

RATING REPORT

Mughal Energy Limited

REPORT DATE:

February 26, 2025

RATING ANALYSTS:

Saeb Muhammad Jafri

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-Term	Long-Term
Instrument (Sukuk)	A+ (plim)	A+ (plim)
Rating Date	February 26, 2025	July 05, 2024
Rating Outlook/ Watch	Stable	Stable
Rating Action	Reaffirmed	Preliminary

COMPANY INFORMATION

Incorporated in 2012	External auditors: Muniff Ziauddin & Co. Chartered Accountants
Public Listed Company	Chief Executive Officer: Mr. Khurram Javaid
Key Shareholders (with stake 5% or more):	
<i>Mughal Iron & Steel Industries Limited – 90% ordinary shares and 100% class-B shares</i>	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates

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

VIS Entity Rating Criteria Methodology – Rating the Issue

<https://docs.vis.com.pk/docs/Rating-the-Issue-Aug-2023.pdf>

RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

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

Mughal Energy Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>Mughal Energy Limited ('MEL' or 'the Company'), a subsidiary of Mughal Iron & Steel Industries Limited (MISIL), was established in August 2012. MEL is financing a 36.5MW dual-fired power plant through a PKR 2,500 million Sukuk. The project, 50% complete, spans civil works, mechanical installation, testing, and trial runs, concluding in 2024.</p> <p>Mr. Khurram Javaid, with an MBA from Coventry University, UK, serves as the CEO of Mughal Energy Limited. He has led initiatives for modernization, product diversification, and market expansion, focusing on quality improvement, sales network enhancement, and investment in alternate energy sources.</p>	<p><u>Corporate Profile</u></p> <p>Mughal Energy Limited ('MEL' or 'the Company'), a subsidiary of Mughal Iron & Steel Industries Limited ('MISIL' or 'the Sponsor' or 'the Holding Company'), was established in August 2012. The Company aims to finance a 36.5MW hybrid-fired power plant through the issuance of a PKR 2,500 million Sukuk. The project is funded through both equity and debt, with a capital structure of 60% debt and 40% equity, covering land, plant, civil works, and IDCs. Estimated cost of the project is PKR 6,500 mln.</p> <p>The project, currently ~50% completed with plant components procured, is spread over four phases: civil works, mechanical installation, testing, and trial runs. The civil works phase began in November 2023 and is set to conclude by October 2024. Mechanical installation commenced in February 2024. The management informed that MEL will achieve the commissioning phase by March 2025 and it is expected that the plant will be operational around April- May 2025.</p> <p><u>Sukuk Structure:</u></p> <p>The proposed sukuk issue by MEL aims to raise PKR 2,500 million. This Medium Term Rated, OTC Listed, Privately Placed, Redeemable and Convertible Islamic Certificate has a tenor of four years from the issue date. The Sukuk will have a one-year grace period, followed by principal repayments in 6 equal half yearly installments starting at the end of the 18th month post-issuance. The proposed sukuk is priced at 6M KIBOR + 150 basis points per annum with a floor of 12% per annum but no cap. The security structure is as follows:</p> <ol style="list-style-type: none"> 1. Creation of a ranking charge over the present and future fixed assets of the Company (excluding land & building and including CWIP), before the disbursement of funds (i.e. prior to the issue date) inclusive of a 25% margin on the net book value (NBV) of assets, which is value at about PKRs. 4,661 million as on September 30th, 2024 2. Corporate guarantee from the Holding Company covering all obligations of the issuer under the instrument. 3. Pledging in DCCL of such number of the sponsors' shares in MEL, valued at 25% discount to the break-up value as of September 30th, 2024, being equivalent to the total Issued value of Sukuk. Upon each principal repayment, the pledge shall be reduced proportionately. The pledged shall be automatically released in full upon the full redemption of the Sukuk. 4. A Sukuk Payment Account (SPA) will opened by the Issuer with any bank over which lien will be marked in favor of the Investment Agent. Monthly payments from Mughal Iron & Steel Industries Limited shall be receive from which the normal monthly expenditures shall be withdrawn by the Company before credit into the SPA. <p>The Sukuk includes a convertible feature, allowing holders to exchange their Sukuk for a predetermined number of ordinary shares at a future date. The event that will trigger the conversion is that if any time after 30 months from the Issue Date, an extraordinary resolution</p>

is passed for the conversion by the Sukuk Holders representing at least 75% (seventy five percent) of the aggregate outstanding amount of the Sukuk Certificates.

The Company also has a call option with which the Company can redeem the full outstanding amount after One Year, if decided by the Board of Directors of the Company.

Sponsor Profile

Mughal Iron & Steel Industries Limited 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 Sponsor is engaged in both ferrous and non-ferrous business segments. However, the primary focus remains on the manufacturing and sale of mild steel products within the ferrous segment. The Sponsor has manufacturing plants and warehouses on Sheikhpura Road, Lahore, and sales centers in Badami Bagh, Lahore. MISIL has a long-term rating of A+, assigned by both VIS and PACRA.

Key Rating Drivers

Business Risk Profile

The Sponsor operates within an industrial sector that is increasingly shifting towards captive power generation due to fuel shortages and high electricity prices. Consequently, the Sponsor initiated the development of its own power plant, MEL. The plant, procured from Germany, has arrived at the installation site and civil work has commenced.

