

## RATING REPORT

## Mehboob Steel Pipe Industry (MSPI)

**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          | BBB-                         | A-2        | BBB-                       | A-2        |
| Rating Outlook  | Rating Watch-<br>Developing  |            | Stable                     |            |
| Rating Date     | 31 <sup>st</sup> March, 2023 |            | 30 <sup>th</sup> Dec, 2022 |            |
| Rating Action   | Maintained                   |            | Reaffirmed                 |            |

## COMPANY INFORMATION

|                      |   |
|----------------------|---|
| Incorporated in 2004 | External auditors: Zaheer Babar & Chartered Accountants |
| Partnership Concern  | Chief Executive: Mr. Muhammad Ehsan                     |
| Partners:            |   |
| Mr. Muhammad Ehsan   | - 25%   |
| Mr. Zeeshan Mehboob  | - 25%   |
| Mr. Imran Mehboob    | - 25%   |
| Mr. Rizwan Mehboob   | - 25%   |

## APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (August 2021)

<https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf>

## Mehboob Steel Pipe Industry (MSPI)

OVERVIEW OF  
THE  
INSTITUTION

Mehboob Steel Pipe Industry (MSPI) was incorporated in 2004 as a partnership concern. Registered office of the company is in Lahore while manufacturing unit is located in Hub, Balochistan.

**Profile of CEO**

Mr. Muhammad Ehsan is the Chief Executive of the firm and is looking after the affairs of the firm for the last 15 years.

## RATING RATIONALE

**Company & Group Profile:** MSPI was established in 2004 as a partnership concern including four real brothers; Mr. Muhammad Ehsan, Mr. Zeeshan Mehboob, Mr. Imran Mehboob & Mr. Rizwan Mehboob. The firm imports hot rolled coils from countries including China, Russia, South Africa etc. and produces steel tubes and pipes of different sizes & specifications according to customers and market demand. The company produces various shapes of tubes & pipes like square, elliptical, rectangular, L type, T type, Z type & D type. These products are mainly used in construction and various other industries like water, oil & gas, automobile, furniture, houses, scaffolding etc. The manufacturing unit of the firm is situated in HUB, Balochistan while the registered office is in Lahore. The group also operates three other partnership concerns having the same four partners. ‘Mehboob Tube Mills’ was established in 1998 and is the flagship company of the group. ‘Mehboob Engineering Company’ is a trading firm of the group and was established in 2013. The company buys hot rolled coils, cold rolled coils & galvanized coils from local manufacturers (*Aisha Steel and International Steel*) as a distributor and sells these products to either its group entities or in the local market. ‘Mehboob Profile Industries’ was established in 2016 and manufactures *Choughat* for doors.

