

Recommendation	Subscribe
Base Price	PKR30/sh

Offering details

Issue Size	120mn
Base price	PKR30/sh
IPO proceeds	PKR3.6bn

Source: IPO Prospectus, Company presentation

- **Agha Steel Industries Limited (ASIL)** is scheduled to offer 120mn shares through IPO at a base price of PKR30/sh. This will allow the company to raise PKR3.6bn at the base price.
- **75% of the total issue size i.e. 90mn shares will be issued through the book building. The balance 25% (30mn shares) will be issued to the general public through retail offer at the strike price**
- **The principal purpose of the issue is to finance the phase II of its expansion project which includes setting up an Mi.Da. Rolling Mill and an in-house air separation unit.**
- **The company's flagship products include Earthquake Resistance Rebar, the Gold Standard rebar and the Ultimate High Yield Strength which it has supplied to various big ticket projects in Pakistan in the recent years.**
- **At base price of PKR30/sh, the forward PER comes at 11.8x, which is lower than MUGHAL's PER of 15.6x, offering a discount of 24%. – 'Subscribe'**

Expansion plan ahead: Agha Steels Industries Limited only deals in graded steel and operates at an annual billets and rebars production capacity of 450,000 MT p.a. and 250,000 MT p.a. respectively and has a market share of more than 3%, according to the management of the company. The company is planning to further increase its processing capacity to cater increased demand and achieving cost leadership through most efficient processes in Pakistan. To that end, the company is looking to set up a state of the art and first in Pakistan Mi.Da. Rolling Mill. Mi.Da. Rolling Mill technology is the most competitive way to produce rebars in terms of operational efficiency and allows for the most competitive steel production method in the world. Once operational, it will allow ASIL to be one of the most cost-efficient plants of Pakistan.

Cost of project and capital structure: The total project cost of PKR7.04bn shall be financed at the project debt to equity ratio of 49:51. Details of utilization of debt and equity proceeds are given below:

Break up of fund requirement	Fund raised (PKR)	Contribution of mode of financing
IPO Proceeds	3,600,000,000	51%
Long Term Debt1	1,735,438,212	25%
Short Term Debt Financing2	1,706,240,000	24%
Total Funding requirement	7,041,678,212	100%

Source: IPO Prospectus, Company presentation

Category	Supplier	Country of Origin	Order Placement Date	Expected delivery	Cost (PKR)
Mi.Da. Rolling Mill	Danieli & Co	Italy	Oct-17	Delivered	2.7bn
Air Separation Unit Plant	Hangzhou Fortune Engineering Co. Ltd.	China	Mar-18	Oct-20	476mn

Source: IPO Prospectus, Company presentation

Company's background: Agha Steel Industries started its commercial operations on 1st January 2012, producing billets and rebars at an installed capacity of 250,000 MT p.a. and 150,000 MT p.a. respectively. ASIL introduced a composite unit whereby the steel melting and re-rolling takes place on the same premises located at the industrial hub of Port Qasim. This was to be a key competitive advantage as many of the steel makers in Pakistan have their re-rolling and melting facilities at different locations resulting in time lags and cost inefficiencies. ASIL is the pioneer in introducing the thermo-mechanically treated ("TMT") technology in the country, in conjunction with fully automated Rolling Mill. The Company only deals in graded steel and now operates at an annual billets and rebars production capacity of 450,000 MT p.a. and 250,000 MT p.a. respectively.

Key revenue drivers: Sale of reinforcing bars is the key revenue driver for the company and contributed approximately 98% of the revenues. The company's flagship products include Earthquake Resistance Rebar, the Gold Standard rebar and the Ultimate High Yield Strength which it has supplied to various big ticket projects in Pakistan in the recent years. Projects that have used company's products in recent years include Neelum Jhelum Hydropower Project (17,747 MT), Sahiwal Coal-Fired Power Plant (16,070 MT), HUB, Baluchistan and Matiari to Lahore HVDC Transmission Line (5,651 MT).

While the sale of rebars is where the company generates most of its revenue, ~2% of its revenue also comes through sales of billets. Company in recent past attained ability to produce specialized grades of billets, which has since become a key differentiation factor from its competitors (specially the ones in South). Only ASIL's modernized Italian Electric Arc Furnace is capable of producing specialized grades of Billets. Further, being the only large scale player, the company is well poised to attain sustainable position in long steel segment with reference to product differentiation and threat of new entrants.

Particulars	Pre Expansion/MT p.a.	Post Phase I Expansion/MT p.a.	Post Phase II Expansion/MT p.a.
Melt shop (Billets)	250,000	450,000	450,000
Re- Rolling	150,000	250,000	650,000

Source: IPO Prospectus

Comparison with peers: In the listed space, AGIL's major competitors are Mughal Steel (MUGHAL) which has a presence in the northern region and Amreli Steels Limited (ASTL) which is predominantly concentrated in southern region. ASIL's capital structure is slightly more skewed towards debt (Debt: Equity of 2.2:1 as opposed to industry average of 1.4:1) before IPO receipts. Once the IPO is carried out at the base price, the capital structure is expected to improve to around 1.5:1, more in line with industry average.

Investment perspective: At a floor price of PKR30/sh, the forward PER comes at 11.8x, which is lower than that of its competitor (MUGHAL's PER of 15.6x), offering a discount of 18%. – 'Subscribe'

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