

RATING REPORT

Agha Steel Industries Limited

REPORT DATE:

April 20, 2023

RATING ANALYSTS:

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RATING DETAILS		
Rating Category	Latest Rating	Previous Rating
Sukuk 1	A+	A+
Rating Date (Sukuk 1)	April 20, 2023	December 13, 2022
Rating Outlook (Sukuk 1)	Rating Watch Developing	Negative
Rating Action (Sukuk 1)	Maintained	Maintained

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. Hussain Iqbal Agha – 25.72%	
Mr. Raza Iqbal Agha - 24.34%	
Ms. Shazia Iqbal Agha – 3.12%	
Mr. Saad Iqbal Ali Muhammad- 8.71%	
Mr. Danish Iqbal Ali Muhammad- 8.67%	
Ms. Natasha Iqbal Ali Muhammad- 8.67%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (August 2021)
[CorporateMethodology202108.pdf \(vis.com.pk\)](#)

Agha Steel Industries Limited

OVERVIEW OF THE INSTITUTION

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.

RATING RATIONALE

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.

Rationale for placing Sukuk rating on 'Rating Watch Developing'

The instrument rating has been placed on 'Rating Watch- Developing' on account of intention to exercise the call option on the Sukuk for full prepayment of the outstanding amount. Principal installment due in April 2023 remains outstanding and shall be a part of early repayment amount, which is expected to be settled through the call option. With the curing period being in effect, the Company is under process of arranging funds for early repayment of outstanding Sukuk. VIS will continue to monitor developments in this regard.

Agha Steel Industries
Appendix I

FINANCIAL SUMMARY (Rs. in m)						
<u>BALANCE SHEET</u>	FY18	FY19	FY20	FY21	FY22	1HFY23
Fixed Assets	8,552	10,374	13,826	17,066	19,149	19,668
Stock-in-Trade	5,171	7,757	8,627	9,505	12,300	9,717
Trade Debts	2,977	3,366	3,840	4,047	5,272	6,021
Cash & Bank Balances	34	243	68	833	215	314
Total Assets	19,492	24,507	29,958	35,411	41,477	40,318
Trade and Other Payables	531	530	1,339	1,011	1,129	1,126
Long Term Debt	4,470	5,837	7,512	9,469	8,908	8,129
Short Term Debt	7,944	10,171	11,950	9,829	14,046	13,554
Total Debt	12,414	16,008	19,462	19,298	22,954	21,683
Current maturity of LTD	638	181	713	2,728	3,394	3,504
LTD/TD	36.0%	36.5%	38.6%	49.1%	38.8%	37.5%
STD/TD	64.0%	63.5%	61.4%	50.9%	61.2%	62.5%
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	16,068
<u>INCOME STATEMENT</u>						
Net Sales	10,688	10,482	13,427	19,858	25,648	9,763
Gross Profit	2,693	2,031	3,397	4,503	5,490	2,248
Finance Cost	(419)	(1,135)	(1,703)	(1,409)	(2,136)	(1,510)
Profit Before Tax	1,763	607	1,517	2,553	2,288	614
Profit After Tax	1,456	769	1,363	2,036	1,855	402
<u>RATIO ANALYSIS</u>						
Gross Margin (%)	25.2%	19.4%	25.3%	22.7%	21.4%	23.0%
Net Margin	13.6%	7.3%	10.2%	10.3%	7.2%	4.1%
Net Working Capital	1,036	2,245	1,211	3,893	2,561	1,666
Trade debts/Sales	28%	32%	29%	20%	21%	31%
FFO	1,702	1,085	1,529	2,795	3,342	357
FFO to Total Debt (%)	14%	7%	8%	14%	15%	3%
FFO to Long Term Debt (%)	38%	19%	20%	30%	38%	9%
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	0.62
Gearing (x)	2.27	2.59	2.39	1.40	1.47	1.35
Leverage (x)	2.56	2.96	2.67	1.56	1.65	1.51
(Stock + Trade Debts)/STB	1.03	1.09	1.04	1.38	1.25	1.16
ROAA (%)		3%	5%	6%	5%	2%
ROAE (%)		13%	19%	19%	13%	5%

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

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.

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.

(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	Sukuk Rating			
Rating History				
	Rating Date	Medium to Long Term	Rating Outlook	Rating Action
	<u>RATING TYPE: SUKUK</u>			
	20-Apr-2023	A+	Rating Watch Developing	Maintained
	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	<p>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.</p> <p>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.</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	Name	Designation	Date	
	NA			