# RATING REPORT

# Mughal Iron & Steel Industries Limited

**REPORT DATE:**
February 25, 2025

**RATING ANALYSTS:**
Saeb Muhammad Jafri
saeb.jafri@vis.com.pk

| RATING DETAILS | |
|---|---|
| Rating Category | Preliminary Rating |
| | Long-Term |
| **Sukuk 2** | AA- (Plim) |
| ***Rating Date*** | *February 25, 2025* |
| **Rating Outlook/ Rating Watch** | *Stable* |
| ***Rating Action*** | Initial |

## COMPANY INFORMATION

| | |
|---|---|
| **Incorporated in 2010** | **External auditors:**<br>M/s Fazal Mahmood & Company Chartered Accountants<br>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**
**VIS Issue Rating Criteria Methodology – Rating the Issue**
**https://docs.vis.com.pk/docs/Rating-the-Issue-Aug-2023.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Iron & Steel Industries Limited (MISIL)** was incorporated as a public limited company on February 16, 2010, under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017).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.

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.

## Sukuk 2 Structure:

The Company plans to issue a medium-term, rated, secured, privately placed Sukuk of up to PKR 2,500 mln, including a PKR 1,000 mln green shoe option. The instrument will have a tenor of up to 15 months from the issue date, with principal repayment structured as a bullet payment at maturity. Profit will accrue quarterly in arrears, with the first installment due three months after the issue date and subsequent payments due at the end of each quarter. The profit rate is set at the base rate plus 145 basis points per annum, where the base rate is defined as the average three-month KIBOR.

A Debt Payment Account (DPA) will be maintained to manage profit and principal repayments. The DPA will be funded as follows:

- All quarterly interest payments will be deposited in the DPA 5 working days before the installment date.
- Since the principal repayment is in bullet in maturity the principal will be paid in the last installment whereby;
    - 1/3 of the principal payment will be funded in the account on the 60$^{th}$ day of the last quarter.
    - The remaining will be funded on the 75$^{th}$ day of the last quarter.

A Debt Service Reserve Account (DSRA) will also be maintained and shall be always funded with an amount of PKR 165 million from the issue date. The DSRA will be maintained in a bank that has a minimum credit rating of AA-. The issuer shall maintain the DSRA under lien of the investment agent.

The security structure includes a first joint pari passu charge on the Company's current and future assets, with a margin of 25%. Initially, a ranking charge will be created, which will be upgraded to pari passu status within 120 days of the first disbursement.

## 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.

## Industry Review

In the fiscal year 2024 (FY24), Pakistan's steel bar sector encountered significant challenges, including fluctuating demand, rising production costs, and increased competition from imports. These factors collectively influenced the industry's performance during the year.

A notable development in FY24 was the substantial rise in the import of finished iron and steel products. Data from the State Bank of Pakistan (SBP) indicates that imports of finished iron and steel products increased by 22% to $2.062 billion during July-May FY24, up from $1.686 billion in the same period of the previous fiscal year. The local steel bar industry relies heavily on imported scrap as a primary raw material. During the first 11 months of FY24, imports of iron and steel scrap grew by 46.5%, reaching $1.556 billion, compared to $1.062 billion in the entire FY23. These increases are attributed to the ease in import restrictions in FY24 compared to FY23, as demand mostly remained constrained due to the prevailing weak economic conditions.

Entering the fiscal year 2025 (FY25), the sector continues to navigate a complex landscape. The State Bank of Pakistan projects real GDP growth between 2.5% and 3.5% for FY25, supported by a gradual recovery in large-scale manufacturing (LSM) and services sectors. This anticipated economic improvement is expected to positively influence the steel bar industry given the continued ease in policy rates.

Additionally, the federal budget for 2024-25 introduced tax reforms aimed at supporting the steel industry. The phased reduction of tax exemptions for FATA/PATA and the inclusion of local scrap transactions within the tax net are expected to promote fair competition.

## Key Rating Drivers

### Business Risk Profile

#### Industry Risk: High.

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 opportunities of demand, profitability is challenged by raw material supply chain weaknesses, 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 supply disruptions along with rising power and gas tariffs contribute 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.

