



AGHA STEEL INDUSTRIES
Defining Quality



31st October, 2019

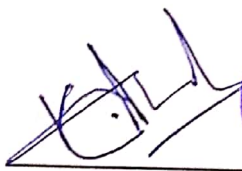

Ms. Asmaa Saleem Malik
Deputy General Manager,
Listing Department,
Pakistan Stock Exchange Limited,
Karachi

Dear Madam,

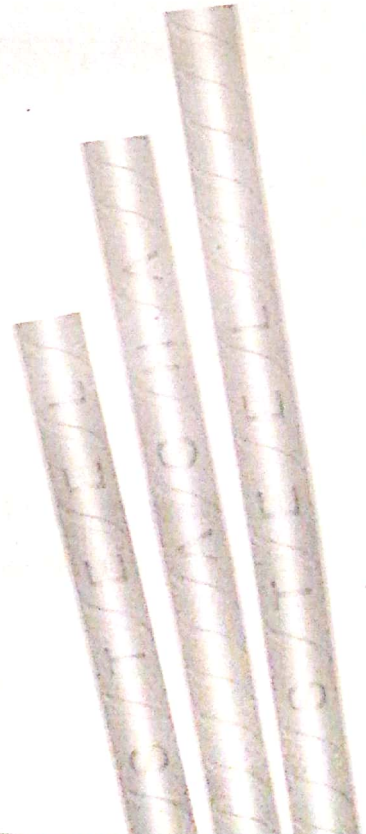
Subject: Rated, Privately Placed, Listed and Secured Islamic Certificates Issue of PKR 5,000 million by Agha Steel Industries Limited-Credit Rating Report.

In reference to the Clause 5C.8 (XI-D) of the Privately Placed Debt Securities' Listing Regulations, We would like to provide you the latest Credit rating report dated 18th October, 2019 and the press release issued by VIS Credit Rating Company highlighting the reason for change in reviewed rating report.

For M/s AGHA STEEL INDUSTRIES LIMITED

Kamran Ahmed
Chief Financial Officer



AGHA STEEL INDUSTRIES LIMITED

REGISTERED OFFICE ADDRESS

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Press Release

VIS Credit Rating Company Revises Entity and Sukuk Ratings of Agha Steel Industries Limited

Karachi, October 18, 2019: VIS Credit Rating Company Limited (VIS) has revised the Entity ratings of Agha Steel Industries Limited (ASIL) from 'A/A-1' (Single A/ A-One) to 'A-/A-2' (Single A Minus/A-Two). Rating of the outstanding Sukuk has also been revised from 'A+' (Single A Plus) to 'A' (Single A). Outlook on the assigned ratings is 'Stable'. Long Term entity rating of A- reflects good credit quality, adequate protection factors. Risk factors may vary with possible changes in the economy. Short Term Rating of A-2 indicates good certainty of timely payment, sound liquidity factors and company fundamentals. Access to capital markets is good. Previous rating action was announced on March 01, 2019.

Revision in ratings takes into account weakening in sector outlook due to slowdown in demand and sizeable capacities coming online. Going forward, steel products demand growth is expected to remain subdued in the mid-term in line with slower economic growth, sizeable fiscal deficit (resulting in lower PSDP spending) and further contraction expected in large scale manufacturing in FY20 (LSM contracted by 3.4% in FY19). Continuity of industry consolidation towards efficient players would be important, going forward. In this backdrop company's market position and financial risk profile has weakened resulting in high leverage indicators and decline in cash flow coverages. Recouping market position, achieving projected sales volumes for billets and bars while maintaining gross margins, reduction in leverage indicators and improving working capital management and cash flow coverages are important, going forward.

Financial risk profile while remaining adequate weakened on profitability, liquidity and capitalization indicators during the outgoing year. Overall profitability declined in FY19 due to lower volumetric sales, inability to pass on higher cost of production and significant jump in financial charges. In the backdrop of sizeable increase expected in finance cost projected in FY20 due to full year impact of higher interest rates, achieving projected sales volumes for billets and bars while maintaining gross margins is considered important to improve profitability profile. Installation of MiDA plant is projected to result in improvement in profitability indicators over the medium term. Given the decline in profitability and increase in leverage profile, cash flow coverage of outstanding debt has declined while debt servicing coverage has weakened. Working capital management has room for improvement given the significant jump in stock in trade and trade debt despite stagnant sales.

Assigned ratings incorporate ASIL's position amongst the top-tier players in the long steel sector and competitive advantage stemming from utilization of Electric Arc Furnace for billet manufacturing. ASIL has an installed capacity of billets and reinforcement bars (rebars) at 450,000MT and 250,000MT, respectively. Going forward, the company plans to further increase its rolling capacity by 400,000MT through installation of Danieli's direct rolling mill (Mi.DA® Plant). The enhanced capacity of rebars is expected to come online in the second quarter of FY20 and is also projected to provide cost and competitive advantage over competitors.

For further information on this rating announcement, please contact the undersigned (Ext: 207) at 021-35311861-71 or fax to 021-35311872-3.

Jamal Abbas Zaidi
Advisor

Applicable Rating Criteria: Industrial Corporates (May 2016)
<http://www.vis.com.pk/docs/Corporate-Methodology-201605.pdf>

Information herein was obtained from sources believed to be accurate and reliable; however, VIS Credit Rating Company Limited (VIS) does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the rating(s)/ ranking(s) mentioned in this report. VIS is not an NRSRO and its credit ratings are not NRSRO

RATING REPORT

Agha Steel Industries Limited

REPORT DATE:

October 21, 2019

RATING ANALYSTS:

Talha Iqbal
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RATING DETAILS		
Rating Category	Latest Rating	Previous Rating
Entity	A-/A-2	A/A-1
Sukuk	A	A+
<i>Rating Date (Entity)</i>	<i>October 18, 2019</i>	<i>March 01, 2019</i>
Rating Outlook	Stable	Stable

COMPANY INFORMATION

Incorporated in 2013	External auditors: Haroon Zakaria and Company Chartered Accountants
Key Shareholders:	Chairman of the Board: Mr. Iqbal Hussain Agha
	Chief Executive Officer: Mr. Hussain Iqbal Agha
	Mr. Iqbal Hussain Agha
	Mr. Raza Iqbal Agha
	Mr. Hussain Iqbal Agha
Ms. Shazia Iqbal Agha	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (May, 2016) <http://www.vis.com.pk/kc-meth.aspx>