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

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

MEHBOOB STEEL PIPE INDUSTRY

Chief Executive: Muhammad Ehsan

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	**Short-term**	**Long-term**	**Short-term**
ENTITY	BBB	A2	BBB	A2
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Upgrade	
RATING DATE	May 21, 2025		April 22, 2024	

RATING RATIONALE

The reaffirmation of entity ratings at ‘BBB/A2’ with a Stable Outlook reflects a balance between the Entity’s financial risk profile and the elevated business risk inherent to the steel pipe and tube manufacturing sector in Pakistan. The sector is characterized by high cyclicality, price-based competition, and exposure to energy and regulatory risks. Despite these structural challenges, the Entity maintained stable net sales and improved profitability in FY24, aided by cost controls and conservative balance sheet management. Debt coverage indicators showed improvement, while reliance on long-term borrowings remained absent. Liquidity remained adequate, supported by internal cash generation and prudent working capital practices. The assigned ratings incorporate the expectation that financial discipline will be sustained amidst ongoing industry pressures.

COMPANY PROFILE

Mehboob Steel Pipe Industry (‘MSPI’ or ‘Mehboob’ or ‘the Entity’) was incorporated in 2004 as a partnership concern. The Entity imports hot rolled coils from various sources including China, Russia, and South Africa. MSPI produces steel tubes and pipes in various sizes and specifications based on customer requirements and market trends. The product portfolio encompasses a range of shapes including square, elliptical, rectangular, L-type, T-type, Z-type, and D-type. These products find application primarily in the construction sector, with additional uses in water, oil & gas, automobiles, furniture, housing, and scaffolding industries. Mehboob's manufacturing unit is in Hub, Balochistan, while the registered office is situated in Lahore.

GROUP PROFILE

The four founding partners of MSPI are also involved in three other partnership concerns. Established in 1998, Mehboob Tube Mills (‘MTM’) serves as the group's flagship company. Mehboob Engineering Company (‘MEC’), founded in 2013, functions as a trading arm, distributing hot rolled coils, cold rolled coils, and galvanized coils procured from local manufacturers (Aisha Steel and International Steel) to group entities or within the local market. Mehboob Profile Industries (‘MPI’), incorporated in 2016, manufactures door components (Choughat).

GOVERNANCE

Mehboob Steel Pipe Industry (MSPI), established in 2004, operates as a partnership firm. The ownership is equally divided among four partners: Mr. Muhammad Ehsan, Mr. Zeeshan Mehboob, Mr. Imran Mehboob, and Mr. Rizwan Mehboob, each holding a 25% stake. The firm's governance is managed collectively by these partners, with Mr. Muhammad Ehsan serving as the Chief Executive Officer, overseeing operations for over 15 years.

INDUSTRY PROFILE & BUSINESS RISK

The business risk of Pakistan’s steel pipe and tube manufacturing sector is assessed as High, reflecting the industry’s pronounced sensitivity to economic cycles and competitive pressures. Demand for steel pipes is closely tied to construction, energy, and engineering activity, rendering the sector vulnerable to macroeconomic slowdowns. At the same time, profitability remains constrained by the commodity-like nature of steel products, and intense competition – factors which limit pricing power and leave little room to absorb cost escalations. These structural characteristics collectively contribute to a high business risk profile for the sector.

Cyclicality of demand has been evident in recent performance. Pakistan’s steel tubes and pipes market contracted to approximately 625,000 metric tons in FY24, down from about 725,000 MT in the prior year. This decline was driven by a broad slowdown in construction and infrastructure projects amid high inflation, record borrowing costs, and delays in public sector development spending. Weak activity in key end-use sectors (including housing and industrial development) kept capacity utilization low – and the market shift toward cheaper alternatives further undercut volumes. While a gradual easing of monetary policy is anticipated to support construction and steel demand going forward, domestic pipe consumption is expected to remain sluggish into FY25, absent a significant revival in economic and project spending.

Competitive dynamics in the pipe and tube segment further amplify risks. The market is highly fragmented with dozens of small to mid-sized producers (over 50 manufacturers nationwide), which creates a low-margin, price-competitive environment. Established players enjoy limited pricing power, as any cost increases in raw material are difficult to pass on to customers given the commoditized product and presence of substitutes. Notably, a shift in consumer preference toward lower grade imported pipes and plastic (PVC) piping has eroded demand for certain steel pipe categories such as galvanized iron pipes. These competitive pressures, combined with low barriers to entry at the smaller scale, have kept growth prospects muted despite underlying demand for steel products in the economy.

