RATING REPORT

Mughal Iron & Steel Industries Limited

REPORT DATE:
June 30, 2021

RATING ANALYSTS:
Syed Fahim Haider Shah
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RATING DETAILS		
	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	A	A-2
Sukuk (Preliminary)	A+	
ICP-1 (Preliminary)	A-2	
Rating Outlook	Stable	
Rating Date	*June 30, 2021*	

COMPANY INFORMATION

Incorporated in 2010	**External auditors:** Fazal Mahmood & Company Chartered Accountants (Independent member firm of Prime Global)
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 – 10.86% Mr. Fahad Javaid – 10.86% 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 (May 2019)
https://www.vis.com.pk/kc-meth.aspx

Mughal Iron & Steel Industries Limited

OVERVIEW OF THE INSTITUTION

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Iron & Steel Industries Limited (MISIL) was incorporated as a public limited company on February 16, 2010 under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017).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.

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.

Financial Snapshot

Total Equity: end-9MFY21: Rs. 11.2b; end-FY20: Rs. 8.2b; end-FY19: Rs. 8.3b.

Assets: end-9MFY21: Rs. 42.1b; end-FY20: Rs. 25.6b; end-FY19: Rs. 22.6b.

Net Profit: 9MFY21: Rs. 2.5b; Rs. FY20: Rs. 593; FY19: Rs. 1.4b.

RATING RATIONALE

The ratings assigned to Mughal Iron & Steel Industries Limited (MISIL) take into account the company's position amongst major players in the long steel sector of Pakistan. Product portfolio of the company comprises steel rebars, girders, billets and copper ingots. Steel rebars and girders are the key revenue generating products. The assigned ratings take into account extensive experience of sponsoring family. The ratings draw comfort from sizeable scale of melting and re-rolling mill capacities, underpinned by installation of new furnaces and completion of balancing, modernization and replacement (BMR) of existing re-rolling mill.

Sales and Profitability

Net revenue has increased to Rs. 29.8b (FY20: Rs. 27.3b) on account of a combination of increase in selling price and volumetric sales of rebars, girders, and billets as well as copper ingots during 9MFY21. Gross profit was recorded higher at Rs. 4.8b (FY20: Rs. 2.6b) with the improvement in margin due to uptrend in selling prices and availability of cheaper inventory. Operational expenses increased to Rs. 961m (FY20: Rs. 608m) due to higher distribution expense and salaries & other benefits. Finance cost decreased to Rs. 962m (FY20: Rs. 1.5b) as the impact of higher debt utilization was offset by reduction in the interest rates. The company reported higher net profit of Rs. 2.5b (FY20: Rs. 593m) with notably improved net margin of 8.4% (FY20: 2.2%) during 9MFY21.

Liquidity and Capitalization

Liquidity profile of the company has improved due to increase in profits, as reflected in funds from operations (FFO) of Rs. 3.1b during 9MFY21 vis-à-vis a net cash outflow in the previous year. Resultantly, the debt service coverage ratio improved to 2.47x (FY20: 0.68x). Current ratio also improved to 1.36x (FY20: 1.12x) as the impact of increase utilization of short-term borrowings was more than offset by higher inventory levels at end-9MFY21. Inventory plus trade debts provide adequate coverage against short-term borrowings, as reflected in ratio of 1.14x (FY20: 0.89x) at end-9MFY21.

Paid-up capital was unchanged at Rs. 2.5b. Equity base (excluding revaluation gain) accumulated to Rs. 11.2b (FY20: Rs. 8.2b) including share deposit money of Rs. 1.7b pertaining to rights issue. Total proceeds from right share issue amounted to Rs. 2.7b as of April 23, 2021. Debt profile of the company comprises a mix of short-term and long-term financing. Working capital requirements are met through short-term borrowings which increased to Rs. 16.9b (FY20: Rs. 11.6b) due to increase in production levels, and higher raw material prices during 9MFY21. Outstanding balance of long-term debt increased to Rs. 6.4b (FY20: Rs. 3.5b) on account of mobilization of Sukuk instrument of Rs. 3.0b for working capital requirements. Resultantly, gearing and debt leverage stood higher at 2.09x (FY20: 1.84x) and 2.47x (FY20: 2.12) by end-9MFY21.

