)
RATIO ANALYSIS						
Gross Margin (%)	17.5%	8.3%	7.9%	20.3%	8.5%	2.3%
Net Margin	6.8%	1.3%	-2.1%	11.6%	1.8%	-21.6%
Net Working Capital	(942)	(5,547)	(3,668)	789	(900)	(3,224)
Trade debts/Sales	1%	3%	1%	2%	0.3%	7%
FFO	2,028	708	(850)	9,204	683	(611)
FFO to Total Debt (%)	19%	3%	-4%	63%	3%	-11%
FFO to Long Term Debt (%)	38%	9%	-9%	120%	11%	-40%
Current Ratio (x)	0.87	0.67	0.78	1.05	0.97	0.91
Debt Servicing Coverage Ratio (x)	4.48	1.17	0.62	6.71	0.75	(0.04)
Gearing (x)	1.51	3.02	2.91	1.11	1.75	1.93
Leverage (x)	1.72	3.31	3.97	1.69	2.57	3.44
Stock+Trade Debts/STB	88%	53%	81%	177%	96%	137%
ROAA (%)		1%	-2%	18%	3%	-11%
ROAE (%)		4%	-9%	65%	9%	-47%

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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 III

Appendix

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
	<u>RATING TYPE: ENTITY</u>				
	December 13, 2022	BBB+	A-2	Stable	Downgraded
	March 10, 2022	A-	A-2	Stable	Reaffirmed
	January 15, 2021	A-	A-2	Stable	Maintained
	October 31, 2019	A-	A-2	Negative	Maintained
	October 2, 2018	A-	A-2	Stable	Reaffirmed
Instrument Structure	N/A				
Statement by the Rating Team	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.				
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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Due Diligence Meeting Conducted	Name	Designation	Date		
	Mr. Umair Noor	CFO	November 29, 2022		
	Dr. Munir Ahmed	CEO	November 29, 2022		