VIS
Credit Rating Company Limited

RATING REPORT

Analysts:
Amin Hamdani
(amin.hamdani@vis.com.pk)

APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Industrial Corporates
(https://docs.vis.com.pk/docs/CorporateMethodology.pdf)

Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

RS. MILLION	FY23	FY24	HY25
Net Sales	3,404	4,278	1,582
PBT	528	381	85
PAT	481	322	60
Paid up call	1,500	1,500	1,500
Equity (incl. surplus on PEE)	3,000	3,301	3,364
Total Debt	562	608	487
Debt Leverage	0.82	0.73	0.53
Gearing	0.34	0.31	0.24
FFO	555	417	111
FFO/Total Debt (x)*	0.99	0.69	0.23
NP Margin	14.1%	7.5%	3.8%

MANNAN SHAHID FORGINGS LIMITED

Chief Executive: Mr. Shahid Dad

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A	A2	A	A2
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Upgrade	
RATING DATE	June 13, 2025		May 06, 2024	

RATING RATIONALE

The assigned ratings reflect MSFL's moderate business risk profile, which is influenced by the inherent cyclicality of the Forging sector catering to automotive industry, fluctuations in imported raw material prices, and changes in currency rates. However, the same is mitigated to some extent as more than 75% of the Company's sales is export-oriented. Further, the fluctuation in global economic drivers specifically European countries impacts the Company's business.

The ratings also incorporate MSFL's financial risk profile, which is underpinned by a satisfactory capitalization structure, aligning with the Company's conservative approach to debt management. For FY24, MSFL reported growth in both topline and gross margins, driven by its focus on profitable clients and a reduction in freight costs. The liquidity profile remains strong, supported by a high current ratio and a largely stable cash conversion cycle, while coverage ratios have remained adequate.

Profitability profile has impacted during the on-going year amid lower sales; however, the management expects growth in FY26 on the back of increased demand from European customers. Future ratings will remain dependent upon growth in profitability along with maintenance of healthy coverages.

COMPANY PROFILE

Mannan Shahid Forgings Limited ('MSFL' or 'the Company') was incorporated as a private limited company in 1989 and was later converted into an unquoted public limited company in 2005. The Company's primary operations pertain to the manufacturing of forged, heat-treated, and machined components for passenger cars & trucks, agricultural tractors, motorcycles, fifth wheels and industrial conveyer system.

MSFL was acquired by the current shareholders in 2018 from Abraaj Capital through a Special Purpose Vehicle, Valley Forge (Private) Limited (VFPL). VFPL was primarily owned by Mr. Shahid Dad (51%), Mr. Shahid Ahmad Khan & family (34%) and Mr. Muhammad Akhtar (15%). As of October 2024, VFPL has been dissolved and merged with Mannan Shahid Forgings Limited (MSFL) in line with the management's strategy to position the company for a potential listing on the PSX, anticipated as equity market conditions improve.

Amalgamation

As of October 2024, Valley Forge (Private) Ltd (VFPL) - the parent company - has been merged with Mannan Shahid Forgings Ltd (MSFL) as part of the management's plans for a future IPO. All VFPL assets, liabilities, and staff have been transferred to MSFL, which will assume VFPL's obligations under the same terms.

INDUSTRY PROFILE & BUSINESS RISK

VIS assesses the business risk profile of Forging sector as moderate, considering its cyclical nature, exposure to fluctuations in key raw material prices, and fixed operational costs. According to the management, MSFL holds a leading position in the local forging sector, particularly for forged, machined, and heat-treated components, mainly exporting to Italy and Germany, serving clients in the automotive industry. MSFL is a pioneer in operating a 4,000 tons forging press line in Pakistan, having a total 13 Press Lines ranging from 250 tons to 4000 tons. Despite the presence of several small-scale competitors, the Company remains a dominant player in its niche.

The demand for MSFL's products is largely tied to the automotive sector, which is cyclical and dependent on broader economic conditions. However, local demand risks are mitigated by MSFL's export-oriented strategy, with exports accounting for approximately 75% of net sales in FY24 and FY23. Key export markets include Italy and Germany, which together comprised 59% of total sales in FY24 (FY23: 57%).

