The Pakistan Credit Rating Agency Limited

Rating Report

Malik MIJ Chunxing Resources Recycling Company Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
15-Sep-2022	BBB	A2	Stable	Maintain	-
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 a leading business profile and strong presence in the field of recycling & disposal of used lead acid batteries, lead plates, lead paste, lead powder and manufacturing & sale of bullion and refined lead. The Company is dedicated to provide most comprehensive solutions for effective utilization of Used Lead Acid Batteries (ULAB) across Pakistan and aims to produce 99.98% refined “Green Lead”. The local lead recycling business is fragmented and the Company faces competition with a large unorganized segment. The ratings take comfort as the joint venture company (MMC) has a strategy and technical alliance with local partners and foreign companies. One of the foreign sponsoring companies Jiangsu New Chunxing Resource Recycling Co. Ltd has experience of 4 decades in producing and refining secondary lead and possesses patented recycling technology. The other foreign sponsor is MIJ International Dmcc a leading global metal merchant focusing on trading, processing, and production of ferrous and non-ferrous metals. The demand for recycled lead primarily comes from the batteries segment and its consumption is directly linked with the performance of automobile sector. Secondary demand comes from portable industrial and household energy backup solutions. Capacity utilization is gradually pacing up and the Company has appropriate long-term plans to enhance the production capacity accordingly. Going forward the Company is focusing to capitalize on revenue growth from exports by leveraging in-house highly refined lead recycling capabilities. The board of the company is divided among experienced sponsors who have diversified portfolios in the same industry. The Company is benefitting from adequate systems of internal controls as these are also monitored by the foreign sponsoring companies separately. The financial risk profile of the Company is considered adequate, with comfortable coverages, cashflows, and working capital cycle. Capital structure is leveraged with modest equity and borrowings are comprised of long-term and short-term. The Company has also borrowed in foreign currency thus exposed to foreign exchange risks. The Company follows a 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 maintaining its debt metrics at an adequate level is a prerequisite.

Disclosure

Name of Rated Entity	Malik MIJ Chunxing Resources Recycling Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Metals(Dec-21)
Rating Analysts	Muhammad Harris Ghaffar | harris.ghaffar@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 batteries, 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 the share, is incorporated outside Pakistan and the company's registered address is "Circular economy industrial park, Pizhou, Jiangsu province, China". MIJ International, incorporated outside Pakistan and the company's registered address is "Unit No.2609 JBC5 Plot # JLT-PH2-WIA, Jumeirah Lakes Towers, Dubai-UAE" has 18.67% shareholding. The 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 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 of history of processing ULAB (Used Lead Acid Battery). The other sponsor is MIJ International with a decade of experience in trading, processing and producing ferrous and non-ferrous metals.

Business Acumen The sponsors of the Company have substantial experience in recycling & disposal of used lead acid batteries, 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 of processing ULAB (Used Lead Acid Battery). The present ULAB treatment capacity is 1 million mt/year and the secondary lead output capacity is 600,000mt/year MIJ International is a Dubai-based company and a global metal merchant focusing on trading, processing and producing ferrous and non-ferrous metals.

Governance

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

Members' Profile Mr. Babar Waheed is the company's Chairman and a seasoned business professional with extensive entrepreneurial experience in both UAE and Pakistan. All other members are well qualified with considerable Lead recycling business experience and a diversified skill mix.

Board Effectiveness MIJ board is more of advisory nature as all members on average possess 30 years of experience. The board has no formal committees but all members are involved in and ensure their input in decision-making process,

Financial Transparency Hassan Farooq & Co., Chartered Accountants are the external auditors of the Company. They gave an unqualified opinion on the company's financial statements for the year ended June 30, 2021.

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 a 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 a major share in the organized market. Currently, there are not any main competitors of the Company.

Revenues During FY21, the Company's top-line increased by ~62.5% YoY and stood at PKR 8,711mln (FY20: PKR 5,362mln) mainly on the back of 25% volumetric growth and remaining price impact(hike in lead prices during 2021).

Margins During FY21 gross margins remain stagnant at 7.7% (FY20: 8.0%). Meanwhile, the operating margin has shown a slight improvement to~5.6% (FY20: 5.3%) .The Company's finance cost was recorded in FY21 as PKR 126mln (FY20: PKR 183mln). The Company's net profit in FY21 stood at PKR 289mln (FY20: loss of PKR 40mln) mainly on back of a reduction in finance costs.

Sustainability The 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. Moving forward MMC also has expansion plan to enhance their capacities from 50,000MT to 75,000 over the period of three years.

Financial Risk

Working Capital In FY21, Company's inventory days reached to 126 days (FY20: 89 days). Meanwhile, trade receivable days have reached to 43 days in FY21 (FY20: 54 days) . Gross working capital days reached 169 days (FY20: 142days). The trade payable days during FY21 remained at 91 days (FY20: 51 days). Resultantly, the net working capital days clocked in at 78 days (FY20: 91days).

