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Applicable Criteria

- Corporate Rating Methodology (Jul 17)
- Correlation between long-term and short-term rating scale (Jun 17)
- Criteria Modifiers (Jun 17)

Related Research

- Sector Study | Steel (Feb 17)

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PACRA Assigns Initial Entity Ratings to Mughal Iron & Steel Industries Limited

Rating Type	Entity
	Current (27-Jan-2018)
Action	Initial
Long Term	A-
Short Term	A2
Outlook	Positive
Rating Watch	-

Mughal is a known name in the steel industry. The company has diversity in its product slate; Rebars, T-Iron and Girders etc. The company profiling has significantly improved post listing on PSX. Mughal has a large board with one independent director (Mr. Salman Ali Shah) and has plans to increase the same in line with corporate governance requirements. Mughal has a sizeable capacity to an extent unutilized. The ratings take strength from strong brand value of Mughal Steel in the local industry. The company has attained formidable market share; amidst rising demand emanating from large infrastructure projects. Demand from retail segment is also on the rise – earmarked by the management as future growth driver. The ongoing expansion projects – 100% financed through equity – have positioned Mughal to take advantage of rising demand. During FY17, Mughal witnessed dilution in margins as it competed with dumped steel products originating from China, however, the situation is likely to improve post anti-dumping duty. Mughal unlike south players have to incur freight cost – that explains its differential in margins. The ratings incorporate Mughal’s adequate financial risk profile which has sustained over the years. The short term borrowings (net of cash) are largely aligned with the working capital. Moreover, leveraging has improved on account of successful capital market transaction (100% right issue at par) during the year, which has augmented equity. Going forward, with no major addition in debt, coverages are expected to remain robust.

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

About the Entity

Mughal Iron & Steel Industries Limited (Mughal), is a public limited company incorporated in 2010 under Companies Ordinance, it is primarily engaged in manufacturing and sale of billets, spring steel, deformed bars, rebars, cold twisted rebars and a range of sections for the downstream industry. The company obtained listing on Pakistan Stock Exchange in Mar-15. The company is majority owned (~75%) by Mughal Family.

The overall control of the Company vests in nine members’ board of directors. Three are executive directors, five are non-executive directors of the sponsoring family, including the chairman, whereas, there is one independent director on board. Mr. Khurram Javed is the thriving force behind the Company and is leading the business as a CEO. He is supported by a team of qualified and experienced professionals.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA’s comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security’s market price or suitability for a particular investor.