RATING REPORT

Aisha Steel Mills Limited

REPORT DATE:
December 23, 2024
RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Latest Rating**	**Previous Rating**
Entity	BBB+/A2	BBB+/A2
Rating Date	*December 23, 2024*	*January 01, 2024*
Rating Outlook/Rating Watch	*Stable*	*Stable*
Rating Action	*Reaffirmed*	*Maintained*

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 General Public – 18.50%	
Mr. Muhammad Arif Habib – 20.15%	
Arif Habib Corporation Limited – 11.03%	

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.

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.

Sponsor profile

ASML is part of the Arif Habib Group, a leading industrial and financial conglomerate in Pakistan. The Group holds interests in the securities brokerage, investment and financial advisory, private equity, investment management, fertilizer manufacturing, cement, steel, real estate, energy and textile mills.

Operational Profile

Production and Utilization	FY21	FY22	FY23	FY24
Rolling- Actual Capacity (Metric Tonnes)	480,000	480,000	480,000	480,000
Rolling- Actual Production (Metric Tonnes)	365,275	306,527	112,635	159,444
Rolling- Capacity Utilization %	76%	64%	23%	33%
Galvanization- Actual Capacity (Metric Tonnes)	250,000	250,000	250,000	250,000
Galvanization- Actual Production (Metric Tonnes)	169,478	165,482	69,528	108,343
Galvanization- Capacity Utilization %	68%	66%	28%	43%

In FY24, production in the rolling and galvanization segments increased to 159,444 metric tonnes and 108,343 metric tonnes, respectively (FY23: 112,635 metric tonnes and 69,528 metric tonnes). The increase is attributable to higher demand from the infrastructure and automotive manufacturing sectors, alongside an improvement in exports following a decline in the prior year. Consequently, capacity utilization in the rolling and galvanization segments increased to 33% and 43%, respectively.

Industry Review

In the FY24, Pakistan's flat steel sector encountered multifaceted challenges, including fluctuating international steel prices, subdued domestic demand, and increased import competition. These factors collectively influenced the industry's performance and financial outcomes.

A notable development during FY24 was the significant reduction in domestic steel prices. In August 2024, leading flat steel manufacturers in Pakistan reduced prices by approximately PKR 45,000 per ton. This adjustment was primarily attributed to declining raw material costs in the international market influenced by excess capacity and subdued demand from China.

The contraction in the cold-rolled coil (CRC) and hot-rolled coil (HRC) spread further impacted the sector's profitability. In the fourth quarter of FY24, the CRC-HRC spread narrowed by 24% quarter-on-quarter, decreasing from ~USD 93.54 to ~USD 71.57. This downturn has resulted in inventory losses for Pakistani flat steel producers, as the value of existing stock diminished in line with falling global prices, specifically evident in recent 1QFY25 results of major players.

However, going forward, sales volumes are anticipated to see a mild recovery in FY25, driven by improved economic activity and a low base in FY24. Moreover, as inventory is run-down, profitability margins are also expected to normalize by year-end FY25. The industry is further going to benefit from a downward trend in the local policy rates, positively impacting the bottom-line of industry players.

Key Rating Drivers

Business Risk Profile

Industry Risk Profile; High to Medium

VIS considers the risk profile of the flat steel sector as high to medium. The demand for steel, primarily driven by cyclical industries such as construction, automotive, engineering, and home appliances, is closely linked to macroeconomic conditions. This cyclicality increases the flat steel industry's susceptibility to shifts in fiscal and monetary policies, thereby heightening its exposure to economic downturns. Furthermore, the energy-intensive nature of steel production renders the sector sensitive to energy price volatility, with relatively high domestic energy costs placing local producers at a disadvantage in export markets.

The industry is characterized by limited pricing power due to the commodity-like nature of steel, which offers minimal value addition. Susceptibility to import substitution constrains manufacturers' ability to pass through production cost increases, resulting in sustained pressure on profit margins. Ratings incorporate the Company's reliance on imported Hot Rolled Coils (HRC) as the primary raw material, where price and quality fluctuations directly influence production costs. HRC prices are subject to global supply and demand dynamics, impacted by economic conditions and inventory levels of international producers. The Company's dependence on imports also subjects it to exchange rate risk due to PKR depreciation against USD and transfer risk associated with State Bank of Pakistan (SBP) policies on letters of credit and forex controls.

Sponsor Support

Ratings derive comfort from the strong sponsor support extended to the Company from time to time. In FY23, sponsors and associated companies extended PKR 4.0 bln for working capital support. Furthermore, during 1QFY25, the company's sponsor contributed an additional Rs 2.9b. We expect sponsor support to continue going forward.

Financial Risk Profile

Profitability Profile

In FY24, the Company's revenue increased by 37% to Rs. 42.75b (FY23: Rs. 31.1b), driven by a 35% volumetric increase. Export volumes rose to 21,135 tons (FY23: 3,609 tons), while local volumes grew by 21% to 143,597 tons (FY23: 118,725 tons). Local sales contributed 87% of total revenue (FY23: 97%), while export sales accounted for 13% (FY23: 3%). The volumetric growth was supported by higher international demand amid improved global macroeconomic conditions, as well as increased activity in the local automotive industry during the year. Nevertheless, overall potential for volumetric offtake in the local market remained affected by cheaper imports from China and tax-free imports by FATA/PATA. Gradual interest rate reductions, improving macroeconomic conditions, and FBR measures to curb tax-free imports are expected to enhance future demand.

