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
22-Mar-2023	BBB+	A2	Stable	Upgrade	-
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 preeminent presence in the organized segment of the Pakistan lead recycling industry. The core operating activities of the Company include Used lead Acid Batteries recycling and bullion lead refining. The Company is dedicated to providing the most comprehensive solutions for the effective utilization of Used Lead Acid Batteries (ULAB) across Pakistan and aims to produce 99.994% refined “Green Lead”. The aggregate production capacities of the Company are based on the smelting and refining of lead. The ratings take comfort as the joint venture company (MMC) has a strategy and technical alliance with local partners and globally renowned companies. One of the sponsoring companies Jiangsu New Chunxing Resource Recycling Co. Ltd has experience of 4 decades in producing and refining secondary lead and possesses patented lead recycling technology. The other sponsor is MIJ International a leading global metal merchant focusing on trading, processing, and production of ferrous and non-ferrous metals. The local lead recycling business is fragmented and the Company faces competition with a large unorganized segment. The local demand for recycled lead is directly linked with the quantum of energy deficit and auto sector dynamics. During FY22, lead acid battery segment has shown an impressive volumetric growth of ~54% (1.14mln Units) as compared to the same period last year (FY21: 0.74mln units). MMC has realized hefty synergies in the export segment on the back of its strategic alliance with MIJ-act as a quality guarantor (99.994% refined lead) on behalf of MMC for the sale of lead in the international markets mainly to Trafigura-A global and renowned commodity trader. This argument also be supported by a ~50% volumetric and 92.4% total stupendous growth in the top line of the Company during FY22. The Company Capacity utilization is gradually ameliorating which translated into improved margins. Furthermore, they have long-term concrete plans to enhance their production capacity in three years. The impact of import restrictions on the Company’s business portfolio is low to moderate, which is based on two factors (i) MMC is a net exporter & (ii) ~75% of industry demand meets through local procurement. The MMC board is more of advisory nature as all members are well experienced and possess technical expertise along with strapping industry-specific experience. The financial risk profile of the Company is considered adequate, with comfortable coverages, cashflows, and stretched working capital cycle depicting industry norms. Capital structure is leveraged as borrowings are comprised of only short-term to meet their working capital requirements while maintaining a moderate level of equity. The Company’s financial performance is not only aligned but transcends its financial projections earlier shared by MMC management providing comfort at the current ratings.

The ratings depend on upheld sustainable profits while retaining sufficient cash flows and coverages. The induction of the SBP category as external auditors is considered imperative for ratings. Furthermore, 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-22)
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 limited company which was incorporated in Pakistan on August 05, 2014 as a private limited company under the Companies Ordinance, I 984 (Repealed with the enactment of the Companies Act, 2017 on May 30, 2017) vide the certificate of incorporation no.009145.

Background The Company is a joint venture between Jiangsu New Chunxing Resource Recycling Co., Ltd, Mij International, Mr Babar Waheed Malik & Mr Saeed Rafiq (Silent partner). MMC was converted into a 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 Jiangsu New Chunxing Resource Recycling Co is the major shareholder of the Company holding an equity stake of 45.82% followed by MIJ International at 18.67%. The remaining 35.5% of the shareholding is equally divided among Mr. Babar Waheed Malik (CEO) and Mr. Saeed Rafiq.

Stability The associated company 'Jiangsu New Chunxing Resource Recycling Co., Ltd' has experience 4 decades in producing and refining secondary lead. It comes under the umbrella of Jiangsu Chunxing Alloy Group Co., Ltd, a company with over 40 years 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 the 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 1.33 million mt/year and secondary lead output capacity is 800,000mt/year. MIJ International is a global metal merchant focusing in trading, processing and production of ferrous and non-ferrous metals. MMC has equity base of PKR 3.3bln as of Dec-22. 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. 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. All members are involved in and ensure their input in the decision-making process.

Financial Transparency Hassan Farooq & Co., Chartered Accountants are the external auditors of the Company. The firm is QCR rated during audit period June 30,2022. They gave an unqualified opinion on the company's financial statements for the year ended June 30, 2022.

Management

Organizational Structure The Company has an adequate Organizational structure. The department are mainly divided into two categories under the umbrella of CEO; (I) Accounts, Tax & Finance department supervised by Mr. Haider Abbas(CFO) & (II) Production and Operations managed by Mr. GUO (GM Operations).

Management Team Mr. Babar Waheed (CEO) leads the management team. He has been associated with the lead business for the last 15 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 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 batteries segment of Pakistan has shown a volumetric growth of ~ 54% from FY21 (~0.74mln units sold) to FY22 (~1.14mln units sold). Pakistan Automotive Manufacturers Association (PAMA) recent statistical data revealed a ~40% decline in the sales of passenger cars during 1HFY23 (68,900 units sold) as compared to the same period last year (114,774 units sold). Lead is one of the most recycled materials in the world due to its high recovery rate. The global production of refined lead in CY22 was at ~12.2mln MT, reducing by ~1.8% from ~12.4mln MT in CY21. Lead prices have shown a consistent increase in the international market. Currently lead is traded at ~ 2,138USD/MT (~2,188USD/MT in Oct-22).

Relative Position Two players have dominated the premium domestic lead recycling segment and enjoy a major share in the organized market. Malik Mij Chunxing Resources Recycling Co. is the market leader in this segment.

