



The Pakistan Credit Rating Agency Limited

Rating Report

Mughal Iron & Steel Industries Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Oct-2021	A+	A1	Stable	Upgrade	-
23-Oct-2020	A	A2	Stable	Upgrade	-
24-Sep-2020	A-	A2	Positive	Maintain	-
24-Sep-2019	A-	A2	Positive	Maintain	-
25-Mar-2019	A-	A2	Positive	Maintain	-
18-Dec-2018	A-	A2	Positive	Maintain	-
27-Jan-2018	A-	A2	Positive	Initial	-

Rating Rationale and Key Rating Drivers

Mughal is a known name in the steel industry. The Company's business profile has sustained and improving, over the last few years. Governance framework strengthened by induction of independent oversight on board. The Company has diversity in its product slate as its operating segments comprising of ferrous & non-ferrous segments. The ferrous segment comprises Billets, Rebars & Girders while the non-ferrous segment comprises Copper ingots mainly. Furthermore, the establishment of strong brands like 'Mughal Supreme' gives a competitive edge to the Company. The ratings incorporate the essence of material advancement that Mughal has achieved in terms of further diversity in revenue streams. The highlighted achievement through geographical diversification in the revenue stream led to a significant contribution from exports of Copper Ingots to China (i.e; ~15% of revenue contribution) which not only contributed to the top line but also brought sustained profit stream, going forward. Mughal has attained a formidable market share by establishing the brand and earning trust with regard to quality. The Company's focus is penetrating the retail segment while considering the inclining trend in demand growth coming from that segment. This strategic realignment contributes 71% volumes (FY20: 60% of sales mix). The capacity expansion project came online in Jun-21 which enhanced the rebar capacity by 430,000/MT. Furthermore, the Company is in the process to procure three furnaces which will enhance re-rolling capacity by 90,000 MT/furnace. Enhanced capacities are going to enable Mughal, to explore untapped markets while taking its business insight into account. The reported profitability for Jun-21 showed significant growth from previous years wherein, FY20 results depicted that Mughal held its position during the challenging environment posed by Covid-19. Margins witnessed growth, primarily attributable to a global increase in local demand and curtailed key policy rates.

The ratings are dependent upon the company's ability to sustain its healthy business profile amidst strong competition, herein, effective and prudent management of financial risk indicators remain important. Moreover, upholding of governance framework is vital.

Disclosure

Name of Rated Entity	Mughal Iron & Steel Industries Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Steel(Sep-21)
Rating Analysts	Maryam Arshad maryam.arshad@pacra.com +92-42-35869504

Profile

Legal Structure Mughal Iron & Steel Industries Ltd. is a listed Company since March 2015. Its shares are traded on Pakistan Stock Exchange Limited (PSX). The Company's shares are quoted under the Engineering Sector.

Background Incepted in the early 1950s in the form of a proprietorship firm, the business was incorporated in 2010. The company operates through its registered head office located in Lahore while the factory is located at 17 KM's Sheikhpura Road with sales centers located at Badami Bagh Lahore. Its products are used in the housing sector in both rural and urban and hi-tech industrial complexes and infrastructural projects.

Operations Mughal Iron & Steel Industries Limited (Mughal), is a public limited company incorporated in 2010, is primarily engaged in the manufacturing and sale of billets, girders, and rebars.

Ownership

Ownership Structure Mughal's ownership structure has changed post listing. Presently, the company is majority (~76%) owned by Mughal family, followed by Financial Institutions, and general public.

Stability The ownership structure of the Company is seen as stable as no ownership changes are expected in near future. The majority stake will rest with Mughal family.

Business Acumen The sponsors – the Mughal family – carry over five decades of experience in steel and allied business.

Financial Strength Given that Mughal is the flagship entity of sponsors, willingness to support the company in case need arises is considered high; also supplemented by access to capital markets.

Governance

Board Structure The overall control of the Company vests in the nine members' board of directors, wherein six are from sponsoring family including the Chairman and the CEO, while three are independent members. During the year, Mr. Fahad Javaid retired from the office of directorship and Mr. M. Mateen Jamshed was replaced on the seat. Mr. Khurram Javaid is the driving force behind the Company and is leading the business as a CEO.

Members' Profile Mughal's Board Members carry requisite skills, competence, diversified knowledge background, and experiences, which is considered positive.

