RATING REPORT

Mughal Iron & Steel Industries Limited

REPORT DATE:
November 18, 2024

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-Term	Short-term	Long-Term	Short-term
Entity	A+	A1	A+	A1
Rating Date	*November 18, 2024*		*December 08, 2023*	
Rating Outlook/ Rating Watch	*Stable*		*Stable*	
Rating Action	Reaffirmed		Maintained	
Sukuk	A+		A+	
Rating Date	*November 18, 2024*		*December 08, 2023*	
Rating Outlook/Rating Watch	*Stable*		*Stable*	
Rating Action	Reaffirmed		Maintained	

COMPANY INFORMATION	
Incorporated in 2010	**External auditors:** M/s Fazal Mahmood & Company Chartered Accountants M/s Muniff Ziauddin & Co. Chartered Accountants
	Chairman of the Board: Mr. Mirza Javed Iqbal
Public Listed Company	**Chief Executive Officer:** Mr. Khurram Javaid
Key Stakeholders (with stake 10% or more):	
Directors, CEO, & Their Spouse and Minor Children – 43.19%	
Associated Companies, Undertaking, & Related Parties – 32.15%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates
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

Mughal Iron & Steel Industries Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Mughal Iron & Steel Industries Limited (MISIL) was incorporated as a public limited company on February 16, 2010, under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017). The principal business activity of the company is manufacturing and sale of long steel products. The manufacturing facility is located at 17-KM Sheikhupura Road, while head office is located at 31-A Shadman I, Lahore.

Corporate Profile

Mughal Iron & Steel Industries Limited ("MISIL" or "the Company") was established on February 16, 2010, as a public limited company. MISIL is a public listed company with its shares traded on the Pakistan Stock Exchange Limited ("PSX"). Operating from its headquarters in Lahore, the company is engaged in both ferrous and non-ferrous business segments though the primary focus remains on the manufacturing and sale of mild steel products within the ferrous segment. The Company has manufacturing plants and warehouses on Sheikhupura Road, Lahore, and sales centers at Badami Bagh, Lahore.

During the year, the shareholders of the Company in their meeting held on September 19, 2023, approved the acquisition of Mughal Energy Limited (MEL). MEL is an under construction 36.50 MW captive hybrid power plant project for supply of electricity exclusively to the Company.

Operational Profile

	FY21	FY22	FY23	FY24
Ferrous				
Melting- Installed Capacity (Metric Ton)	419,100	500,000	500,000	590,000
Melting- Actual Production (Metric Ton)	276,982	261,698	181,690	280,127
Capacity Utilization	**66%**	**52%**	**36%**	**47%**
Re- Rolling- Installed Capacity (Metric Ton)	630,000	630,000	630,000	630,000
Re- Rolling- Actual Production (Metric Ton)	307,945	309,626	188,710	245,612
Capacity Utilization	***49%***	***49%***	***30%***	***39%***
Non- Ferrous				
Melting- Installed Capacity (Metric Ton)	10,000	10,000	10,000	10,000
Melting- Actual Production (Metric Ton)	6,188	8,317	5,988	570
Capacity Utilization	62%	83%	60%	6%
Recycling Plant- Installed Capacity (Metric Ton)	**-**	**-**	90,000	90,000
Recycling Plant- Actual Processing (Metric Ton)	-	-	5,600	56,537
Capacity Utilization	**-**	**-**	**6%**	**63%**

In FY24, Mughal increased off-takes in the ferrous segment, despite a volumetric decline in the overall steel sector, by leveraging its substantial installed capacity and redirecting its focus from the institutional to the retail segment. This shift facilitated an expanded market share and enabled Mughal to push volumes despite a contraction in overall market size. In the non-ferrous segment, following the installation of an automated recycling plant in FY23 and the streamlining of production through the removal of manufacturing bottlenecks, the company achieved higher output in copper granules, primarily exported to China.

Key Rating Drivers

Business risk of the steel bar industry considered high due to exposure to cyclicality, exposure to foreign exchange rate fluctuation, volatility in international steel prices and challenging competitive environment.

The business risk profile of the steel bar industry in Pakistan is assessed as high, primarily characterized by demand fluctuations, imported raw material dependency, and energy-intensive operations. While infrastructure development and urbanization provide stable demand, profitability is challenged by input-cost volatility, energy costs, and competitive market dynamics.

