

RATING REPORT

Mughal Iron & Steel Industries Limited

REPORT DATE:

March 31, 2023

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A+	A-1	A+	A-1
Rating Outlook (Entity)	<i>Rating Watch Developing</i>		<i>Stable</i>	
Rating Action (Entity)	Maintained		Reaffirmed	
Sukuk	A+		A+	
Rating Outlook (Sukuk)	<i>Rating Watch Developing</i>		<i>Stable</i>	
Rating Action (Sukuk)	Maintained		Reaffirmed	
Rating Date	<i>March 31, 2023</i>		<i>25th November'22</i>	

COMPANY INFORMATION

Incorporated in 2010**External auditors:** M/s Fazal Mahmood & Co.
Chartered Accountants**Public Limited Company – Quoted****Chairman:** Mirza Javed Iqbal
CEO: Mr. Khurram Javaid**Key Shareholders (with stake 5% or more):**

Mr. Muhammad Mubeen Tariq Mughal – 7.09 %
 Mr. Khurram Javaid – 10.85%
 Mr. Fahad Javaid – 10.85%
 Mr. Muhammad Mateen Jamshed – 10.56%
 Mr. Muhammad Sayyam – 10.56%
 Mr. Fazeel Bin Tariq – 7.02%

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (August 2021)<https://docs.vis.com.pk/docs/CorporateMethodology202108.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Iron & Steel Industries Limited (MISIL) was incorporated as a public limited company on February 16, 2010 under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017).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 Sheikhpura Road, while head office is located at 31-A Shadman I, Lahore.

Profile of Chairman

Mirza Javed Iqbal is the Chairman of the Board of Directors. Mr. Javed joined the family business in 1976.

Profile of CEO

Mr. Khurram Javaid serves as the CEO MISIL. Mr. Khurram holds an MBA from the Coventry University, UK and a BSc. from the Lahore School of Economics, Pakistan.

Corporate Profile

MISIL was incorporated in 2010 as a public limited company and categorizes as one of the largest players in the long steel sector in Pakistan. The company is primarily engaged in the manufacture of ferrous products, including steel rebars, billets, and girders, as well as non-ferrous products, such as copper ingots. While the former segment is the primary revenue driver, contributing over two-thirds to the topline, plans are underway to expand the non-ferrous segment with the addition of a new plant which will double production capacity to 20,000MT/year in the ongoing year. Additionally, the company's ferrous melting capacity was increased to 500,000 MT/year during the outgoing year with the commissioning of a new furnace.

Rationale for placing ratings on Rating Watch-Developing

The business and financial risk of the steel sector has increased on a timeline basis emanating from import restrictions, limited raw material coverage, soaring raw material prices, exchange rate volatility, and higher interest rates, resulting in inflationary pressures and a decline in demand in the construction, engineering, automobiles and infrastructure development projects. The ongoing situation is expected to persist in the mid-term impacting the financial risk profile of companies across the sector. Accordingly, VIS Credit Rating Company Limited (VIS) has placed the steel sector and the companies rated therein by VIS under 'Rating Watch' status.

The ratings will remain under Rating Watch based on the unfolding of the economic and market developments going forward and updated over time line according to availability of financial information.

Mughal Iron and Steel Industries Limited

Annexure I

FINANCIAL SUMMARY (amounts in PKR million)					
BALANCE SHEET	FY19	FY20	FY21	FY22	1HFY23
Non-Current Assets	8,628	9,966	15,859	16,533	17,118
Stock in Trade	5,620	8,120	14,868	22,963	25,570
Trade Debts	3,304	2,182	5,259	5,744	5,975
Advances, Deposits & Prepayments	427	335	1,068	338	309
Due from Govt.	1,460	2,626	2,529	2,503	3,155
Cash & Bank Balance	3,202	2,377	2,217	5,176	3,749
Total Assets	22,641	25,606	41,800	53,085	55,876
Trade & Other Payables	496	1,191	1,732	2,924	2,828
Short-Term Borrowings	10,002	11,639	16,111	20,644	22,386
Long-Term Borrowings (Inc. current matur)	3,340	3,461	4,677	5,309	4,979
Total Borrowings	13,342	15,100	20,788	25,953	27,365
Deferred Tax	721	490	2,051	2,416	2,152
Other Liabilities	579	668	724	946	1,341
Total Liabilities	15,137	17,449	25,295	32,238	33,686
Tier-1 Equity	7,504	8,158	13,103	17,829	19,208
Paid-up Capital	2,516	2,516	2,918	3,356	3,356
INCOME STATEMENT	FY19	FY20	FY21	FY22	1HFY23
Net Revenue	30,828	27,305	44,972	66,153	31,241
Gross Profit	3,189	2,617	6,691	10,128	3,362
Finance Cost	786	1,515	1,370	2,622	1,887
Profit Before Tax	1,737	554	4,161	6,202	1,075
Profit After Tax	1,373	593	3,429	5,411	1,343
FFO	2,042	(111)	3,885	6,233	1,215
RATIO ANALYSIS	FY19	FY20	FY21	FY22	1HFY23
Gross Margin (%)	10.3%	9.6%	14.9%	15.3%	10.8%
Net Margin (%)	4.5%	2.2%	7.6%	8.2%	4.3%
Net Working Capital	2,657	1,631	7,051	11,302	11,453
Current Ratio (x)	1.23	1.12	1.37	1.45	1.42
FFO to Long-Term Debt (x)	0.61	(0.03)	0.83	1.18	0.49
FFO to Total Debt (x)	0.15	(0.01)	0.19	0.24	0.09
Debt Servicing Coverage Ratio (x)	4.61	0.68	2.23	2.68	1.26
Gearing (x)	1.78	1.85	1.59	1.45	1.42
Debt Leverage (x)	1.91	2.13	1.93	1.81	1.75
Inventory Plus Receivables/STD	0.97	0.89	1.25	1.39	1.41
Cash Conversion Cycle (days)	68	103	133	132	174

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		Annexure IV			
Name of Rated Entity	Mughal Iron & Steel Industries Limited				
Sector	Steel Industry				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	31/3/2023	A+	A-1	Rating Watch - Developing	Maintained
	25/11/2022	A+	A-1	Stable	Reaffirmed
	28/12/2021	A+	A-1	Stable	Upgrade
	25/09/2020	A	A-2	Stable	Initial
	<u>RATING TYPE: ENTITY RATING TYPE: Sukuk</u>				
	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
	<u>RATING TYPE: ENTITY RATING TYPE: ICP-1</u>				
	28/10/2022				Matured
	28/12/2021		A-2		Reaffirmed
	06/30/2021		A-2		Preliminary
Instrument Structure	N/A				
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				

