

RATING REPORT

Agha Steel Industries Limited

REPORT DATE:

Aug 25, 2023

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Initial Rating	Previous Rating
Sukuk 3	A+	A+
Rating Date (Sukuk 3)	Aug 25, 2023	July 07, 2023
Rating Outlook (Sukuk 3)	Stable	Stable
Rating Action (Sukuk 3)	Final	Preliminary

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: Corporates (May 2023):

<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

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. Shazja 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 by 400,000 MT (per annum) through the installation of a state-of-the-art M.I.D.A. Rolling Mill and an air separation unit. Additionally, the new technology will result in higher yields as well as notable reduction in lead-time and costs. Majority of the work pertaining to the project has been completed and COD is expected to be by Dec'23. Moreover, in comparison to peers, ASIL 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.

ASIL has issued a Sukuk of size Rs. 3.4b on August 17, 2023 as a debt swap for the prepayment of the Company's previous outstanding Sukuk issue. The instrument will have 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 by a first pari-passu hypothecation charge over all present and future fixed assets of the Company with a margin of 25% as well as a first pari-passu equitable mortgage charge over the Company's rights in immovable property with a 25% margin. Additionally, the Company is required to deposit one-third of the upcoming coupon payment each month in a Debt Payment Account (DPA). To provide further reassurance to investors of timely payments, any shortfall in the same will necessitate cash equity injections by the Company's sponsors, as per the Sponsor Support Agreement. The assigned ratings are strongly contingent on the unconditional sponsorship backing provided in the aforementioned agreement.

FINANCIAL SUMMARY (Rs. in m)					
<u>BALANCE SHEET</u>	FY19	FY20	FY21	FY22	9MFY23
Fixed Assets	10,374	13,826	17,066	19,149	20,237
Stock-in-Trade	7,757	8,627	9,505	12,300	8,805
Trade Debts	3,366	3,840	4,047	5,272	5,660
Cash & Bank Balances	243	68	833	215	232
Total Assets	24,507	29,958	35,411	41,477	40,092
Trade and Other Payables	530	1,339	1,011	1,129	922
Long Term Debt	5,837	7,512	9,469	8,908	8,941
Short Term Debt	10,171	11,950	9,829	14,046	12,144
Total Debt	16,008	19,462	19,298	22,954	21,085
Current maturity of LTD	181	713	2,728	3,394	1,965
LTD/TD	36.5%	38.6%	49.1%	38.8%	42.4%
STD/TD	63.5%	61.4%	50.9%	61.2%	57.6%
Paid Up Capital	3,614	4,561	5,761	6,049	6,049
Total Equity	6,182	8,160	13,811	15,666	16,371
<u>INCOME STATEMENT</u>	FY19	FY20	FY21	FY22	9MFY23
Net Sales	10,482	13,427	19,858	25,648	15,452
Gross Profit	2,031	3,397	4,503	5,490	3,620
Finance Cost	(1,135)	(1,703)	(1,409)	(2,136)	(2,263)
Profit Before Tax	607	1,517	2,553	2,288	969
Profit After Tax	769	1,363	2,036	1,855	705
<u>RATIO ANALYSIS</u>	FY19	FY20	FY21	FY22	9MFY23
Gross Margin (%)	19.4%	25.3%	22.7%	21.4%	23.4%
Net Margin	7.3%	10.2%	10.3%	7.2%	4.6%
Net Working Capital	2,245	1,211	3,893	2,561	3,831
Trade debts/Sales	32%	29%	20%	21%	18%
FFO	1,085	1,529	2,795.4	3,341.9	1,111
FFO to Total Debt (%)	7%	8%	14.5%	14.6%	7%
FFO to Long Term Debt (%)	19%	20%	29.5%	37.5%	17%
Current Ratio (x)	1.20	1.08	1.28	1.13	1.25
Debt Servicing Coverage Ratio (x)	1.33	1.72	1.99	1.14	0.71
Gearing (x)	2.59	2.39	1.40	1.47	1.29
Leverage (x)	2.96	2.67	1.56	1.65	1.45
Stock+Trade Debts/STB	1.09	1.04	1.38	1.25	1.19
ROAA (%)	3%	5%	6%	5%	2%
ROAE (%)	13%	19%	19%	13%	6%
CCC (days)	367	362	260	244	317

REGULATORY DISCLOSURES		Appendix II		
Name of Rated Entity	Agha Steel Industries Limited			
Sector	Steel Industry			
Type of Relationship	Solicited			
Purpose of Rating	Sukuk 3 Rating			
Rating History				
	Rating Date	Medium to Long Term	Rating Outlook	Rating Action
	<u>RATING TYPE: SUKUK 3</u>			
	25-Aug-2023	A+	Stable	Final
	7-July-2023	A+	Stable	Preliminary
Instrument Structure	ASIL's Sukuk, issued on August 17, 2023, is of Rs. 3.4b with a tenor of 4 years, inclusive of a 1.5-year grace period. The principal will be paid in quarterly installments beginning from the end of the 21st month after issuance while profit payments will also be made in quarterly installments (in arrears) at a rate of 3M KIBOR + 0.8%.			
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	
	NA	NA	NA	