



## The Pakistan Credit Rating Agency Limited

### Rating Report

#### Malik MIJ Chunxing Resources Recycling Company Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
15-Sep-2021	BBB	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Malik MIJ Chunxing Resources Recycling Co. Limited (MMC or 'the Company') ratings reflect reputable business profile and strong presence in the field of recycling Used Lead Acid Batteries (ULAB). The Company is principally engaged in the business of recycling & disposal of used lead acid battery, lead plates, lead paste and powder as well as manufacturing and sale of bullion and refined lead. Local recycled lead market is fragmented and the Company faces competition with large unorganized segment. The Joint Venture Company has business history, and rating takes comfort from business profiles of the sponsors. One of the sponsoring company 'Jiangsu New Chunxing Resource Recycling Co., Ltd' has an experience of 3 decades in producing and refining secondary lead and it comes in the umbrella of Jiangsu Chunxing Alloy Group Co., Ltd, a company with over 40 years history of processing ULAB (Used Lead Acid Battery). The other sponsor is MIJ International with a decade experience, is a Dubai based company and a global metal merchant focusing in trading, processing and production of ferrous and non-ferrous metals. The Company expect growth in demand of refined recycle lead and has appropriate long term plans to enhance the production capacity accordingly. The board of the company is divided among the experienced sponsors who has diversified portfolios in the same industry. The Company is benefitting from adequate sound systems of internal controls as these are also monitored by the foreign sponsoring companies separately. Financial risk profile of the Company is considered adequate, with comfortable coverages, while cashflows are on moderate levels. Capital structure is leveraged ~ 75% with modest equity and higher borrowings which are comprising of long term and short term. The Company has also borrowed in foreign currency thus exposed to foreign exchange risks. Going forward Company is expecting to increase its capacity utilization and to increase export sales globally. The Company follows consistent debt policy, which is likely to continue in future as well also depicted in future financial projections.

The ratings are dependent on upheld sustainable profits and market share while retaining sufficient cash flows and coverages. However, adherence to maintain its debt metrics at an adequate level is a prerequisite.

#### Disclosure

<b>Name of Rated Entity</b>	Malik MIJ Chunxing Resources Recycling Company Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Metals(Sep-21)
<b>Rating Analysts</b>	Kanwal Ejaz   kanwal.ejaz@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Malik MIJ Chunxing Resources Recycling Co. Limited (MMC or 'the Company') is a public un listed company. The registered office of the Company is situated at House No. 728, Sector X, Street No. 24, Phase III, DHA Lahore, Pakistan, and its plant is located at Faisalabad Industrial city Plot No. 50, Sahianwala Interchange, District Faisalabad, Punjab.

**Background** Company was incorporated in Pakistan on August 05, 2014 as a private limited company under the Companies Ordinance, 1984 (Repealed with the enactment of the Companies Act, 2017 on May 30, 2017) vide the certificate of incorporation no.009145. Subsequently it was converted into public limited Company on July 08, 2015.

**Operations** The Company is principally engaged in the business of recycling & disposal of used lead acid battery, lead plates, lead paste and powder as well as manufacturing and sale of bullion and refined lead.

## Ownership

**Ownership Structure** The Company is jointly ventured by Jiangsu New Chunxing Resource Recycling Co., MIJ International and Mr. Babar Waheed Malik. Jiangsu New Chunxing Resource Recycling Co., having 45.82% of share is incorporated outside Pakistan and registered address of the company is "Circular economy industrial park, Pizhou, Jiangsu province, China". MIJ International, incorporated outside Pakistan and registered address of the company is "Unit No.2609 JBC5 Plot # JLT-PH2-WIA, Jumeirah Lakes Towers, Dubai-UAE" has 18.67% shareholding. Remaining 35.5% shareholding is divided equally among Mr. Babar Waheed Malik (CEO) and Mr. Saeed Rafiq.