## Financial Risk Profile

### Profitability Profile.

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 ferrous 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. During 1QFY25, the revenue has slightly increased by 2.62% to Rs 21.58b (1QFY24: Rs 21.03b) due to volumetric increase in the ferrous segment and increased copper prices in the Non-Ferrous Segment. Going Forward, the Company's revenue is expected to grow further due to an improvement in the macroeconomic conditions, declining inflation and a lower the interest rates which is induce improvement in the construction activity in the country.

In FY24, 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 to 8.35% (FY23: 14.35%) in FY24. In 1QFY25, the Company's gross margin recovered to 9.21%, with a reduction in fuel and power costs. 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. The Company expects to save around Rs 15 per kwh from this project and that would help the Company in improving its Gross Margin.

### 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. At end 1QFY25, the Company reported a current ratio of 1.21x, staying in line with the historical level. Similarly, the short-term debt coverage ratio reduced to 1.32x (FY23: 1.54x) in FY24, also remaining at adequate levels.

### Capitalization Profile

The Company utilized additional long-term and short-term debt during FY24 to meet capital expenditure and working capital requirements, leading to an increase in gearing and leverage ratios to 1.54x (FY23: 1.21x) and 1.92x (FY23: 1.61x), respectively. As of the end of 1QFY25, the Company further increased its reliance on debt for similar purposes, resulting in gearing and leverage ratios rising to 1.65x and 1.96x, respectively.

### Coverage Profile.

During FY24, cashflows were adversely affected by gross margin contraction and higher borrowings in a high-interest-rate environment, exerting pressure on Funds from Operations (FFO). FFO declined to PKR 68.98 million (FY23: PKR 4,398.08 million), resulting in a reduction of the debt service coverage ratio (DSCR) to 0.79x (FY23: 1.60x) against a required minimum of 1.00x. The DSCR remained under strain during 1QFY25, with the Company reporting a DSCR of 0.55x. Looking ahead, management anticipates an improvement in DSCR driven by declining interest rates. Near-term obligations are expected to be managed through available liquidity, while long-term operational cashflows are projected to adequately meet financial commitments. Growth in the ferrous segment and improved margins from captive power generation through Mughal Energy Limited are expected to support this recovery. The debt servicing profile is also underpinned to continued sponsor support.

### Sukuk Credit Enhancements

The Sukuk structure includes mechanisms such as a DPA and a DSRA to facilitate the timely servicing of profit and principal obligations. The DPA will be utilized to manage profit and principal repayments, with all quarterly profit payments deposited five working days prior to the installment date. For the principal repayment, which is structured as a bullet payment at maturity, the DPA will be funded incrementally, with one-third of the principal deposited on the 60th day of the last quarter and the remaining two-thirds on the 75th day of the same quarter.

The DSRA, on the other hand, is designed to provide an additional financial cushion and shall always be funded with PKR 165 million from the issue date. The DSRA will be maintained in a bank with a minimum credit rating of AA-, under the lien of the investment agent. These mechanisms ensure that sufficient funds are available to meet financial commitments as they become due, thereby supporting the assigned ratings and mitigating potential risks associated with the issuer's obligations.

## Mughal Iron & Steel Industries Limited Appendix I

### Financial Summary

| Balance Sheet (PKR Millions) | FY23A | FY24A | 3MFY25M |
|---|---|---|---|
| Property, plant and equipment | 19,691.99 | 19,593.57 | 19,604.28 |
| Long-term Investments | 50.15 | 3,200.12 | 3,202.86 |
| Stock-in-trade | 20,218.66 | 23,417.83 | 23,643.23 |
| Trade debts | 9,283.15 | 10,805.75 | 12,844.82 |
| Cash & Bank Balances | 2,885.13 | 3,568.11 | 2,774.29 |
| Other Assets | 7,702.91 | 8,491.80 | 8,085.83 |
| Total Assets | 59,831.99 | 69,077.18 | 70,155.31 |
| Creditors | 1,298.73 | 2,565.71 | 1,775.54 |
| Long-term Debt (incl. current portion) | 4,980.48 | 6,577.67 | 6,237.62 |
| Short-Term Borrowings | 20,995.05 | 27,992.42 | 30,671.13 |
| Total Debt | 25,975.53 | 34,570.09 | 36,908.75 |
| Other Liabilities | 7,179.61 | 5,805.87 | 5,328.60 |
| Total Liabilities | 34,453.87 | 42,941.67 | 44,012.89 |
| Paid up Capital | 3,356.34 | 3,356.34 | 3,356.34 |
| Revenue Reserve | 14,712.77 | 15,733.72 | 15,762.70 |
| Other Equity (excl. Revaluation Surplus) | 3,310.64 | 3,304.95 | 3,304.95 |
| Equity (excl. Revaluation Surplus) | 21,379.75 | 22,395.01 | 22,423.99 |

