

RATING REPORT

Aisha Steel Mills Limited

REPORT DATE:

January 01, 2024

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
Entity	BBB+/A-2	BBB+/A-2
<i>Rating Date</i>	<i>January 01, 2024</i>	<i>March 31, 2023</i>
Rating Outlook	<i>Stable</i>	<i>Rating Watch - Negative</i>
Rating Action	<i>Maintained</i>	<i>Maintained</i>

COMPANY INFORMATION

Incorporated in 2005	External auditors: M/s A. F. Fergusons & Co., Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Arif Habib
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Dr. Munir Ahmed
Arif Habib Equity (Pvt.) Ltd – 33.54%	
Local Public – 20.48%	
Mr. Muhammad Arif Habib – 20.16%	
Arif Habib Corporation Limited – 13.63%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates
<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Aisha Steel Mills Limited

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 700,000 MT for rolling and 250,000 MT for galvanization.

Chairman Profile:

Mr. Arif Habib is an experienced investment professional and has founded the Arif Habib group. Mr. Arif Habib has significant experience in the brokerage sector. The Management team of ASL is spearheaded by Dr. Munir Ahmed who has 24 years of experience in the steel industry. Dr. Munir holds a PHD in Metallurgy and Material Engineering.

RATING RATIONALE

Company Profile

Aisha Steel Mills Limited ('ASL' or 'the Company') was incorporated in Pakistan in 2005 as a public limited company, commencing commercial operations in 2012. The company is involved in the manufacturing and sale of cold rolled coils and hot-dipped galvanized coils. ASL, part of the Arif Habib Group, represents a significant private sector investment in the local flat-rolled steel industry. Situated at Port Qasim, Karachi, the company meets both local demand and exports to various international destinations, including North America, Asia, Africa, Europe, and the Middle East. ASL derives demand from the automobile, engineering, and appliances industries.

Key Rating Drivers

High business risk profile; inflationary pressures and economic downturn may keep the demand dampen

VIS considers the business risk profile of the flat steel industry to be high, reflecting a range of factors impacting overall sector dynamics. In FY23 the industry was impacted by adverse macroeconomic conditions including import restrictions, currency depreciation, escalating steel prices, high inflation, elevated energy costs and policy rates.

The flat steel sector is characterized by two major players, International Steels Limited (ISL) and Aisha Steel Mills Limited (ASL). Both import Hot Rolled Coil (HRC) and transform it into various products. The sector's revenues contracted by ~31% YoY to Rs. 107,855 mln in FY23 because of reduced demand.

Going forward, challenges are expected to persist as the easing of import restrictions does not guarantee improvement in CKD imports, given low foreign exchange reserves. Demand-side factors, including reduced consumer purchasing power due to high inflation and economic slowdown, are expected to keep demand in the cold-rolled coil category muted. However, margins may see an increase due to a relatively stable currency and steel prices.

Sponsor support provides comfort to ratings.

Ratings derive comfort from the strong sponsor support extended to the Company. This support is evident from the contributions made amounting PKR 4.0 bln during FY23 amid significant economic challenges in the country. This helped the company sustain operations despite deteriorations in profitability and severe stress on the liquidity and coverage profile.

Revenue and margins deteriorated due to slow business activity in FY23.

In FY23, ASL reported a 52% YoY decline in its topline as sales volume contracted by 60%, attributed to sluggish business activity due to import restrictions and demand suppression. ASL's gross profit plummeted by 63%, resulting in a six-year low gross margin of 6.5%. Moreover, other expenses surged 132% due to substantial exchange losses and with increased pressure from higher financial costs the Company reported a net loss during this period.

In 1QFY24, ASL demonstrated an improvement in financial performance. Gross margins increased to 9.8%. ASL's bottom line turned positive to PKR 35 mln (FY23: PKR -3,216 mln, FY22: PKR 1,146.1 mln) during 1QFY24.

Capitalization metrics healthier on account of sponsor support and reduced debt utilization.

During the period, the Company incurred a net loss, but its equity base marginally improved due to contributions from the sponsor. Additionally, lower debt utilization led to enhanced capitalization metrics for the year, with gearing improving to 1.3x (FY22: 1.9x) and leverage to 1.6x (FY22: 2.7x). In 1QFY24, the capitalization profile experienced additional improvement as ASL demonstrated enhanced profitability, resulting in a higher equity base. This improvement was further supported by a sustained reduction in total debt.