**Stability** The associated company 'Jiangsu New Chunxing Resource Recycling Co., Ltd' has an experience of 3 decades in producing and refining secondary lead and it comes in the umbrella of Jiangsu Chunxing Alloy Group Co., Ltd, a company with over 40 years history of processing ULAB (Used Lead Acid Battery). The other sponsor is MIJ International with a decade experience in trading, processing and production of ferrous and non-ferrous metals.

**Business Acumen** The majority owners have strong experience in recycling & disposal of used lead acid battery, lead plates, lead paste and powder industry.

**Financial Strength** Jiangsu New Chunxing Resource Recycling Co., Ltd is a top ranked recycling company in China with over 40 years history of processing ULAB (Used Lead Acid Battery). The present ULAB treatment capacity is 1 million mt/year and secondary lead output capacity is 600,000mt/year and MIJ International is a Dubai based company and a global metal merchant focusing in trading, processing and production of ferrous and non ferrous metals.

## Governance

**Board Structure** The Company has five members on its board including four Non-Executive directors. The board is currently chaired by Mr. Babar Waheed. Board meetings are held on as and when required basis. The board has not formed any committees. There is no formal policy of recording board minutes.

**Members' Profile** Mr. Babar Waheed is the Chairman of the company and is a seasoned business professional having extensive entrepreneurial experience in both UAE and Pakistan. All other members are professionally qualified with extensive professional experience and diversified skill mix.

**Board Effectiveness** Board members are well versatile with exposure of Lead recycling business.

**Financial Transparency** Hassan Farooq & Co., Chartered Accountants are the external auditors of the Company. They gave an unqualified opinion on company's financial statements for the year ended June 30, 2020.

## Management

**Organizational Structure** The Company has established a well-defined management structure with clear lines of responsibilities.

**Management Team** Mr. Babar Waheed (CEO) leads the management team. He has been associated with the lead business for last 27 years and has played a key role in the success of the Company. The CEO is supported by an able and professional team.

**Effectiveness** The Company has no management committees in place. However, senior management members meet on daily basis to discuss ongoing issues and plans.

**MIS** The Company has implemented two softwares, one is SQL web based and other one is of Chinese software, convertible into two languages at a time.

**Control Environment** The management has a strong control environment within the Company supplemented by robust quality control system for its production processes. Additionally, Company has technical collaboration agreements with international firms to ensure that quality standards are adhered to.

## Business Risk

**Industry Dynamics** The number of storage batteries produced in the country have increased steadily, at a CAGR of ~4% in last five years. Moreover, there has been significant growth in Pakistan's auto and allied sector from which largest demand for lead acid batteries emanates. Production of vehicles increased ~39% in FY21. There is a rising trend in international lead prices which bodes well for the sector's margins. In addition to the growth in production of storage batteries, demand for lead recycling is also bolstered from production of batteries used in vehicles, whose production increased ~39% in FY21.

**Relative Position** MMC is one of the major players in the premium domestic lead market and enjoys major share in the organized market. Currently there is not any main competitors of the Company.

**Revenues** During 9MFY21, the Company's top-line increase by ~90.5% YoY and stood at PKR 7,662m (FY20: PKR 5,362m, FY19: PKR 3,880m).

**Margins** In 9MY21, Company's gross margin has reached to ~7.2% (FY20: ~8.0%, FY19: ~9.6%). Meanwhile, operating margin reached to ~5.1% (FY20: 5.3%, FY19: ~5.9%). The Company's finance cost recorded in 9MFY21 to PKR 118m (FY20: PKR 183m, FY19: PKR 73m). The Company's net profit in 9MFY21 clocked in at PKR 155m (FY20: Loss of PKR 40m).

**Sustainability** Company has a strong clientele in Pakistan as well as a wide network of resources and clientage through its associated companies' strong positions in leading markets all around the world.

## Financial Risk

**Working Capital** In 9MFY21, Company's inventory days reached to 43 days (FY20: 68 days). Meanwhile, trade receivable days has reached to 33 days in 9HFY21 (FY20: 54 days). Gross working capital days reached to 92 days (FY20: 142days). The trade payable days during 9MFY21 remained at 62 days (FY20: 147 days). Resultantly, the net working capital days clocked in at 30 days (FY20: Negative 4 days).