**Rationale for placement of ratings of 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.

**Mehboob Steel Pipe Industry**
**Appendix I**

| <b>FINANCIAL SUMMARY</b> ( <i>Amounts in PKR millions</i> ) |                  |                  |                  |                  |
|---|------------------|------------------|------------------|------------------|
| <b><u>BALANCE SHEET</u></b>                                 | <b>30-Jun-19</b> | <b>30-Jun-20</b> | <b>30-Jun-21</b> | <b>30-Jun-22</b> |
| Non-Current Assets  | 132.1            | 138.5            | 127.4            | 145.7            |
| Stock-in-Trade  | 411.9            | 934.2            | 411.9            | 1,315.1          |
| Trade Debts   | 206              | 335.7            | 206.6            | 187.1            |
| Advances and Deposits                                       | 749.9            | 362.6            | 354              | 591.6            |
| Cash & Bank Balances  | 41.3             | 99.3             | 154.7            | 39.6             |
| <b>Total Assets</b>   | <b>1,929.10</b>  | <b>1,870.30</b>  | <b>1,254.00</b>  | <b>2,279.1</b>   |
| Trade and Other Payables                                    | 14.6             | 73.8             | 132.9            | 72.3             |
| Short Term Borrowings                                       | 1,113.50         | 873.9            | 263.2            | 1,237.6          |
| Long Term Borrowings  | -                | -                | -                | -                |
| <b>Total Borrowings</b>                                     | <b>1,113.50</b>  | <b>873.9</b>     | <b>263.2</b>     | <b>1,237.6</b>   |
| <b>Total Liabilities</b>                                    | <b>1,223.70</b>  | <b>975.2</b>     | <b>434.5</b>     | <b>1,339.0</b>   |
| Paid Up Capital   | -                | -                | -                | -                |
| Tier-I Equity/ Partner's Capital                            | 705.5            | 895.1            | 819.4            | 940.1            |
| <b>Total Equity including Revaluation Reserves</b>          | <b>705.5</b>     | <b>895.1</b>     | <b>819.4</b>     | <b>940.1</b>     |
|   |                  |                  |                  |                  |
| <b><u>INCOME STATEMENT</u></b>                              | <b>30-Jun-19</b> | <b>30-Jun-20</b> | <b>30-Jun-21</b> | <b>30-Jun-22</b> |
| Net Sales   | 2,086.80         | 1,831.20         | 2,560.9          | 2,329.1          |
| Gross Profit  | 140.1            | 166              | 149.7            | 121.5            |
| Finance Cost  | 42.1             | 67.9             | 54.5             | 34.1             |
| Profit after Tax  | 59.3             | 41.9             | 55.5             | 45.2             |
| Profit after Tax  | 38.3             | 14.4             | 17.1             | 16.0             |
|   |                  |                  |                  |                  |
| <b><u>RATIO ANALYSIS</u></b>                                | <b>30-Jun-19</b> | <b>30-Jun-20</b> | <b>30-Jun-21</b> | <b>30-Jun-22</b> |
| Gross Margin (%)  | 6.7              | 9.1              | 5.8              | 5.2              |
| Net Margin (%)  | 0.5              | 0.8              | 0.7              | 0.7              |
| Current Ratio (x)   | 1.45             | 1.78             | 2.59             | 1.59             |
| Net Working Capital   | 554.7            | 756.6            | 692              | 794.4            |
| Debt Leverage (x)   | 1.73             | 1.09             | 0.53             | 1.42             |
| Gearing (x)   | 1.58             | 0.98             | 0.32             | 1.32             |
| FFO   | 25.3             | 11.7             | 25.6             | 25.6             |
| FFO to Total Debt (x)                                       | 0.02             | 0.01             | 0.1              | 0.02             |
| FFO to Long Term Debt (x)                                   | -                | -                | -                | -                |
| Debt Servicing Coverage Ratio (x)                           | 1.67             | 1.17             | 1.44             | 2.48             |
| Inventory + Receivables/Short-term Borrowings (x)           | 1.05             | 1.45             | 2.35             | 1.21             |
| ROAA (%)  | 0.6              | 0.8              | 1.1              | 0.9%             |
| ROAE (%)  | 1.5              | 1.8              | 2                | 1.8%             |

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Appendix III**

**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:** JCR-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.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.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.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.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.

**'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.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when JCR-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                  |   |                            |                   |                         | Appendix III         |
|---|---|----------------------------|-------------------|-------------------------|----------------------|
| <b>Name of Rated Entity</b>             | Mehboob Steel Pipe Industry   |                            |                   |                         |                      |
| <b>Sector</b>                           | Steel   |                            |                   |                         |                      |
| <b>Type of Relationship</b>             | Solicited   |                            |                   |                         |                      |
| <b>Purpose of Rating</b>                | Entity Ratings  |                            |                   |                         |                      |
| <b>Rating History</b>                   | <b>Rating Date</b>  | <b>Medium to Long Term</b> | <b>Short Term</b> | <b>Rating Outlook</b>   | <b>Rating Action</b> |
|   | <b><u>RATING TYPE: ENTITY</u></b>   |                            |                   |                         |                      |
|   | 31-March-23   | BBB-                       | A-2               | Rating Watch-Developing | Maintained           |
|   | 30-Dec-22   | BBB-                       | A-2               | Stable                  | Reaffirmed           |
|   | 10-Jan-22   | BBB-                       | A-2               | Stable                  | Initial              |
| <b>Instrument Structure</b>             | N/A   |                            |                   |                         |                      |
| <b>Statement by the Rating Team</b>     | 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.  |                            |                   |                         |                      |
| <b>Probability of Default</b>           | 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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| <b>Due Diligence Meetings Conducted</b> | <b>Name</b>   | <b>Designation</b>         | <b>Date</b>       |                         |                      |
|   | NA  |                            |                   |                         |                      |