RATING REPORT

Agha Steel Industries Limited

REPORT DATE:
December 13, 2022

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Latest Rating**	**Previous Rating**
Entity	**A/A-2**	**A/A-2**
Rating Date (Entity)	December 13, 2022	March 01, 2022
Rating Outlook (Entity)	Negative	Stable
Rating Action (Entity)	Maintained	Reaffirmed
Sukuk 1	**A+**	**A+**
Rating Date (Sukuk 1)	December 13, 2022	March 01, 2022
Rating Outlook (Sukuk 1)	Negative	Stable
Rating Action (Sukuk 1)	Maintained	Reaffirmed

COMPANY INFORMATION	
Incorporated in 2013	**External auditors:** Haroon Zakaria and Company Chartered Accountants
Public Listed Company	**Chairman of the Board:** Ms. Shazia Iqbal Agha
Key Shareholders:	**Chief Executive Officer:** Mr. Hussain Iqbal Agha
Mr. Iqbal Hussain Agha – 35.04%	
Mr. Raza Iqbal Agha - 15.83%	
Mr. Hussain Iqbal Agha – 15.83%	
Ms. Shazia Iqbal Agha – 12.55%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Industrial Corporates (August 2021)   ***CorporateMethodology202108.pdf (vis.com.pk)***

Agha Steel Industries Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Agha Steel Industries (ASIL) was incorporated in Pakistan on November 19, 2013 as a private limited company. On April 7, 2015 ASIL was converted into a public limited company. On November 02, 2020, the company had its IPO, which generated proceeds of Rs. 3.84 billion.

The Company is principally engaged in manufacturing and sale of steel bars, wire rods and billets, and its registered office and production plants are Port Qasim Authority, Karachi.

Profile of the CEO:
Since taking up this role, Mr. Hussain Iqbal Agha has remained actively involved in plant operations, business management , and strategic planning to ensure sustainable growth of the company. At present, he is leading the ongoing expansion plan that is expected to significantly increase capacity and improve overall efficiency.

The board comprises 7 members and is chaired by Ms. Shazia Iqbal Agha. Two Non-executive directors were added in the outgoing year including Mr. Muhammad Asif and Mr. Amer Hazim Haji.

Agha Steel Industries Limited (ASIL) stands amongst the top-tier players in the long steel sector, and is involved in the manufacturing and sale of billets and reinforcement bars (rebars). As part of the BMR and expansion project that started in 2018, the company was able to increase the capacity of re-bars and billets to 250,000 MT (per annum) and 450,000 MT (per annum), respectively. In Nov'20 ASIL raised Rs. 3.8b through an IPO. Funds generated from the same were to be utilized for the Phase II of the expansion plan, which involves further enhancing the production capacity of bars to 650,000 MT by installing a state of the art Mi.Da. Rolling Mill and an air separation unit. At end-FY22, most of the work related to the project had been completed. COD of the project is expected by June'23.

ASIL's offers technological competitive advantage stemming from the use of Electric Arc Furnace (EAF) for manufacturing of billets. Usage of the technology offers significant cost savings and flexibility in production.

Outlook on the assigned ratings has been revised to 'Negative' due to pressure on debt servicing ability of the company.

Revision in rating outlook is reflective of weakening in debt servicing ability due to subdued demand dynamics in the local industry arising as a result of inflationary pressures. Ratings also take into account the business risk of the long steel sector, which is considered relatively high because of the sensitivity to changes in exchange rate, and volatile nature of raw material prices. However, risk profile and weak demand is supported to an extent by technological competitive edge of the Company.

Topline of the ASIL was reported noticeably lower during Q1FY23 vis-à-vis the same period last year. With a higher quantum of operating expenses and finance cost, overall profitability of the entity was adversely affected. Consequently, cash flow coverages and debt servicing ability reduced substantially at the end of the period, bringing the liquidity profile under stress. Considering a weak economic outlook, improvement in profitability and liquidity indicators to bring them in line with benchmarks is considered important to sustain assigned ratings.