Board Effectiveness Two board committees in place, include (i) Audit, and (ii) Human Resource & Remuneration. Furthermore, the presence of Ms. Mariam Khawar, Mr. Abdul Rehman Qureshi, and Mr. Shoaib Ahmed Khan on the board as independent directors are all good factors for the governance framework of the company.

Financial Transparency M/s Fazal Mahmood & Company, Chartered Accountants, classified in category 'C' by SBP in 2017 and having a QCR rating, are the external auditors of the company. They have expressed an unqualified opinion for the Financial statements of end-Jun20. M/s Fazal Mahmood & Company is a member of prime global.

Management

Organizational Structure Mughal has a streamlined organizational structure with clearly demarcated roles and a high degree of delegation. The reporting lines are segregated between two executive directors and CEO which in turn report to the BoD. The current structure results in strong decision-making and brings operational efficiencies.

Management Team Mr. Khurram Javaid (CEO) has been instrumental in improving the overall HR quality of the company. He is supported by a team of experienced individuals equipped with the necessary technical skills and relevant industry experience.

Effectiveness Mughal has no formal management committees in place. All departments have their own meetings and their heads review key performance areas of the department and report to respective executive directors.

MIS MIS reports are customized as per the requirements of the management on a daily, weekly, and monthly basis. Some of the reports generated include re-ordering sheets, financial facilities status, etc.

Control Environment The Company has an ERP system deployed which is currently being used for reporting purposes.

Business Risk

Industry Dynamics The financial year 2020 posed historic challenges for the global and local economy. As Covid-19 pandemic situation has caused decline in economic growth and also posed significant challenges to the infrastructure sector, Govt. has taken numerous measures to induce growth including massive policy rate cut, execution of announced PSDP announced projects and subsidized loans for continuing operations. Since the industry got back to the revival path in early FY21, the demand for steel products went up which impacted positively however, the hiked input prices including global scrap prices and fuel cost posed a challenge for the profitability. Also, the devaluation of the exchange rate remains critical, going forward.

Relative Position Mughal is a known name in the steel industry. The expansion projects related to 'Additional power capacity' and 'Replacement of Re-Rolling Bar Mill' will enable Mughal to further strengthen its market positioning.

Revenues During 9MFY21, the top line witnessed a growth of ~46% on a period-wise basis (FY20: PKR 29.8bln; FY19: PKR 30.8bln) primarily due to increased selling price and sales volume. The sale of Copper Ingots & Scrap contributed heavily towards the reported volumetric growth. Gross Profit also reported double-digit growth in line with the growth in sales (9MFY21: PKR 4.8bln; FY20: PKR 2.6bln; FY19: PKR 3.2bln). During the period under consideration, finance cost reported a decline over the previous quarter owing to the stable curtailed policy rates since Covid-19 breaks in (9MFY21: PKR 0.96bln; FY20: PKR 1.3bln; FY19: PKR 0.78bln). Resultantly, the profit increased to PKR 2.5bln (FY20: PKR 0.59mln; FY19: PKR 1.4bln).

Margins During 9MFY21, Mughal's gross and operating margins witnessed prominent growth as per reported figures (Gross: 9MFY21: 16.1%; FY20: 9.6%; FY19: 10.3%), (Operating: 9MFY21: 14%; FY20: 7.6%; FY19: 8.5%). The industry's performance has picked up owing to the supportive business measures to induce economic growth in post-pandemic situations. Mughal's improved margins are also affected by the diversified product slate, increased sales volumes, and effective cost management.

Sustainability Going forward, Mughal envisages healthy growth emanating from the retail segment. During the year, an expansion plan was executed for the BMR project pertaining to girder re-rolling mill and resumed the procurement plan of three furnaces to support the mills. However, effective and timely management of capacity expansion remains important. Meanwhile, the management is continuing its marketing efforts to expand its segmental footprint to increase its market share going forward.

Financial Risk

Working Capital During 9MFY21, working capital days increased to 117 days, due to an increase in both inventory and receivable days to 93 and 24 days respectively. The company manages its working capital requirements through a mix of internal generation and short-term borrowings. As of end-Sep21, STB increased by ~46% on a period basis (end-Sep21: PKR 16.9bln; end-Jun20: PKR 11.6bln; end-Jun19: PKR 9.2bln). The company's liquidity profile has continued to improve as reported (Current ratio: end-Sep21: 17.3x; end-Jun 20: 10.1x; end-Jun19: 8.5x).