Proposed issuance of short-term instrument for working capital requirements

MISIL is in process of issuing rated, unlisted, Islamic Commercial Paper (ICP) of amount Rs. 1.827b for working capital requirements. Tenor of the ICP will be 12 months (360 days) and will be redeemed at face value after adjustment of profit/loss upon presentation by last endorsee to the issuing paying agent (IPA) on the maturity date which is 360 days from the issue date. The indicative profit/discount rate is 6-month KIBOR plus 1.75% per annum. The instrument will be re-priced Bi-annually.

Subsequent to issuance of ICP, gearing and leverage ratios are projected to remain stable at 2.08x and 2.43x, as the impact of increase borrowings due to ICP issuance is offset by increase in equity base owing to receipt of remaining right issue proceeds of Rs. 1.0b after March 31, 2021.

Mughal Iron and Steel Industries Limited **Annexure I**

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	FY19	FY20	9MFY21
Non-Current Assets	8,628	9,966	15,294
Stock in Trade	5,620	8,120	16,285
Trade Debts	3,304	2,182	3,011
Advances, Deposits & Prepayments	427	335	288
Due from Govt.	1,460	2,626	3,032
Cash & Bank Balance	3,202	2,377	4,184
Total Assets	**22,641**	**25,606**	**42,093**
Trade & Other Payables	496	1,191	1,464
Short-Term Borrowings	10,002	11,584	16,893
Long-Term Borrowings *(Inc. current matur)*	3,340	3,461	6,417
Deferred Tax	721	490	1,951
Other Liabilities	579	668	786
Total Liabilities	14,307	17,394	27,510
Tier-1 Equity *(Inc. directors' loan)*	**8,334**	**8,212**	**11,160**
Paid-up Capital	2,516	2,516	2,516
INCOME STATEMENT	FY19	FY20	9MFY21
Net Revenue	30,828	27,305	29,818
Gross Profit	3,189	2,617	4,793
Finance Cost	786	1,515	962
Profit Before Tax	1,737	554	2,930
Profit After Tax	1,373	593	2,508
FFO	2,042	(111)	3,106
RATIO ANALYSIS	FY19	FY20	9MFY21
Gross Margin (%)	10.3	9.6	16.1
Net Margin (%)	4.5	2.2	8.4
Net Working Capital	2,657	1,631	7,121
Current Ratio (x)	1.23	1.12	1.36
FFO to Long-Term Debt (x)	0.61	n.m	0.65*
FFO to Total Debt (x)	0.16	n.m	0.18*
Debt Servicing Coverage Ratio (x)	4.61	0.68	2.47
Gearing (x)	1.78	1.85	2.09
Debt Leverage (x)	1.91	2.13	2.47

** Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

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 III

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

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
25/09/2020	A	A-2	Stable	Initial
RATING TYPE: Sukuk				
05/10/2020	A+		Stable	Preliminary
RATING TYPE: ICP-1				
06/30/2021		A-2		Preliminary

Instrument Structure	MISIL is in process of issuing rated, unlisted, Islamic Commercial Paper (ICP) of amount Rs. 1.827b for meeting working capital requirements. Tenor of the ICP will be 12 months (360 days) and will be redeemed at face value after adjustment of profit/loss upon presentation by last endorsee to the IPA on the maturity date which is 360 days from the issue date. The indicative profit/discount rate is 6-month KIBOR plus 1.75% per annum. The instrument will be re-priced Bi-annually.
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
Mr. Zafar Iqbal	CFO	June 29, 2021
Mr. Fahad Hafeez	Company Secretary	June 29, 2021