

RATING REPORT

Agha Steel Industries Limited

REPORT DATE:

May 22, 2024

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
Entity	CCC/C	BB-/B-3
<i>Rating Date</i>	<i>May 22, 2024</i>	<i>April 01, 2024</i>
Rating Outlook	<i>Negative</i>	<i>Negative</i>
<i>Rating Action</i>	Downgrade	Downgrade
Sukuk 3	D	BB-
<i>Rating Date</i>	<i>May 22, 2024</i>	<i>April 01, 2024</i>
Rating Outlook		<i>Negative</i>
<i>Rating Action</i>	Default	Downgrade

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):	
<i>Local General Public – 27.73%</i>	
<i>Mr. Hussain Iqbal Agha – 25.72%</i>	
<i>Mr. Raza Iqbal Agha – 24.34%</i>	
<i>Mr. Saad Iqbal – 8.67%</i>	
<i>Insurance Companies – 5.01%</i>	

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
<p>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.</p> <p>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.</p> <p>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.</p> <p>The board comprises 7 members and is chaired by Mrs. Shazia Iqbal Agha, with two executive directors, three independent directors, and company’s CEO.</p>	<p>Corporate Profile</p> <p>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).</p> <p>The central operation of ASIL’s business is focused on the production and sale of steel bars, wire rods, 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.</p> <p>Rationale for Rating Downgrade</p> <p>Ratings downgrade stems from the Company’s non-payment on its profit payment for its Sukuk 3 instrument. However, revised ratings consider the ongoing restructuring process with the Company’s major bank lenders as well as its standing in the industry. Going forward, ratings will consider the successful conclusion of the restructuring process.</p>

Agha Steel Industries Limited

Appendix I

FINANCIAL SUMMARY				
<i>(PKR Millions)</i>				
BALANCE SHEET	FY21	FY22	FY23	1HFY24
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	1HFY24
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	1HFY24
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 (x)	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					
	22-May-2024	CCC	C	Negative	Downgrade
	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					
	22-May-2024	D		-	Default
	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)	<p>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).</p>				
Statement by the Rating Team	<p>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.</p>				
Probability of Default	<p>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.</p>				
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Due Diligence Meetings Conducted	S.No.	Name	Designation	Date	
	1.	N/A	N/A	N/A	