

MISIL/Right Shares/NBC/2025

January 31, 2025

The General Manager

Pakistan Stock Exchange Limited,
Stock Exchange Building,
Stock Exchange Road,
Karachi.
By PUCAR & Courier

POSTPONEMENT OF BOOK CLOSURE

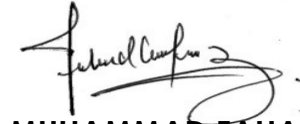
Dear Sir/Madam,

In response to the SECP letter dated January 29, 2025 bearing reference CSD/CI/59/2021/275, we wish to inform you that the Company has temporarily postponed the book closure, which was originally scheduled to commence from February 5, 2025. The revised book closure dates will be communicated in due course.

You may please inform the TRE Certificate Holders of the Exchange accordingly.

Yours Sincerely,

For **MUGHAL IRON & STEEL INDUSTRIES LIMITED**



MUHAMMAD FAHAD HAFEEZ
(Company Secretary)



CC: *The Director (Enforcement Department),
Securities & Exchange Commission of Pakistan
Islamabad.*

*Head of Operations
Central Depository Company of Pakistan Limited
CDC House, 99-B, Block-B, S.M.C.H.S.
Main Shahrah-e-Faisal,
Karachi.*

*THK Associates (Private) Limited,
Plot No. 32-C, Jami Commercial Street-2,
D.H.A. Phase-VII, Karachi.*



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Abdul Rehman Warraich
Commissioner

No. CSD/CI/59/2021/275

January 29, 2025

Board of Directors

Through the Company Secretary
Mughal Iron & Steel Industries Limited,
31-A Shadman-1,
Lahore.

Subject: Direction Under Section 100 of the Securities Act, 2015 - Mughal Iron & Steel Industries Limited

Mughal Iron & Steel Industries Limited (the 'Company') has submitted draft right offer document (OD) to the Securities and Exchange Commission of Pakistan (SECP), proposing to issue 50,000,000 unlisted Class C ordinary shares (i.e. 14.90% of its existing paid-up capital) having 50 voting rights per share, at an offer price of Rs. 30/- per share, to existing ordinary shareholders by way of right offer. The proposed Class C shares shall not have any rights to dividends, bonus and right issues.

2. Before this transaction, the Company has issued 335.6 million Ordinary Shares having 335.6 million voting rights and 335.6 million dividend rights. Thus, 100% of the voting rights and 100% of dividend rights are vested in these shares.

3. The proposed transaction will result in creation of an additional 50 million shares having 2,500 million voting rights and 0 dividend rights.

4. After this transaction, the combined voting rights of the Ordinary Shares will be reduced from 100% to 12% whereas the combined dividend rights of these shares will remain 100%. On the other hand, the combined voting rights of Class C shares will increase from 0% to 88% whereas the combined dividend rights of these shares will remain 0%.

5. The SECP has analyzed this transaction in the light of its implications for corporate governance, rights of ordinary and minority shareholders, price discovery, fairness, and public interest. Variation of shareholding rights does not imply unlimited powers to the decisionmakers in a listed company to vary the shareholder rights. Exercise of legal powers ought to be in line with these overarching principles and avoid absurd or unfair outcomes.

6. One-share one-vote is one of the most widely recognized principles of corporate governance as it treats all shareholders equally. Any deviations from this principle should be limited and based on strong justification. The proposed transaction seems to be a drastic deviation from this principle and aims to enable the sponsors of a listed Company to maintain control over the Company through a small number of Class C shares without holding a majority or even a significant proportion of the existing Ordinary Shares. This seems unjustified and is likely to result in perverse incentives and a distorted governance structure – the shares carrying an overwhelming proportion of the voting rights shall have no right to benefit from those decisions by receiving dividends, whereas the shares carrying all of the dividend rights shall have little voting power and effectively no control over the decisions.

7. Depriving the shareholders of the dividend rights does not seem justifiable as the primary purpose of investment in a for-profit company is to earn financial returns in the form of dividends and capital gains.

8. The transaction seems to be unfair to Minority Shareholders and undermine their rights. The prospects of receiving dividends and the tradability/liquidity of the shares of a listed company are key motivations for minority shareholders to invest in such shares. Issuance of unlisted Class C shares devoid of dividend rights seems to be an attempt to make these shares unattractive for the Minority Shareholders and enable the sponsors to eventually own all these shares.

9. Under the Securities Act, 2015, a listed company is a public company whose securities are listed on securities exchange. The Securities Act, 2015 does not recognize the concept of a listed company issuing ordinary class of shares that remain unlisted. Therefore, such issuance cannot be allowed nor is there any precedent available for it. The SECP, as per its mandate, is bound to safeguard the interest of minority shareholders and protect the investors. Hence, issuance of such shares is against the basic spirit and tenets of the Securities Act, 2015 and cannot be allowed, whatsoever. It is to be noted here that the provisions of the Securities Act, 2015 will prevail notwithstanding anything inconsistent contained in any other law, including the Companies Act, 2017, and for the purposes of a listed company, the Securities Act, 2015 shall prevail being special in nature.

10. Key stakeholders including the Pakistan Stock Exchange, Mutual Funds Association of Pakistan, Pakistan Stockbrokers Association, and CFA Society Pakistan have voiced concerns regarding the potential adverse impact of the proposed issuance on the capital market. These stakeholders have highlighted the erosion of investor confidence and market integrity that such a transaction could cause.

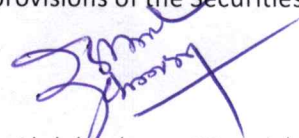
11. The proposed right offer was being reviewed by the SECP in light of its concerns and discussions were underway with the Company. However, the Company through its notice dated January 24, 2025, has announced book closure period from February 5, 2025, to February 11, 2025 for proceeding with the proposed transaction.

12. The SECP is mandated by the Securities Act, 2015 and the Companies Act, 2017 to protect public interest, shareholders interest, promote principles of good governance, and safeguard minority rights in corporate entities.

13. Considering the highly disproportionate voting and dividend rights, drastic reduction in voting power of Ordinary Shares, creation of perverse incentives and risks to corporate governance, unfair treatment of investors holding Ordinary Shares as well as the Minority Shareholders, the proposed transaction does not seem to be in line with the principles of corporate governance, rights of ordinary and minority shareholders, price discovery, fairness, and public interest. The Company cannot propose such a transaction by taking refuge under the general provisions of law without addressing the concerns raised by the Regulator.

14. In view of the foregoing, the SECP, in exercise of its powers conferred under section 100 of the Securities Act, 2015, hereby directs the Company not to proceed with the proposed issuance of Class C shares till further orders and appear before the undersigned either in person or through authorized representative to address the aforementioned concerns on February 3, 2025 at 3:00 p.m. at 11th Floor NIC Building, Jinnah Avenue, Blue Area, Islamabad, or through zoom.

15. Accordingly, the Company is required to comply with this directive in its entirety. Non-compliance with this directive will result in appropriate regulatory action under the relevant provisions of the Securities Act, 2015.



Abdul Rehman Warraich
Commissioner (Securities Market Division)

Copy to:-

Chief Executive Officer, Pakistan Stock Exchange for necessary action along with the advice to publicly disseminate this direction.