While the Company benefits from strong export sales, it faces challenges on the cost side due to supply chain disruptions stemming from the Russia-Ukraine War and the Gaza conflict, which have led to higher freight costs, impacting margins. MSFL primarily produces heavy vehicle components (including off-highway axles) and tractor parts, with demand driven by infrastructure development, industrial production, freight movement, construction, and agriculture. However, as of FY25, the heavy vehicle manufacturing industry in Europe is experiencing a decline, driven by sluggish economic growth and reduced order intake.

On the procurement side, MSFL depends heavily on imported carbon and alloy steel bars to meet the quality standards required for its export-oriented products. A key competitive advantage is the Company's ability to source duty-free raw materials from China through the GOP's Export Facilitation Scheme (EFS).

Although reliance on imported materials exposes MSFL to foreign exchange risk, this is largely hedged by its export-focused sales.

Product Profile & Capacity

Capacity utilization remained relatively stable during FY24 at 45% (FY23: 43%), however, given the sluggish demand from local & European markets, reported during FY25, the utilization for HY25 was recorded low at 33%. The Company's top product category has remained heavy vehicle auto parts.

Production Capacity & Utilization				
Tons	**FY22**	**FY23**	**FY24**	**HY25**
Installed Capacity	15,000	15,000	15,000	7,500
Actual Production	8,482	6,423	6,746	2,475
Utilization	**56.5%**	**42.8%**	**45.0%**	**33.0%**

FINANCIAL RISK

Capital Structure

Company's capital structure being conservative, registered further modest improvement with gearing and leverage ratios ticking down to 0.31x and 0.73x at end-FY24 (end-FY23: 0.34x and 0.82x), respectively, supported by 20% YoY increase in tier-1 equity base while long term debt reduced to negligible levels. Similar trend was followed in HY25, with gearing ratio clocking in at 0.24x at end-HY25 on the back of 20% decrease in short term debt utilization, while leverage reported at 0.53x in line with 42% lower trade payables. Looking ahead, Company has no significant capex plans and plans to maintain a conservative approach to debt financing, therefore, capitalization profile is expected to remain at lower levels.

Profitability

During FY24, MSFL recorded a 26% YoY increase in sales, reaching PKR 4.27 Bn (FY23: PKR 3.40 Bn), driven by a strategic focus on more profitable clients. Export sales continued to represent the majority of total revenue, maintaining a 75% share in both FY23 and FY24. Local sales accounted for 19% of total sales and were primarily attributed to three key clients: Millat Tractors Ltd, Millat Equipment Ltd, and Atlas Honda Limited.

Meanwhile, Company's export clientele consists of intermediaries who source auto parts and assemble larger components for automobiles supplied to OEMs such as Daimler Benz, John Deere, and MAN Trucks.

Sales concentration among the top 10 clients remained high, slightly increasing to 83% in FY24 (FY23: 81%), posing a continued concentration risk. Nevertheless, client diversification has improved significantly over the past five years.

Gross margins improved from 12.8% in FY23 to 15.9% in FY24 due to lower freight costs and relatively stable raw materials prices, subsequently boosting gross profits. However, other income witnessed significant decline of 87% recorded at PKR 48

Mn (FY23: 369 Mn) due to absence of exchange gain during the period constraining overall profitability. As a result, net margins decreased to 7.5% (FY23: 14.1%) in FY24.

During 1HY25, MSFL reported slightly lower sales of PKR 1.58 Bn, primarily due to subdued demand from Europe amidst slow economic growth. Gross margins declined to 11.8%, impacted by rising freight costs, as a result overall profitability recorded low with net margin standing at 3.8% for the period.

Debt Coverage & Liquidity

The current ratio improved further by end-FY24 to 2.46x (FY23: 2.25x), supported by higher levels of inventory and trade receivables. However, the cash conversion cycle increased slightly to 137 days (FY23: 133 days), primarily due to reduction in payable days.