| Income Statement (PKR Millions) | FY23A | FY24A | 3MFY25M |
|---|---|---|---|
| Net Sales | 67,390.17 | 92,382.60 | 21,584.16 |
| Gross Profit | 9,671.03 | 7,717.63 | 1,988.76 |
| Operating Profit | 8,769.58 | 6,982.87 | 1,827.22 |
| Finance Costs | 4,423.18 | 6,364.04 | 1,904.16 |
| Profit Before Tax | 4,346.40 | 618.83 | -76.94 |
| Profit After Tax | 3,480.49 | 1,999.88 | 6.95 |

| Ratio Analysis | FY23A | FY24A | 3MFY25M |
|---|---|---|---|
| Gross Margin (%) | 14.35% | 8.35% | 9.21% |
| Operating Margin (%) | 13.01% | 7.56% | 8.47% |
| Net Margin (%) | 5.16% | 2.16% | 0.03% |
| Funds from Operation (FFO) (PKR Millions) | 4,389.08 | 68.98 | -35.70 |
| FFO to Total Debt* (%) | 16.90% | 0.20% | -0.39% |
| FFO to Long Term Debt* (%) | 88.13% | 1.05% | -2.29% |
| Gearing (x) | 1.21 | 1.54 | 1.65 |
| Leverage (x) | 1.61 | 1.92 | 1.96 |
| Debt Servicing Coverage Ratio* (x) | 1.35 | 0.56 | 0.55 |
| Current Ratio (x) | 1.51 | 1.23 | 1.21 |
| (Stock in trade + trade debts) / STD (x) | 1.54 | 1.32 | 1.28 |
| Return on Average Assets* (%) | 6.16% | 3.10% | 0.04% |
| Return on Average Equity* (%) | 17.75% | 9.14% | 0.12% |
| Cash Conversion Cycle (days) | 161.40 | 125.42 | 149.46 |

**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** | Instrument Rating |
| **Rating History** | see table below |

| Rating Date | Medium to Long Term | Short Term | Rating Outlook/Watch | Rating Action |
|---|---|---|---|---|
| **RATING TYPE: SUKUK 2** | | | | |
| **25/02/2025** | AA- (Plim) | | Stable | Preliminary |

| | |
|---|---|
| **Instrument Structure** | The Company plans to issue a medium-term, secured, privately placed Sukuk of up to PKR 2,500 million, including a PKR 1,000 million green shoe option. The instrument has a tenor of up to 15 months, with a bullet principal repayment at maturity. Profit will accrue quarterly in arrears, with the first installment due three months after issuance. The profit rate is the average three-month KIBOR plus 145 basis points per annum. A Debt Payment Account (DPA) will be maintained, with quarterly profit payments deposited five days before each installment. The principal will be funded in two tranches in the last quarter—1/3 on the 60th day and the remainder on the 75th day. A Debt Service Reserve Account (DSRA) of PKR 165 million will be maintained in a bank rated at least AA- and held under lien of the investment agent. The security structure includes a first joint pari passu charge on current and future assets with a 25% margin, initially ranking and upgraded to pari passu within 120 days of disbursement. |
| **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. |
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**Due Diligence Meetings Conducted**

| S.No. | Name | Designation | Date |
|---|---|---|---|
| **01** | Mr. Shakeel Ahmad | COO | 01/02/2025 |
| **02** | Mr. Zafar Iqbal | CFO | |
| **03** | Mr. Muhammad Fahad Hafeez | Company Secretary | |