**Coverages** Company's cash flows from operations reached to PKR 518m during 9MFY21 (FY20: PKR 42m). Meanwhile, the Company's finance cost clocked at PKR; 118m at 9MFY21 (FY20: PKR 183m, FY19: PKR 73m). The interest coverage ratio clocked at 5.0x (FY20: 3.1x). Furthermore, the debt coverage ratio reached to 4.4x (FY20: 0.4x).

**Capitalization** The capital structure of the Company is leveraged. During 9MFY21, the Company's leveraging remained at ~75.4% (FY20: ~68.9%, FY19: ~68.9%). Short term borrowings in 9MFY21 constitute ~51.1% of the Company's total borrowings (FY20: ~86.6%, FY19: ~99.9%).



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Financial Summary  
PKR mln

MALIK MIJ CHUNXING RESOURCES RECYCLING COMPANY LIMITED Metals	Mar-21 9M	Jun-20 12M	Jun-19 12M	Jun-18 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	1,691	1,892	2,058	2,177
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	2,955	3,423	1,480	68
a Inventories	1,392	1,913	690	-
b Trade Receivables	919	904	675	-
5 Total Assets	4,646	5,316	3,538	2,245
6 Current Liabilities	872	1,643	80	22
a Trade Payables	761	1,489	12	18
7 Borrowings	1,734	1,706	1,032	2
8 Related Party Exposure	1,113	1,196	1,615	1,159
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	926	771	811	1,062
11 Shareholders' Equity	926	771	811	1,062
<b>B INCOME STATEMENT</b>				
1 Sales	7,662	5,362	3,880	-
a Cost of Good Sold	(7,113)	(4,932)	(3,508)	-
2 Gross Profit	550	430	373	-
a Operating Expenses	(156)	(144)	(144)	(41)
3 Operating Profit	394	286	229	(41)
a Non Operating Income or (Expense)	(19)	(22)	(419)	(35)
4 Profit or (Loss) before Interest and Tax	375	264	(190)	(76)
a Total Finance Cost	(118)	(183)	(73)	(0)
b Taxation	(102)	(122)	-	-
6 Net Income Or (Loss)	155	(40)	(263)	(77)
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	518	425	(410)	(44)
b Net Cash from Operating Activities before Working Capital Changes	381	251	(464)	(45)
c Changes in Working Capital	(376)	(604)	(465)	900
1 Net Cash provided by Operating Activities	5	(353)	(929)	855
2 Net Cash (Used in) or Available From Investing Activities	(0)	(99)	(101)	(1,271)
3 Net Cash (Used in) or Available From Financing Activities	29	655	1,042	440
4 Net Cash generated or (Used) during the period	34	203	13	25
<b>D RATIO ANALYSIS</b>				
1 Performance				
a Sales Growth (for the period)	90.5%	38.2%	--	N/A
b Gross Profit Margin	7.2%	8.0%	9.6%	N/A
c Net Profit Margin	2.0%	-0.8%	-6.8%	N/A
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	1.9%	-3.3%	-22.6%	N/A
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity) ]	24.4%	-5.1%	-28.1%	N/A
2 Working Capital Management				
a Gross Working Capital (Average Days)	92	142	128	N/A
b Net Working Capital (Average Days)	51	91	127	N/A
c Current Ratio (Current Assets / Current Liabilities)	3.4	2.1	18.4	3.1
3 Coverages				
a EBITDA / Finance Cost	5.0	3.1	-5.4	-208.4
b FCFO / Finance Cost+CMLTB+Excess STB	4.4	2.4	-5.6	-27.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.6	6.0	-3.3	-26.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	75.4%	79.0%	76.5%	52.2%
b Interest or Markup Payable (Days)	23.7	58.4	99.1	48.4
c Entity Average Borrowing Rate	5.5%	6.5%	3.8%	0.0%

**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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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	<b>Good credit quality.</b> 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+	<b>Moderate risk.</b> 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	<b>High credit risk.</b> 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	<b>Very high credit risk.</b> 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><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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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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(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)

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(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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