Demand for steel bars is closely tied to the construction sector, public infrastructure projects, and housing development. Government spending on infrastructure supports demand; however, cyclical downturns in private construction activity and delays in public projects can create volatility. Additionally, higher interest rates and inflation limit construction financing, adversely affecting steel bar consumption.

The industry is heavily reliant on imported raw materials, such as scrap steel and billets, exposing manufacturers to exchange rate risks and global commodity price fluctuations. Currency depreciation further heightens input costs, compressing margins. Energy is a significant operational expense, with power shortages and rising power and gas tariffs contributing to higher production costs.

Competitive pressures from local producers and imported steel products restrict pricing flexibility, limiting the ability to pass on increased costs to customers. Overall, while government infrastructure projects support demand, the industry's exposure to input volatility, energy costs, and cyclical risks elevates its business risk profile.

Topline continued to improve, however, margins constrained by higher energy and input costs.

During FY24, the Company's revenue grew by ~37% to Rs 92.38b (FY23: 67.39b). This improvement was due to increased revenue from both the ferreous and non-ferrous segments. The ferrous segment's revenue increased by ~47% to Rs 69.12b(FY23: 47.02b) due to increased prices and volumes. The Non-Ferrous segment's revenue increased by ~14% to Rs 23.3b (FY23: 20.38b), supported by higher volumes as the Company was able to increase its output of copper granules for export to China. Moreover, elevated prices of copper during the year also contributed to the growth in the segment's revenue.

Nevertheless, the gross margin reported constraint during the year due to inflation, currency depreciation and higher energy costs. Moreover, with a highly fragmented competitive environment, the Company's ability to pass on these increased cost pressures on to its product pricing is limited. Resultantly, gross margins were reported lowered at 8.35% (FY23: 14.35%) in FY24. Going forward MISIL is expected to benefit from the in-house power generation from Mughal Energy Limited which will ease the pressure on margins from the energy costs.

Adequate liquidity profile.

The Company has historically maintained an adequate liquidity profile with a 5-year average current ratio of 1.33x. However, in FY24, the current ratio contracted to 1.23x (FY23: 1.51x), albeit remaining commensurate with assigned ratings. Similarly, the short-term debt coverage ratio reduced to 1.32x (FY23: 1.54x) in FY24, also remaining at adequate levels.

Capitalization metrics report increase with higher debt utilization

The Company drew down additional long-term and short-term debt during FY24 to finance its capital expenditure and working capital needs. The gearing and leverage ratios thus increased to 1.54x (FY23: 1.21x) and 1.92x (FY23: 1.61x), respectively. Although both metrics remained in line with the Company's 5-year average of 1.53x and 1.88x, respectively.

Coverage profile under pressure with lower operational income amid higher financial burden.

During the year, cashflows were impacted by gross margin contraction and increased borrowings in a high-interest-rate environment, leading to pressure on Funds from Operations (FFO). FFO declined to PKR 68.98 million (FY23: PKR 4,398.08 million) in FY24. Consequently, the debt service coverage ratio (DSCR) experienced a downfall to 0.79x (FY23: 1.60x) against a required minimum of 1.00x. Despite this, the management expects to address near-term obligations through available liquidity, while anticipating long-term operational cashflows to be sufficient to meet financial commitments. The management projects improvement driven by increased exports from the non-ferrous segment and margin enhancement from captive power generation through Mughal Energy Limited.