Coverages During 9MFY21, on account of higher YoY profitability, FCFO increased to PKR 4.1bln (FY20: PKR 1.4bln; FY19: PKR 2.6bln). Due to upwelling in debt levels but decreased and stable key policy rates, finance cost decreased and ultimately comforted its coverage ratios. (Interest Coverage: end-Sep21: 4.3x, end-Jun 20: 1.8x; end-Jun19: 3.7x). Going forward, with full utilization of expanded capacity, cash flows are likely to strengthen further.

Capitalization Mughal's D/E ratio stood at ~62% end-Sep21 (end-Jun20: 65%, end-Jun19: 64%). The overall debt of the company has been witnessing an increasing trend on account of ongoing expansions and supplementary cushion for the shortcomings of working capital, due to which short-term borrowing contributed a significant portion to the total debt (STB: end-Sep21: 72%; end-Jun20: 77%). However, a strong equity base is driven by healthy profits and the receipt of subscription money of PKR 2.7bln in respect of right issue.



Mughal Iron & Steel Industries Ltd Infrastructure	Mar-21 9M	Jun-20 12M	Jun-19 12M	Jun-18 12M
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A BALANCE SHEET

1 Non-Current Assets	15,294	9,966	8,628	6,344
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	26,799	15,640	14,013	11,130
a Inventories	13,501	6,732	4,651	5,320
b Trade Receivables	3,011	2,182	3,304	1,263
5 Total Assets	42,093	25,606	22,641	17,475
6 Current Liabilities	1,785	1,553	823	868
a Trade Payables	434	684	379	42
7 Borrowings	23,309	15,045	12,511	8,369
8 Related Party Exposure	-	55	830	-
9 Non-Current Liabilities	2,416	795	973	771
10 Net Assets	14,583	8,158	7,504	7,466
11 Shareholders' Equity	14,583	8,158	7,504	7,466

B INCOME STATEMENT

1 Sales	29,818	27,305	30,828	22,226
a Cost of Good Sold	(25,024)	(24,688)	(27,639)	(19,431)
2 Gross Profit	4,793	2,617	3,189	2,794
a Operating Expenses	(609)	(551)	(568)	(559)
3 Operating Profit	4,184	2,067	2,621	2,235
a Non Operating Income or (Expense)	(292)	(169)	(100)	(81)
4 Profit or (Loss) before Interest and Tax	3,892	1,897	2,521	2,154
a Total Finance Cost	(962)	(1,344)	(783)	(550)
b Taxation	(422)	39	(364)	(314)
6 Net Income Or (Loss)	2,508	593	1,373	1,290

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	4,112	1,370	2,567	1,918
b Net Cash from Operating Activities before Working Capital Changes	3,106	(111)	2,000	1,401
c Changes in Working Capital	(9,232)	(1,050)	(989)	(468)
1 Net Cash provided by Operating Activities	(6,125)	(1,161)	1,011	932
2 Net Cash (Used in) or Available From Investing Activities	(830)	(1,470)	(2,424)	(2,180)
3 Net Cash (Used in) or Available From Financing Activities	8,659	1,908	3,363	160
4 Net Cash generated or (Used) during the period	1,704	(722)	1,951	(1,088)

D RATIO ANALYSIS

1 Performance				
a Sales Growth (for the period)	45.6%	-11.4%	38.7%	18.2%
b Gross Profit Margin	16.1%	9.6%	10.3%	12.6%
c Net Profit Margin	8.4%	2.2%	4.5%	5.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-17.2%	1.2%	5.1%	6.5%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh	29.4%	7.6%	18.3%	18.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	117	113	86	109
b Net Working Capital (Average Days)	112	106	84	107
c Current Ratio (Current Assets / Current Liabilities)	15.0	10.1	17.0	12.8
3 Coverages				
a EBITDA / Finance Cost	4.6	1.8	3.7	4.5
b FCFO / Finance Cost+CMLTB+Excess STB	2.4	0.6	2.0	3.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.5	88.7	2.3	0.6
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	61.5%	64.9%	64.0%	52.9%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	7.3%	9.4%	7.1%	6.5%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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