# RATING REPORT

# Agha Steel Industries Limited

**REPORT DATE:**

April 01, 2024

**RATING ANALYSTS:**

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| RATING DETAILS | | |
|---|---|---|
| **Rating Category** | **Latest Rating** | **Previous Rating** |
| **Entity** | BB-/B-3 | A/A-2 |
| ***Rating Date*** | *April 01, 2024* | *December 21, 2023* |
| **Rating Outlook** | *Negative* | *Stable* |
| ***Rating Action*** | Downgrade | Maintained |
| **Sukuk 3** | BB- | A+ |
| ***Rating Date*** | *April 01, 2024* | *December 21, 2023* |
| **Rating Outlook** | *Negative* | *Stable* |
| ***Rating Action*** | Downgrade | Reaffirmed |

| COMPANY INFORMATION | |
|---|---|
| **Incorporated in 1948** | **External auditors:** M/s. Reanda Haroon Zakaria & Company Chartered Accountants |
| **Public Listed Company** | **Chairman of the Board:** Mrs. Shazia Iqbal Agha |
| | **Chief Executive Officer:** Mr. Hussain Iqbal Agha |
| **Key Stakeholders (with stake 5% or more):** | |
| *Local General Public – 27.73%* | |
| *Mr. Hussain Iqbal Agha – 25.72%* | |
| *Mr. Raza Iqbal Agha – 24.34%* | |
| *Mr. Saad Iqbal – 8.67%* | |
| *Insurance Companies – 5.01%* | |

## 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**

# Agha Steel Industries Limited

| OVERVIEW OF THE INSTITUTION | RATING RATIONALE |
|---|---|

**OVERVIEW OF THE INSTITUTION**

**Agha Steel Industries Limited (ASIL)** was founded in Pakistan on November 19, 2013, as a private limited company, later listed as a public entity on April 7, 2015. Its Initial Public Offering (IPO) raised a notable of Rs.3.84 billion, highlighting ASIL's growth and market confidence.

ASIL primarily focuses on the production and sale of steel bars, wire rods, and billets. The Company's registered office and manufacturing facilities are strategically located at Port Qasim Authority in Karachi.

**CEO Profile: Mr. Hussain Iqbal Agha**
Since assuming leadership, Mr. Hussain Iqbal Agha has been playing a pivotal role in transforming steel industry with hands-on ASIL's plant operations, business management, and strategic foresight, and driving the Company towards sustainable growth. Currently, he spearheads an ambitious expansion plan aimed at substantially enhancing production capacity and elevating operational efficiency.

The board comprises 7 members and is chaired by Mrs. Shazia Iqbal Agha, with two executive directors, three independent directors, and company's CEO.

**RATING RATIONALE**

### Corporate Profile

Agha Steel Industries Limited ('ASIL' or 'the Company') was established in Pakistan on November 19, 2013, as a private limited company. On April 07, 2015, ASIL transitioned to a public limited company. The Company was listed on the Pakistan Stock Exchange in November 2020 generating proceeds amounting to Rs. 3,840 million from its initial public offering (IPO).

The central operation of ASIL's business is focused on the production and sale of steel bars, and billets. Agha Steel Industries Limited (ASIL) holds a distinct technological advantage in the steel industry through its utilization of the Electric Arc Furnace (EAF) for billet manufacturing. This advanced technology not only provides significant cost savings but also offers flexibility in the production process. The Company's registered office and manufacturing facilities are located at Port Qasim Authority, Karachi.

### Plant Fire Incident

On December 29, 2023, an electric short-circuit incident occurred at the Company's plant, leading towards fire in the cables trenches which triggered a series of failures in electrical system followed by tripping of transformer, buchholz relay failure and subsequent emergent ladle landing on the ground. The underground cabling systems of the Melt shop, CCM Handling, Rolling Mill, and MiDA Mill cabling were also burnt. Plant operations were suspended until January 16, 2024, with the plant now operating at limited capacity. Management estimates around a two-quarter recovery period for the rolling mills to fully resume operations.

### Rationale for Ratings Downgrade

Rating downgrade stems from the operational interruption in January, and subsequent constrained production capacity, significantly impacting on the Company's financial profile and its ability to meet its financial obligations. Given the recovery time needed, resumption of normal debt servicing would take some time. In the meanwhile, the management has opened dialogue with lenders for a suitable debt structuring aimed at making the plant fully operational to support its operations and revenue generation for debt servicing as negotiated with the lenders.

Going forward, ratings will be sensitive to the ongoing restructuring process and will be revisited upon its outcome. Moreover, post rehabilitation availability of sponsor support to meet any shortfall in debt servicing over the rating horizon will also be an important consideration for future reviews.