Liquidity and coverage profile under stress amid constrained operational performance.

ASL's liquidity and coverage profiles remained under stress during FY23 and 1QFY24, respectively. The current ratio continues to be reported below 1.0x in the period under review. Similarly, the debt service coverage ratio (DSCR) turned negative in FY23 to -0.2x but managed to recover to 0.7x in 1QFY24 (FY22: 0.8x), albeit remaining under 1.0x. Management expects the constraint on its coverage profile to ease as operational performance improves in FY24.

Key Sensitivities for Future Ratings

Change in outlook is underpinned by the exhibited and the continued funded sponsor support to the company. Going forward ratings will remain sensitive to management's ability to achieve its projected plans and improve its stressed liquidity and coverage metrics. Moreover, improvement in the profitability profile and the maintenance of capitalization indicators will also be important considerations for future ratings.

Aisha Steel Mills Limited
Appendix I

FINANCIAL SUMMARY		<i>(PKR Millions)</i>		
BALANCE SHEET	FY21A	FY22A	FY23A	3MFY24A
Property plant and equipment	19,398.6	19,124.3	19,645.7	19,618.5
Inventories	12,088.1	16,607.5	9,167.2	8,692.1
Receivables	970.5	5,805.3	1,043.0	1,014.3
Cash & Bank Balances	238.1	208.0	1,147.2	279.9
Total Assets	36,523.5	46,804.8	38,046.2	36,458.9
Trade and Other Payables	6,937.6	9,333.8	3,604.8	5,349.5
Long-term Debt (incl. current portion)	7,701.2	6,462.8	4,970.2	4,585.5
Short Term Borrowings	6,795.7	15,869.4	12,650.7	9,782.7
Total Debt	14,496.9	22,332.2	17,620.9	14,368.2
Total Liabilities	22,056.9	32,768.5	22,354.4	20,731.9
Paid up Capital	7,716.8	9,248.0	9,300.2	9,300.2
Equity (excl. Revaluation Surplus)	12,394.2	12,062.0	13,575.5	13,621.0
INCOME STATEMENT	FY21A	FY22A	FY23A	3MFY24A
Net Sales	55,116.4	64,830.4	31,102.4	10,599.5
Gross Profit	11,185.4	5,513.7	2,013.6	1,033.6
Finance Costs	1,524.1	2,298.9	3,637.5	971.6
Profit/Loss Before Tax	8,587.8	1,275.1	-4,841.3	49.6
Profit/Loss After Tax	6,368.3	1,146.1	-3,215.7	35.2
RATIO ANALYSIS	FY21A	FY22A	FY23A	3MFY24A
Gross Margin (%)	20.3%	8.5%	6.5%	9.8%
Net Margin (%)	11.6%	1.8%	-10.3%	0.3%
Funds from Operation (FFO)	9,182.9	701.2	-4,413.5	-1.6
FFO to Total Debt* (%)	63.3%	3.1%	-25.0%	0.0%
FFO to Long Term Debt* (%)	119.2%	10.9%	-88.8%	-0.1%
Gearing (x)	1.2	1.9	1.3	1.1
Leverage (x)	1.8	2.7	1.6	1.5
Debt Servicing Coverage Ratio* (x)	3.4	0.8	-0.2	0.7
Current Ratio	1.0	1.0	0.8	0.8
(Stock in trade + trade debts) / STD (x)	1.9	1.4	0.8	1.0
Return on Average Assets* (%)	17.9%	2.8%	-7.6%	0.4%
Return on Average Equity* (%)	69.3%	9.4%	-25.1%	1.0%

**Annualized, if required*

REGULATORY DISCLOSURES				Appendix II	
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				
	January 01, 2024	BBB+	A-2	Stable	Maintained
	March 31, 2023	BBB+	A-2	Rating Watch – Negative	Maintained
	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	
	Dr. Munir Ahmed	Chief Executive Officer		December 1, 2023	
	Mr. Ali Hassan	Chief Financial Officer			
	Mr. Khawar Ahsan Siddiqui	Director Marketing & Sales			