FINANCIAL SUMMARY (Rs. in m)						
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**Q1FY23**
Fixed Assets	8,552	10,374	13,826	17,066	19,149	19,574
Stock-in-Trade	5,171	7,757	8,627	9,505	12,300	10,795
Trade Debts	2,977	3,366	3,840	4,047	5,272	6,316
Cash & Bank Balances	34	243	68	833	215	159
Total Assets	19,492	24,507	29,958	35,411	41,477	41,231
Trade and Other Payables	531	530	1,339	1,011	1,129	1,076
Long Term Debt	4,470	5,837	7,512	9,469	8,908	8,521
Short Term Debt	7,944	10,171	11,950	9,829	14,046	14,087
Total Debt	12,414	16,008	19,462	19,298	22,954	22,607
Current maturity of LTD	638	181	713	2,728	3,394	3,434
LTD/TD	36.0%	36.5%	38.6%	49.1%	38.8%	37.7%
STD/TD	64.0%	63.5%	61.4%	50.9%	61.2%	62.3%
Paid Up Capital	3,614	3,614	4,561	5,761	6,049	6,049
Total Equity	5,480	6,182	8,160	13,811	15,666	15,819
INCOME STATEMENT						
Net Sales	10,688	10,482	13,427	19,858	25,648	4,704
Gross Profit	2,693	2,031	3,397	4,503	5,490	1,019
Finance Cost	(419)	(1,135)	(1,703)	(1,409)	(2,136)	(697)
Profit Before Tax	1,763	607	1,517	2,553	2,288	187
Profit After Tax	1,456	769	1,363	2,036	1,855	153
RATIO ANALYSIS						
Gross Margin (%)	25.2%	19.4%	25.3%	22.7%	21.4%	21.7%
Net Margin	13.6%	7.3%	10.2%	10.3%	7.2%	3.3%
Net Working Capital	1,036	2,245	1,211	3,893	2,561	1,911
Trade debts/Sales	28%	32%	29%	20%	21%	34%
FFO	1,702	1,085	1,529	2,795	3,342	126
FFO to Total Debt (%)	14%	7%	8%	14%	15%	2%
FFO to Long Term Debt (%)	38%	19%	20%	30%	38%	6%
Current Ratio (x)	1.1	1.2	1.1	1.3	1.1	1.1
Debt Servicing Coverage Ratio (x)		1.3	1.7	2.0	1.14	0.55
Gearing (x)	2.27	2.59	2.39	1.40	1.47	1.43
Leverage (x)	2.56	2.96	2.67	1.56	1.65	1.61
Stock+Trade Debts/STB	1.03	1.09	1.04	1.38	1.25	1.21
ROAA (%)		3%	5%	6%	5%	1%
ROAE (%)		13%	19%	19%	13%	4%

ISSUE/ISSUER RATING SCALE & DEFINITION Appendix II

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 Appendix III

Name of Rated Entity	Agha Steel Industries Limited
Sector	Steel Industry
Type of Relationship	Solicited
Purpose of Rating	Entity and Sukuk Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
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

Rating Date	Medium to Long Term	Rating Outlook	Rating Action
	RATING TYPE: SUKUK		
13-Dec-2022	A+	Negative	Maintained
01-Mar-2022	A+	Stable	Reaffirmed
18-Jan-2021	A+	Stable	Upgrade
18-Oct-2019	A	Stable	Downgrade
01-Mar-2019	A+	Stable	Reaffirmed

Instrument Structure	Value of the Sukuk is Rs. 5b (inclusive of a green shoe option of Rs. 1b). The tenor of the instrument will be 6 years inclusive of a grace period of 2 years. Security structure of the Sukuk entails formation of a collection account through which 70% of the inflows of the company will flow through designated collection accounts maintained with collection banks. Moreover, a debt payment account (DPA) will be maintained (which will be filled through collection account) with the agent bank which will be build up with 1/3rd of the upcoming installment each month by the 10th day such that the entire upcoming installment is deposited in the DPA by the 10th day of the 3rd month. The security structure also includes first pari-passu charge over present and future fixed assets (with a margin of 25%) and lien over and set-off rights in respect of all transaction accounts. The Sukuk is listed on the OTC market.
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	**Name**	**Designation**	**Date**
	Mr. Kamran Ahmed	CFO	November 25, 2022
	Mr. Muneeb Khan	Company Secretary	November 25, 2022