## Agha Steel Industries Limited Appendix I

| FINANCIAL SUMMARY | | | | (PKR Millions) |
|---|---|---|---|---|
| **BALANCE SHEET** | **FY21** | **FY22** | **FY23** | **6MFY24** |
| Property, plant and equipment | 17,066.4 | 19,149.1 | 21,277.4 | 21,900.2 |
| Stock-in-trade | 9,505.3 | 12,299.7 | 10,439.9 | 8,174.5 |
| Trade debts | 4,047.0 | 5,271.9 | 4,948.8 | 5,919.7 |
| Cash & bank balances | 833.2 | 215.1 | 87.3 | 245.9 |
| Total Assets | 35,410.7 | 41,477.3 | 41,980.0 | 41,800.3 |
| Trade and Other Payables | 1,011.1 | 1,128.7 | 829.4 | 1,169.7 |
| Long-term Debt (incl. current portion and lease liability) | 9,469.3 | 8,907.7 | 8,479.8 | 8,097.3 |
| Short-term Debt | 9,828.8 | 14,045.9 | 13,728.9 | 13,866.9 |
| Total Debt | 19,298.1 | 22,953.6 | 22,208.6 | 21,964.2 |
| Total Liabilities | 21,599.9 | 25,811.7 | 25,409.5 | 25,448.8 |
| Paid up Capital | 5,760.8 | 6,048.8 | 6,048.8 | 6,048.8 |
| Equity (excl. Revaluation Surplus) | 13,810.8 | 15,665.6 | 16,570.4 | 16,351.4 |
| Equity (incl. Revaluation Surplus) | 13,810.8 | 15,665.6 | 16,570.4 | 16,351.4 |
| | | | | |
| **INCOME STATEMENT** | **FY21** | **FY22** | **FY23** | **6MFY24** |
| Net Sales | 19,858.2 | 25,647.9 | 20,582.2 | 9,344.7 |
| Gross Profit | 4,502.5 | 5,490.3 | 4,820.0 | 1,808.8 |
| Operating Profit | 3,723.0 | 4,121.0 | 4,026.0 | 1,296.2 |
| Finance Costs | 1,409.0 | 2,135.8 | 3,208.7 | 1,997.2 |
| Profit Before Tax | 2,553.4 | 2,288.4 | 1,168.3 | -520.0 |
| Profit After Tax | 2,036.0 | 1,854.8 | 904.9 | -219.0 |
| | | | | |
| **RATIO ANALYSIS** | **FY21** | **FY22** | **FY23** | **6MFY24** |
| Gross Margin (%) | 22.7% | 21.4% | 23.4% | 19.4% |
| Net Margin (%) | 10.3% | 7.2% | 4.4% | -2.3% |
| Funds from Operation (FFO) | 2,795.4 | 3,341.9 | 1,551.0 | -100.9 |
| FFO to Total Debt* (%) | 14.5% | 14.6% | 7.0% | -0.9% |
| FFO to Long Term Debt* (%) | 29.5% | 37.5% | 18.3% | -2.5% |
| Gearing (x) | 1.4 | 1.5 | 1.3 | 1.3 |
| Leverage (x) | 1.6 | 1.6 | 1.5 | 1.6 |
| Debt Servicing Coverage Ratio* (x) | 1.0 | 0.9 | 0.6 | 0.7 |
| Current Ratio | 1.3 | 1.1 | 1.0 | 1.2 |
| (Stock in trade + trade debts) / STD (x) | 1.4 | 1.3 | 1.1 | 1.0 |
| Return on Average Assets* (%) | 6.2% | 4.8% | 2.2% | -1.0% |
| Return on Average Equity* (%) | 18.5% | 12.6% | 5.6% | -2.7% |

**Annualized, if required*

## REGULATORY DISCLOSURES — Appendix II

| | |
|---|---|
| **Name of Rated Entity** | Agha Steel Industries 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** | | | | |
| 01-Apr-2024 | BB- | B-3 | Negative | Downgrade |
| 21-Dec-2023 | A | A-2 | Stable | Maintained |
| 13-Dec-2022 | A | A-2 | Negative | Maintained |
| 01-Mar-2022 | A | A-2 | Stable | Reaffirmed |
| 18-Jan-2021 | A | A-2 | Stable | Upgrade |
| 18-Oct-2019 | A- | A-2 | Stable | Downgrade |
| 01-Mar-2019 | A | A-1 | Stable | Reaffirmed |
| 05-Dec-2017 | A | A-1 | Stable | Initial |
| **RATING TYPE: SUKUK 3** | | | | |
| 01-Apr-2024 | BB- | | Negative | Downgrade |
| 21-Dec-2023 | A+ | | Stable | Reaffirmed |
| 25-Aug-23 | A+ | | Stable | Final |
| 07-Jul-23 | A+ | | Stable | Preliminary |

| | |
|---|---|
| **Instrument Structure(s)** | ASIL has issued a Sukuk of size PKR 3.4 bln on August 17, 2023, as a debt swap for the prepayment of the Company's previous outstanding Sukuk issue. The instrument has a tenor of 4 years which includes a grace period of 1.5-years. The principal shall be paid in equal quarterly installments commencing from the 21st month after issuance. The issue is secured a first pari-passu hypothecation charge over all present and future fixed assets of the Company with a margin of 25%. In addition, another first pari-passu equitable mortgage charge over the Company's rights in immoveable property with a 25% margin. Moreover, any shortfall in the same will necessitate cash equity injections by the Company's sponsors, as per the Sponsor Support Agreement. The Company is required to deposit one third of the upcoming coupon payment each month in a Debt Payment Account (DPA). |
| **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 Meetings Conducted**

| S.No. | Name | Designation | Date |
|---|---|---|---|
| 1. | Mr. Ahmed Ateeq | Deputy CEO | March 20, 2024 |