The Company's sole customer will be its sponsor, which operates in the steel sector of Pakistan. VIS considers the risk profile of the steel industry to be medium to high due to its exposure to cyclicity and fragmented nature of the competitive landscape of the sector. MEL's performance will be heavily dependent on the operational performance of its sponsor.

Sponsor Profile

The assigned rating takes into account the support provided by the Sponsor, considering its established market position and extensive track record in the long-steel industry. MISIL is a publicly listed company with a strong reputation in manufacturing and sales of long steel products. Rating is further supported by its long-term A+ ratings from VIS and PACRA.

Sponsor's Financial Risk Profile

In FY24, subdued demand persisted, reflecting constrained construction activity, further stressing the Sponsor's financial profile. However, going forward, with recent downward trend in local interest rates, the slump in demand is expected to ease, relieving stress from the profitability profile. Moreover, the project itself is expected to assist the Sponsor in lowering energy costs, supporting profitability, and maintaining adequate coverage levels sufficient to support MEL. However, coverage levels will remain sensitive to the Sponsor's ability to meet its projected plans.

Mughal Energy Limited
Appendix I

Financial Summary			
Balance Sheet (PKR Millions)	FY23A	FY24A	3MFY25M
Property, plant and equipment	3,051.50	4,464.55	4,661.31
Stock-in-trade	0.00	0.00	0.00
Trade debts	0.00	0.00	0.00
Cash & Bank Balances	60.94	205.66	29.34
Other Assets	277.97	472.24	482.94
Total Assets	3,390.41	5,142.45	5,173.59
Creditors	0.00	77.50	0.00
Long-term Debt (incl. current portion)	300.00	422.00	422.00
Short-Term Borrowings	0.00	770.77	790.77
Total Debt	300.00	1,192.77	1,212.77
Other Liabilities	9.03	38.69	505.59
Total Liabilities	309.03	1,308.96	1,718.36
Paid up Capital	1,972.62	2,166.73	2,166.73
Revenue Reserve	-86.28	-105.45	-106.72
Other Equity (excl. Revaluation Surplus)	130.86	708.02	331.04
Sponsor Loan	130.86	591.65	214.67
Equity (excl. Revaluation Surplus)	2,017.20	2,769.30	2,391.05
Income Statement (PKR Millions)	FY23A	FY24A	3MFY25M
Net Sales	0.00	0.00	0.00
Gross Profit	0.00	0.00	0.00
Operating Profit	-27.57	-19.16	-1.26
Finance Costs	0.01	0.01	0.00
Profit Before Tax	-27.58	-19.17	-1.26
Profit After Tax	-27.58	-19.17	-1.26
Ratio Analysis	FY23A	FY24A	3MFY25M
Gross Margin (%)			
Operating Margin (%)			
Net Margin (%)			
Funds from Operation (FFO) (PKR Millions)	-51.63	-91.09	-67.50
FFO to Total Debt* (%)	-17.21%	-7.64%	-22.26%
FFO to Long Term Debt* (%)	-17.21%	-21.59%	-63.98%
Gearing (x)	0.15	0.43	0.51
Leverage (x)	0.15	0.47	0.72
Debt Servicing Coverage Ratio* (x)	-3,690.00	-0.60	-0.14
Current Ratio (x)	37.52	0.74	0.38
(Stock in trade + trade debts) / STD (x)		0.00	0.00
Return on Average Assets* (%)	-1.06%	-0.45%	-0.10%
Return on Average Equity* (%)	-1.44%	-0.80%	-0.20%
Cash Conversion Cycle (days)	0.00	0.00	0.00

*Annualized, if required

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES		Appendix II		
Name of Rated Entity	Mughal Energy Limited			
Sector	Power Industry			
Type of Relationship	Solicited			
Purpose of Rating	Instrument Rating			
Rating History	Rating Date	Medium to Long Term	Rating Outlook	Rating Action
	RATING TYPE: SUKUK			
	26-Feb-25	A+ (plim)	Stable	Reaffirmed
	05-Jul-24	A+ (plim)	Stable	Preliminary
Instrument Structure	<p>The proposed sukuk issuance by Mughal Electric Limited (MEL) is aimed at raising PKR 2,500 million. This medium-term, rated, OTC-listed, privately placed, redeemable, and convertible Islamic certificate has a tenor of four years from the issue date. The sukuk will include a one-year grace period, with principal repayments commencing in six equal half-yearly installments starting 18 months post-issuance. It is priced at 6M KIBOR + 150 basis points per annum with a 12% floor but no cap. The security structure includes a ranking charge over present and future fixed assets (excluding land and buildings but including CWIP), valued at PKR 4,661 million (as of September 30, 2024), with a 25% margin. Additionally, shares pledged by sponsors will cover the sukuk’s issued value at a 25% discount to the September 30, 2024 breakup value, proportionately released upon principal repayment and fully released after redemption. A Sukuk Payment Account (SPA) will be established, marked in favor of the investment agent, to receive monthly payments after operational expenses. The sukuk also allows conversion into ordinary shares if approved by holders of 75% of the outstanding amount post-30 months from issuance. A call option permits early redemption after one year, subject to board approval.</p>			
Statement by the Rating Team	<p>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.</p>			
Probability of Default	<p>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.</p>			
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Due Diligence Meetings Conducted	S.No.	Name	Designation	Date
	1.	Mr. Muhammad Zafar Iqbal	Chief Financial Officer	01/02/2025
	2.	Mr. Shakeel Ahmed	Chief Operational Officer	
	3.	Mr. Muhammad Fahad Hafeez	Company Secretary	