

VIS Credit Rating Company Limited

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Press Release

Ratings of Mughal Iron & Steel Industries Limited

Karachi, December 28, 2021: VIS Credit Rating Company Limited (VIS) has upgraded the entity ratings of Mughal Iron & Steel Industries Limited (MISIL) from 'A/A-2' (Single A/A-Two) to 'A+/A-1' (Single A Plus/A-One). Rating of outstanding Sukuk has been reaffirmed at 'A+' (Single A Plus) and Commercial Paper (CP) at 'A-2' (A-Two). Outlook on the assigned ratings is 'Stable'. The medium to long-term rating of 'A+' denotes good credit quality coupled with adequate protection factors. Moreover, risk factors may vary with possible changes in the economy. Short-term rating of 'A-1' depicts high certainty of timely payment where liquidity factors are excellent and supported by good fundamental protection and minor risk factors. Previous entity rating action was announced on September 25, 2020.

The assigned ratings take into account the company's position amongst major players in the long steel sector of Pakistan. Product portfolio of the company comprises steel rebars, girders, billets, and copper ingot. While steel rebars and girders are the key revenue drivers, export of copper ingot has also contributed well towards overall top-line growth and margins improvement over the past one and a half years. The assigned ratings also take into account extensive experience of sponsoring family in the steel sector and established relations with the customers. The ratings draw comfort from increase in melting and re-rolling capacities, underpinned by installation of new furnaces and completion of balancing, modernization, and replacement (BMR) of bar re-rolling mill which attained commercial operations on June 01, 2021.

The ratings draw support from sizeable growth in revenue and profits over the review period. Growth in ferrous segment was mainly due to higher volumes and selling prices of rebars and girders, supported by sizeable activity in the construction sector. The management expects upward trend in long steel prices to continue over the next year before any major correction. Increase in non-ferrous segment was driven by volumetric gains at higher average selling price of copper ingot owing to significant surge in international prices led by strong demand from China. The ratings also factor in notable increase in gross margins, driven largely by increased contribution of high-margin non-ferrous segment coupled with improvement in core ferrous segment margins.

Liquidity profile of the company is supported by healthy cash flows generation which underpins repayment capacity of the company, as reflected in improved debt service coverage ratio despite sizeable long-term debt repayment during FY21. Current ratio is considered satisfactory and remained largely stable while inventory-plus-receivables to short-term borrowings ratio improved slightly as the company has also mobilized long-term Sukuk to meet working capital requirements. Sukuk has been issued for a period of 5 years including 1-year grace period and is repayable in 16 equal quarterly installments, with last installment due in April 2025. Equity enhanced with the issuance of right shares in order to retire bridge financing that was mobilized for BMR of bar re-rolling mill during FY21. Equity base has augmented further during 1QFY22 with the retention of profits. Short-term borrowings increased in line with enhanced scale of operations and also include commercial paper which is due to be redeemed on July 28, 2022. Outstanding balance of long-term borrowings decreased due to principal repayment along with no further mobilization during 1QFY22. Leverage indicators are considered manageable. Leverage indicators are projected to improve on the back of internal capital generation despite slight increase in total debt by end-FY22. The ratings will remain dependent on achievement of projected revenue and profits, improvement in cash flow generation and coverages, and maintenance of leverage indicators within prudent limits.

For further information on this rating announcement, please contact Syed Fahim Haider at 042-35723411-13 (Ext: 8006) or the undersigned at 021-35311861-70 (Ext: 201) or email at info@vis.com.pk

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VIS Entity Rating Criteria: Corporates (August 2021)
<https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf>

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