Several external and structural factors compound the sector's risk profile. The industry is heavily import-dependent: over 90% of steel pipe raw material (hot-rolled coil) is sourced from abroad. This reliance exposes producers to exchange rate depreciation and import restrictions – challenges highlighted by the steep rupee devaluation and State Bank forex controls that have affected industrial inputs over the period. Regulatory anomalies have added to uncertainty; for example, tax-exempt zones (FATA/PATA regions) and ad-hoc import measures have at times distorted the competitive landscape to the detriment of formal sector players. Although large-scale operations require significant capital investment (providing some barrier to entry at the high end), the prevalence of many small-scale entrants indicates relatively moderate entry barriers, sustaining intense competition in the sector. Overall, the confluence of cyclical demand risk, fierce competition, regulatory and cost vulnerabilities justify a high business risk assessment for Pakistan's steel pipe and tube sector in FY24–FY25.

Operational Profile

According to management, despite macroeconomic challenges in FY24 and reduced demand from key sectors such as automobiles and construction, the Entity maintained stable capacity utilization, supported by rising demand from the local solar segment, which utilizes steel pipes for structural applications. Capacity utilization was reported at approximately 60% in FY24 (FY23: ~58%) and has increased to ~70% during the ongoing FY25.

FINANCIAL RISK

Assigned ratings incorporate the financial risk profile of the Entity. Net sales remained steady during the period, supported by stable volumes despite prevailing macroeconomic challenges in FY24. Margins showed modest improvement during FY24, supported by cost control measures as per the management. However, gross margins declined in the ongoing FY25 due to sustained input cost pressures. The

Entity's capital structure remains conservative, with no long-term debt and limited reliance on short-term borrowing. Working capital requirements were partially met through extension of trade payables. Liquidity indicators remained stable, with the current ratio showing an improvement in the ongoing period, supported by internal cash generation and reduction in liabilities. Coverage indicators improved on the back of better profitability and easing interest rates, with the debt service coverage ratio reflecting adequate capacity to meet financing obligations.

Profitability

In FY24, net sales remained largely stable, supported by stable volumes despite prevailing macroeconomic challenges. As per the management, cost control measures contributed to an improvement in gross margins to 7.93% (FY23: 7.13%). This, combined with conservative balance sheet management, mitigated the impact of elevated interest rates, resulting in an increase in net margins to 1.04% (FY23: 0.75%). However, in 3QFY25, gross margins declined to 5.58% due to sustained cost pressures, while selling prices eased.

Capital Structure

During FY24, the Entity's working capital needs increased, although overall utilization of debt remained contained. Instead, the Entity partially met its funding needs through non-debt liabilities, as reflected in an extension of the trade payable cycle to 17.59 days (FY23: 3.98 days). According to management, average short-term debt utilization remained lower on a year-round basis compared to the prior year, with an increase observed primarily towards the end of the fiscal period. The debt profile remains limited to short-term borrowings, with no outstanding long-term debt.

Debt Coverage & Liquidity

The Entity reported an improvement in its coverage profile during FY24, with the Debt Service Coverage Ratio (DSCR) rising to 1.38x from 1.07x in FY23, primarily reflecting improved profitability. During 9MFY25, DSCR further increased to 1.55x, supported by a decline in short-term debt exposure and lower financing costs with easing interest rates, despite some pressure on operational margins.

Liquidity indicators remained relatively stable. The current ratio declined to 1.49x in FY24, attributed to an increase in trade payables, as the Entity sought to manage its working capital requirements without relying heavily on short-term borrowings amid a high-interest rate environment. By 9MFY25, the current ratio improved to 1.66x, supported by a reduction in inventory levels and partial repayment of liabilities through internally generated cash flows.

REGULATORY DISCLOSURES — Appendix I

Name of Rated Entity	Mehboob Steel Pipe Industry
Sector	Steel and Allied Products
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
21-May-25	**BBB**	**A2**	**Stable**	**Reaffirmed**
22-Apr-25	BBB	A2	Stable	Under Review
22-Apr-24	BBB	A2	Stable	Upgrade
31-Mar-23	BBB-	A2	RW-Dev	Maintained
30-Dec-22	BBB-	A2	Stable	Reaffirmed
10-Jan-22	BBB-	A2	Stable	Initial

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.
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Due Diligence Meetings Conducted

Name	Designation	Date
Muhammad Safdar	DG Finance	May 15, 2025