In FY24 the gross margin improved slightly to 8.9% (FY23: 6.7%). However, due to lower demand from China, international CRC prices recorded a decline which resulted in inventory losses for the steel players in Pakistan. Consequently, akin to industry, margins fell to 1.55% in 1QFY25. Nevertheless, as inventory is run down management expects margins to normalize and recover by year end-FY25.

Capitalization Profile

The gearing and leverage ratios increased to 1.47x and 1.85x, respectively, in FY24 (FY23: 1.31x and 1.65x) due to negative net profitability, continued equity erosion, and reliance on short-term borrowings to bridge operational cash flow gaps. In 1QFY25, despite revenue reserves turning negative, capitalization metrics improved to a gearing of 1.16x and leverage of 1.29x, supported by a PKR 2.9 bln injection from the sponsor as interest-free loans characterized as quasi-equity, with payment discretion retained by ASL.

Liquidity and Coverage Profile

As of FY24, the Company reported a current ratio of 0.76x (FY23: 0.85x) against a four-year average of 0.91x, reflecting constrained liquidity due to insufficient internal cash generation to meet operational requirements. The short-term debt coverage ratio stood at 0.73x (FY23: 0.74x), further highlighting liquidity pressures. At 1QFY25, the current ratio and short-term debt coverage ratio were recorded at 0.79x and 0.63x, respectively. At the same time, strained profitability also continues to impact the debt servicing which was recorded at 0.47x (FY23: -0.25x) in FY24 and then lower at 0.03x with constraints on gross margins in 1QFY25.

Aisha Steel Mills Limited Appendix I

Financial Summary

Balance Sheet (PKR Millions)	FY23A	FY24A	3MFY25M
Property, plant and equipment	19,645.72	19,624.34	19,481.60
Stock-in-trade	7,634.48	8,413.65	6,885.54
Trade debts	231.43	2,119.53	210.28
Cash & Bank Balances	1,147.15	217.07	345.30
Other Assets	9,387.39	10,222.56	10.850.22
Total Assets	38,046.17	40,597.15	37,772.88
Creditors	149.51	203.39	51.21
Long-term Debt (incl. current portion)	4,970.17	3,389.12	3,006.02
Short-Term Borrowings	12,650.72	16,490.13	15,099.06
Total Debt	17,620.89	19,879.25	18,105.08
Other Liabilities	4,584.06	4,807.54	1,848.23
Total Liabilities	22,354.46	24,890.18	20,004.52
Paid up Capital	7,982.65	7,982.65	7,982.65
Revenue Reserve	925.17	827.33	-2.28
Equity (excl. Revaluation Surplus)	13,575.51	13,477.66	15,552.56

Income Statement (PKR Millions)	FY23A	FY24A	3MFY25M
Net Sales	31,102.38	42,749.65	4,580.42
Gross Profit	2,013.55	3,830.64	71.17
Operating Profit	-1,203.79	3,064.22	-92.62
Finance Costs	3,637.52	3,860.83	1,129.81
Profit Before Tax	-4,841.30	-796.61	-1,222.43
Profit After Tax	-3,215.65	-132.47	-843.12

Ratio Analysis	FY23A	FY24A	3MFY25M
Gross Margin (%)	6.47%	8.96%	1.55%
Operating Margin (%)	-3.87%	7.17%	-2.02%
Net Margin (%)	-10.34%	-0.31%	-18.41%
Funds from Operation (FFO) (PKR Millions)	-4,413.46	-699.46	-1,282.59
FFO to Total Debt* (%)	-25.05%	-3.52%	-28.34%
FFO to Long Term Debt* (%)	-88.80%	-20.64%	-170.67%
Gearing (x)	1.30	1.47	1.16
Leverage (x)	1.65	1.85	1.29
Debt Servicing Coverage Ratio* (x)	-0.25	0.47	0.03
Current Ratio (x)	0.85	0.76	0.79
(Stock in trade + trade debts) / STD (x)	0.74	0.73	0.63
Return on Average Assets* (%)	-7.58%	-0.34%	-8.61%
Return on Average Equity* (%)	-24.45%	-0.98%	-23.24%
Cash Conversion Cycle (days)	173.00	83.63	183.51

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

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				
23/12/2024	BBB+	A2	Stable	Reaffirmed
01/01/2024	BBB+	A2	Stable	Maintained
31/03/2023	BBB+	A2	Rating Watch – Negative	Maintained
13/12/2022	BBB+	A2	Stable	Downgraded
10/03/2022	A-	A2	Stable	Reaffirmed
15/01/2021	A-	A2	Stable	Maintained
31/10/2019	A-	A2	Negative	Maintained
02/10/2018	A-	A2	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.
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Due Diligence Meeting Conducted

Name	Designation	Date
Dr. Munir Ahmed	Chief Executive Officer	December 10, 2024
Mr. Ali Hassan	Chief Financial Officer	