RATING REPORT

Agha Steel Industries Limited (Sukuk-2)

REPORT DATE:
April 12, 2022

RATING ANALYSTS:
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RATING DETAILS	
Rating Category	**Initial Rating**
Sukuk-2	**A**
Rating Date	April 12, 2022
Rating Outlook	Stable

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) & Rating The Issue **(Nov 2021)** ***CorporateMethodology202108.pdf (vis.com.pk)*** ***https://docs.vis.com.pk/docs/Notchingtheissue202007nov.pdf***

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) rated 'A/A-2' by VIS Credit Rating Company 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 utilized for the Phase II of the expansion plan, which involves further enhancing the production capacity of bars by installing a state of the art Mi.Da. Rolling Mill and an air separation unit.

At end-1HFY22, most civil works related to the project has been completed. The project is expected to commence operations by Nov-Dec'22. Post commencement, the installed capacity for bars will mount to 650,000 MT per annum. Capacity utilization for bars was reported on the lower side at 61% in FY21, as the economy continued to recover post Covid-19. Utilization levels are projected to improve going forward due to a positive demand outlook.

	2020	2021
	Metric Tons	
Billets		
Capacity	450,000	450,000
Actual Production	182,852	179,981
Bars		
Capacity	250,000	250,000
Actual Production	153,604	151,449

The assigned entity rating takes 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, the risk profile is supported by a positive demand outlook and technological competitive edge of the company. ASIL is the only company in the industry that uses Electric Arc Furnace for manufacturing billets, and the completion of phase two entailing continuous casting and rolling process is expected to further enhance the operational efficiency.

Assessment of financial risk profile of the entity incorporates increasing topline, stable profitability indicators, improving liquidity and capitalization indicators. As the economy continued to recover in FY21 after the COVID-19 induced slowdown, revenue of the company exhibited a significant increase during the period and 1HFY22. Government's emphasis on the construction sector proved to be a catalyst in this regard and the growth trend is projected to continue in near future. Despite a sharp rise in raw material prices, ASIL was able to maintain its margins for the assigned ratings, which ultimately led to a higher net profit in line with increasing revenue. Going forward, profit margin is expected to remain range-bound because of rising finance cost. Cash flow indicators have shown some improvement at end-FY21 due to increasing profit. However, debt servicing ratio and coverage for short-term debt have declined at the end of the period because of an increase in the quantum of debt to finance working capital requirements. Further improvement in liquidity profile is considered important. Capitalization indicators have improved on a timeline basis supported by profit retention and IPO proceeds. Hence, timely completion of the expansion project and availability of financial support from sponsors is important from ratings perspective.

Structure of the Sukuk

The company plans to raise Rs. 2b (inclusive of a green shoe option of Rs. 500m) via a Rated, Secured and Privately Placed Sukuk with the option of listing under chapter 5C PSX rule book in the ongoing year (expected drawdown in June'22). The instrument shall have a tenor of fifteen months from the first draw down date, with a call option being available after one year. Proceeds from the issuance will be utilized for settlement of conventional short term financing facilities up to Rs. 1.5b and to finance the ongoing capital expenditure of the company. Profit will be paid on a quarterly basis at a rate of 3 Months KIBOR + 125 bps, with initial payment due at the end of three months from the first draw down date. Principal bullet repayment will be made on the 15th month from the date of the issue. The security structure encompasses first joint pari passu hypothecation charge over all present and future current assets of the company with 25% margin, personal guarantees of sponsor directors of the organization, and ranking charge over present and future fixed assets of the company with 25% margin. As per management, an internal syncing fund will be formed to accumulate cash flows for bullet repayment at the end of 15 months.

Agha Steel Industries **Appendix I**

FINANCIAL SUMMARY (Rs. in m)					
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**	**1HFY22**
Fixed Assets	8,552	10,374	13,826	17,066	18,546
Stock-in-Trade	5,171	7,757	8,627	9,505	12,737
Trade Debts	2,977	3,366	3,840	4,047	4,565
Cash & Bank Balances	34	243	68	833	476
Total Assets	19,492	24,507	29,958	35,411	41,008
Trade and Other Payables	531	530	1,339	1,011	905
Long Term Debt	4,470	5,837	7,512	9,469	9,101
Short Term Debt	7,944	10,171	11,950	9,829	14,617
Total Debt	12,414	16,008	19,462	19,298	23,718
LTD/TD	36.0%	36.5%	38.6%	49.1%	38.4%
STD/TD	64.0%	63.5%	61.4%	50.9%	61.6%
Paid Up Capital	3,614	3,614	4,561	5,761	6,049
Total Equity	5,480	6,182	8,160	13,811	14,988
INCOME STATEMENT					
Net Sales	10,688	10,482	13,427	19,858	12,568
Gross Profit	2,693	2,031	3,397	4,503	2,844
Finance Cost	(419)	(1,135)	(1,703)	(1,409)	(745)
Profit Before Tax	1,763	607	1,517	2,553	1,420
Profit After Tax	1,456	769	1,363	2,036	1,178
RATIO ANALYSIS					
Gross Margin (%)	25.2%	19.4%	25.3%	22.7%	22.6%
Net Margin	13.6%	7.3%	10.2%	10.3%	9.4%
Net Working Capital	1,036	2,245	1,211	3,893	2,920
Trade debts/Sales	28%	32%	29%	20%	9%
FFO	1,702	1,085	1,529	2,795	1,837
FFO to Total Debt (%)	14%	7%	8%	14%	15%
FFO to Long Term Debt (%)	38%	19%	20%	30%	40%
Current Ratio (x)	1.1	1.2	1.1	1.3	1.2
Debt Servicing Coverage Ratio (x)		1.3	1.7	2.0	1.23
Gearing (x)	2.27	2.59	2.39	1.40	1.58
Leverage (x)	2.56	2.96	2.67	1.56	1.74
Stock+Trade Debts/STB	1.03	1.09	1.04	1.38	1.18
ROAA (%)		3%	5%	6%	6%
ROAE (%)		13%	19%	19%	16%

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	Sukuk Rating
Rating History	

Rating Date	Medium to Long Term	Rating Outlook	Rating Action
RATING TYPE: SUKUK			
April 12, 2022	A	Stable	Preliminary

Instrument Structure	Value of the Sukuk is Rs. 2b (inclusive of a green shoe option of Rs. 500m). It will have a tenor of fifteen months from the first draw down date, with a call option being available after one year. Proceeds from the issuance will be utilized to finance working capital needs of the corporation, including the settlement of conventional financing facilities of up to Rs. 1.5b. Profit will be paid on a quarterly basis at a rate of 3 Months KIBOR + 125 bps, with initial payment due at the end of three months from the first draw down date.
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 meeting	Mr. Kamran Ahmed - CFO- March 21, 2022