Mughal Iron & Steel Industries Limited — Appendix I

Financial Summary

Balance Sheet (PKR Millions)	FY21A	FY22A	FY23A	FY24A
Property, plant and equipment	15,799.44	16,460.72	19,691.99	19,593.57
Intangible Assets	3.61	0.75	0.00	0.00
Long-term Investments	0.00	0.00	50.15	3,200.12
Stock-in-trade	13,180.76	21,042.85	20,218.66	23,417.83
Trade debts	5,259.13	5,573.59	9,283.15	10,805.75
Cash & Bank Balances	2,216.93	5,175.63	2,885.13	3,568.11
Other Assets	5,339.94	4,831.95	7,702.91	8,491.80
Total Assets	41,799.81	53,085.49	59,831.99	69,077.18
Creditors	827.35	1,641.52	1,298.73	2,565.71
Long-term Debt (incl. current portion)	4,698.04	5,321.58	4,980.48	6,577.67
Short-Term Borrowings	16,110.91	20,644.01	20,995.05	27,992.42
Total Debt	20,808.95	25,965.59	25,975.53	34,570.09
Other Liabilities	3,658.64	4,631.30	7,179.61	5,805.87
Total Liabilities	25,294.94	32,238.41	34,453.87	42,941.67
Paid up Capital	2,918.56	3,356.34	3,356.34	3,356.34
Revenue Reserve	6,441.32	11,167.65	14,712.77	15,733.72
Other Equity (excl. Revaluation Surplus)	3,742.74	3,304.95	3,310.64	3,304.95
Sponsor Loan	0.00	0.00	5.69	0.00
Equity (excl. Revaluation Surplus)	13,102.62	17,828.94	21,379.75	22,395.01

Income Statement (PKR Millions)	FY21A	FY22A	FY23A	FY24A
Net Sales	44,971.85	66,152.81	67,390.17	92,382.60
Gross Profit	6,691.38	10,127.89	9,671.03	7,717.63
Operating Profit	5,531.79	8,824.13	8,769.58	6,982.87
Finance Costs	1,370.29	2,622.15	4,423.18	6,364.04
Profit Before Tax	4,161.50	6,140.14	4,346.40	618.83
Profit After Tax	3,429.16	5,349.12	3,480.49	1,999.88

Ratio Analysis	FY21A	FY22A	FY23A	FY24A
Gross Margin (%)	14.88%	15.31%	14.35%	8.35%
Operating Margin (%)	12.30%	13.34%	13.01%	7.56%
Net Margin (%)	7.63%	8.09%	5.16%	2.16%
Funds from Operation (FFO) (PKR Millions)	3,892.98	6,244.81	4,389.08	68.98
FFO to Total Debt* (%)	18.71%	24.05%	16.90%	0.20%
FFO to Long Term Debt* (%)	82.86%	117.35%	88.13%	1.05%
Gearing (x)	1.59	1.46	1.21	1.54
Leverage (x)	1.93	1.81	1.61	1.92
Debt Servicing Coverage Ratio* (x)	2.23	2.66	1.60	0.79
Current Ratio (x)	1.37	1.45	1.51	1.23
(Stock in trade + trade debts) / STD (x)	1.25	1.38	1.54	1.32
Return on Average Assets* (%)	10.17%	11.27%	6.16%	3.10%
Return on Average Equity* (%)	32.26%	34.59%	17.75%	9.14%
Cash Conversion Cycle (days)	118.77	133.33	161.40	125.42

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Mughal Iron & Steel Industries Limited
Sector	Steel Industry
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
		RATING TYPE: ENTITY		
18/11/2024	A+	A1	Stable	Reaffirmed
08/12/2023	A+	A1	Stable	Maintained
31/3/2023	A+	A1	Rating Watch - Developing	Maintained
25/11/2022	A+	A1	Stable	Reaffirmed
28/12/2021	A+	A1	Stable	Upgrade
25/09/2020	A	A2	Stable	Initial
RATING TYPE: ENTITY RATING TYPE: Sukuk				
18/11/2024	A+		Stable	Reaffirmed
08/12/2023	A+		Stable	Maintained
31/3/2023	A+		Rating Watch - Developing	Maintained
25/11/2022	A+		Stable	Reaffirmed
28/12/2021	A+		Stable	Reaffirmed
05/10/2020	A+		Stable	Preliminary

Instrument Structure

MISIL has issued rated, listed, secured and privately placed long-term Sukuk of amounting to Rs. 3bln. Tenor of the Sukuk is 5 years including 1-year grace period. The instrument will be redeemed in 16 equal quarterly payments starting from 15th month from the date of issuance. Besides conventional security structure, a debt payment account (DPA) is maintained with the agent bank which is build up with one third of the installment (principal plus profit) by the 25th day of each month such that the entire upcoming installment is deposited in the DPA by the 15th day of 3rd month.

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

S.No.	Name	Designation	Date
01	Mr. Zafar Iqbal	CFO	10/30/2024
02	Mr. Muhammad Fahad Hafeez	Company Secretary	