Coverages The company's cash flows from operations reached PKR 525mln during FY21 (FY20: PKR 425mln). Meanwhile, the Company's finance cost clocked at PKR; 126mln in FY21 (FY20: PKR 183mln). The interest coverage ratio clocked at 5.6x (FY20: 3.1x). Furthermore, the debt coverage ratio reached to 4.3x (FY20: 2.4x).

Capitalization The capital structure of the Company is leveraged. During FY21, the Company's leveraging remained at ~76.0% (FY20: ~79.0%). Short term borrowings in FY21 constitute ~57.3% of the Company's total borrowings (FY20: ~49.2%).

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Financial Summary
PKR mln

Malik MIJ	Jun-21	Jun-20	Jun-19
##	12M	12M	12M
A BALANCE SHEET			
1 Non-Current Assets	1,707	1,892	2,058
2 Investments	-	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	5,768	3,423	1,480
a Inventories	*4,117*	*1,913*	*690*
b Trade Receivables	*1,138*	*904*	*675*
5 Total Assets	7,475	5,316	3,538
6 Current Liabilities	3,050	1,643	80
a Trade Payables	*2,845*	*1,489*	*12*
7 Borrowings	2,311	1,706	1,032
8 Related Party Exposure	1,054	1,196	1,615
9 Non-Current Liabilities	-	-	-
10 Net Assets	1,060	771	811
11 Shareholders' Equity	1,060	771	811
B INCOME STATEMENT			
1 Sales	8,711	5,362	3,880
a Cost of Good Sold	*(8,041)*	*(4,932)*	*(3,508)*
2 Gross Profit	669	430	373
a Operating Expenses	(177)	(144)	(144)
3 Operating Profit	492	286	229
a Non Operating Income or (Expense)	*44*	*(22)*	*(419)*
4 Profit or (Loss) before Interest and Tax	536	264	(190)
a Total Finance Cost	*(126)*	*(183)*	*(73)*
b Taxation	*(121)*	*(122)*	-
6 Net Income Or (Loss)	289	(40)	(263)
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*525*	*425*	*(410)*
b Net Cash from Operating Activities before Working Capital (	*389*	*251*	*(464)*
c Changes in Working Capital	*(792)*	*(604)*	*(465)*
1 Net Cash provided by Operating Activities	(403)	(353)	(929)
2 Net Cash (Used in) or Available From Investing Activities	(56)	(99)	(101)
3 Net Cash (Used in) or Available From Financing Activities	277	655	1,042
4 Net Cash generated or (Used) during the period	(183)	203	13
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	62.5%	38.2%	--
b Gross Profit Margin	7.7%	8.0%	9.6%
c Net Profit Margin	3.3%	-0.8%	-6.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Ca	-3.1%	-3.3%	-22.6%
*e Return on Equity [Net Profit Margin * Asset Turnover * (To*	31.6%	-5.1%	-28.1%
2 Working Capital Management			
a Gross Working Capital (Average Days)	169	142	74
b Net Working Capital (Average Days)	78	91	73
c Current Ratio (Current Assets / Current Liabilities)	1.9	2.1	18.4
3 Coverages			
a EBITDA / Finance Cost	5.6	3.1	-5.4
b FCFO / Finance Cost+CMLTB+Excess STB	1.9	2.4	-5.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fin	3.6	6.0	-3.3
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	76.0%	79.0%	76.5%
b Interest or Markup Payable (Days)	55.8	58.4	99.1
c Entity Average Borrowing Rate	4.0%	6.5%	3.8%

Credit Rating

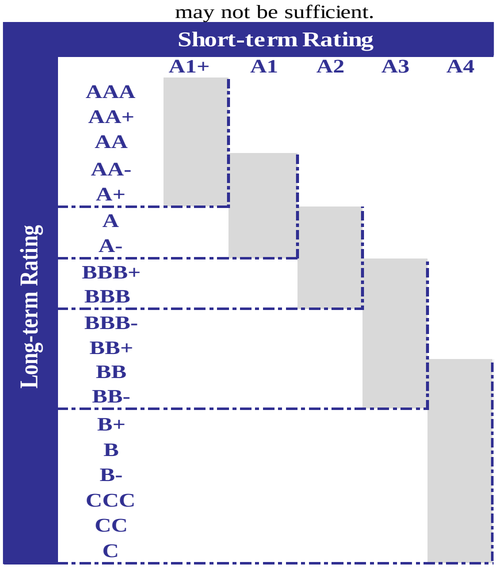
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ 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.
A+ 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.
BBB+ 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.
BB+ BB 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.
B+ 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.
CCC CC C	**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.
D	Obligations are currently in default.

Short-term Rating

Scale	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
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 surveill 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):

Entities
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

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

Rating Team Statements
(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)
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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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(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

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 | Clause 11-(A)(p).
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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)
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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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