Constrained profitability led to a 25% decline in Funds from Operations (FFO), which stood at PKR 417 Mn (FY23: PKR 555 Mn) in FY24. As a result, the Company's coverage profile weakened, with FFO to short-term debt and total debt falling to 0.70x and 0.69x, respectively (FY23: 1.03x and 0.99x). The Debt Service Coverage Ratio (DSCR) declined to 3.79x (FY23: 5.96x) but remained at healthy levels.

As of end-1HY25, the current ratio improved further to 3.27x, driven by reduction in current liabilities, particularly lower short-term debt and trade payables. Conversely, the cash conversion cycle weakened further to 183 days, primarily owed to an increase in inventory days to 172, reflecting slower sales during the period. Due to subdued profitability annualized FFO reported at PKR 111 Mn. Subsequently, coverages reduced further with FFO to total and short-term debt reporting at 0.23x, while DSCR fell to 2.19x. However, overall liquidity and coverage profile considered satisfactory from the ratings perspective.

FINANCIAL SUMMARY *(amounts in PKR millions)* *Appendix I*

BALANCE SHEET	FY21	FY22	FY23	FY24	HY25
Property, Plant and Equipment	765	1,844	1,830	1,846	1,849
Stock-in-Trade	862	887	1,124	1,272	1,312
Trade debts	350	519	482	614	391
Cash & bank balance	138	166	458	200	230
Total Assets	**2,496**	**3,894**	**4,341**	**4,737**	**4,443**
Long-term debt (inc. current portion)	94	64	26	8	1
Short-term debt	511	514	536	599	485
Trade & Other payables	356	385	460	441	255
Total Liabilities	**1,214**	**1,263**	**1,341**	**1,435**	**1,079**
Paid-Up Capital	212	212	1,500	1,500	1,500
Accumulated profits	599	940	27	350	411
Revaluation surplus	357	1,365	1,360	1,337	1,337
General reserve	113	113	113	113	113
Total Equity	**1,282**	**2,631**	**3,000**	**3,301**	**3,364**
Tier-1 Equity	**925**	**1,266**	**1,640**	**1,964**	**2,026**
INCOME STATEMENT	**FY21**	**FY22**	**FY23**	**FY24**	**HY25**
Net Sales	2,277	3,427	3,404	4,278	1,582
Gross Profit	299	507	436	681	187
Profit Before Tax	210	436	528	381	85
Profit After Tax	164	407	481	322	60
FFO*	234	442	555	417	111
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**FY24**	**HY25**
Gross Margin (%)	13.1%	14.8%	12.8%	15.9%	11.8%
Net Margin (%)	7.2%	11.9%	14.1%	7.5%	3.8%
FFO to Long-Term Debt (x)*	2.49	6.93	21.31	49.08	74.27
FFO to Total Debt (x)*	0.39	0.76	0.99	0.69	0.23
Current Ratio (x)	1.67	2.01	2.25	2.46	3.27
Debt Servicing Coverage Ratio (x)*	2.97	6.79	5.96	3.79	2.19
Gearing (x)	0.65	0.46	0.34	0.31	0.24
Leverage (x)	1.31	1.00	0.82	0.73	0.53
ROAA (%)*	6.6%	12.7%	11.7%	7.1%	2.6%
ROAE (%)*	17.7%	37.1%	33.1%	17.9%	6.0%
Cash Conversion Cycle (days)*	150	118	133	137	183

*Annualized

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	Mannan Shahid Forgings Limited				
Sector	Forgings				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Outlook / Rating Watch	Rating Action
	RATING TYPE: ENTITY				
	13-June-25	A	A2	Stable	Reaffirmed
	06-May-24	A	A2	Stable	Upgrade
	11-May-23	A-	A2	Stable	Reaffirmed
	17-Mar-22	A-	A2	Stable	Initial
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.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2025 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meetings Conducted	S.No.	Name	Designation	Date	
	1.	Ali Ahmed Qureshi	General Manager - Finance	21-May, 2025	
	2.	Sarfraz Hussain	Senior DM - Finance		