Revenues During FY22, the Company's top-line increased by ~92.4% YoY and stood at PKR 16,761mln (FY21: PKR 8,711mln) mainly on the back of 50% volumetric growth and remaining price impact(hike in lead prices during 2022). Furthermore, 42.2% of the Company revenues were contributed by exports as of FY22 providing an inflation and PKR devaluation hedge to the company's financial matrix. The Company has a production capacity of 50,000MT (capacity utilization of ~ 78%)

Margins During FY22 on an aggregate basis, the gross margins of the Company have shown a steady and consistent improvement in the last three years and currently stood at 9.5% (FY21: 7.7%). Meanwhile, the operating margin has also shown a slight improvement to~7.4% (FY21: 5.6%). The company has achieved net profitability of PKR 754mln during FY22 (FY21: PKR 289mln) despite a considerable surge in total finance cost from PKR 126mln to PKR 278mln depicting an uplift in the Company's operational efficiencies which ultimately nullify the impact of the surge in the policy rate.

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 an expansion plan to enhance its capacities from 50,000MT to 75,000 over the period of three years. The Company financial performance is well-aligned and actually surpassed its financial projections.

Financial Risk

Working Capital In FY22, Company's inventory days reached to 119days (FY21: 126 days). Meanwhile, trade receivable days have reached 52 days in FY22 (FY21: 43 days). Gross working capital days reached 171 days (FY21: 169 days) and net working capital days at 64 days reflect a moderate working capital cycle. The company has short-term trade leverage of 15.9% reflects adequate room for further borrowing.

Coverages The Company has generated FCFO(Free Cash Flow from Operations) of PKR 1,368mln during FY22 (FY21: PKR 525mln). The improvement in FCFO is mainly contributed by the growth in Company's profitability and EBITDA. The interest coverage ratio clocked at 5.3x (FY21: 5.6x). Furthermore, the debt coverage ratio reached to 5.0x (FY21: 4.3x).

Capitalization The capital structure of the Company is moderately leveraged. During FY22, the Company's leveraging ratio improved from ~55.5% to 46.8% in FY22 mainly on back of improvement in net equity of the Company through Unappropriated Profits. In FY22, the Company has first-time generated accumulated profits and comes out from accumalted losses. Short term borrowings in FY22 constitute ~80.6% of the Company's total borrowings and stood at PKR 2,263mln. The credit lines are mainly from Bank-AL Habib Limited.

Financial Summary
PKR mln

The Pakistan Credit Rating Agency Limited

Malik MIJ Chunxing Resources Recycling Company Limited	Dec-22	Jun-22	Jun-21	Jun-20
Metals	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	1,568	1,520	1,707	1,892
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	10,421	10,906	5,768	3,423
a Inventories	*2,917*	*6,821*	*4,117*	*1,913*
b Trade Receivables	*7,009*	*3,646*	*1,138*	*904*
5 Total Assets	11,989	12,426	7,475	5,316
6 Current Liabilities	6,321	7,194	3,050	1,643
a Trade Payables	*6,099*	*7,034*	*2,845*	*1,489*
7 Borrowings	2,263	2,315	2,190	1,706
8 Related Party Exposure	117	134	276	1,196
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	3,289	2,782	1,960	771
11 Shareholders' Equity	3,289	2,782	1,960	771
B INCOME STATEMENT				
1 Sales	10,133	16,761	8,711	5,362
a Cost of Good Sold	*(9,150)*	*(15,175)*	*(8,041)*	*(4,932)*
2 Gross Profit	984	1,587	669	430
a Operating Expenses	(206)	(352)	(177)	(144)
3 Operating Profit	777	1,235	492	286
a Non Operating Income or (Expense)	*(119)*	*(143)*	*44*	*(22)*
4 Profit or (Loss) before Interest and Tax	658	1,092	536	264
a Total Finance Cost	*(171)*	*(278)*	*(126)*	*(183)*
b Taxation	*(75)*	*(60)*	*(121)*	*(122)*
6 Net Income Or (Loss)	413	754	289	(40)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*793*	*1,368*	*525*	*425*
b Net Cash from Operating Activities before Working Capital Changes	*626*	*1,098*	*389*	*251*
c Changes in Working Capital	*(427)*	*(795)*	*(792)*	*(604)*
1 Net Cash provided by Operating Activities	199	304	(403)	(353)
2 Net Cash (Used in) or Available From Investing Activities	(143)	(22)	(56)	(99)
3 Net Cash (Used in) or Available From Financing Activities	(52)	(154)	277	655
4 Net Cash generated or (Used) during the period	4	128	(183)	203
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	20.9%	92.4%	62.5%	38.2%
b Gross Profit Margin	9.7%	9.5%	7.7%	8.0%
c Net Profit Margin	4.1%	4.5%	3.3%	-0.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	3.6%	3.4%	-3.1%	-3.3%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	27.2%	31.8%	21.2%	-5.1%
2 Working Capital Management				
a Gross Working Capital (Average Days)	184	171	169	142
b Net Working Capital (Average Days)	65	64	78	91
c Current Ratio (Current Assets / Current Liabilities)	1.6	1.5	1.9	2.1
3 Coverages				
a EBITDA / Finance Cost	5.2	5.3	5.6	3.1
b FCFO / Finance Cost+CMLTB+Excess STB	4.7	2.2	1.9	2.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.1	0.4	1.3	6.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	42.0%	46.8%	55.7%	79.0%
b Interest or Markup Payable (Days)	34.5	36.9	55.8	58.4
c Entity Average Borrowing Rate	13.1%	10.6%	4.5%	6.5%

Credit Rating

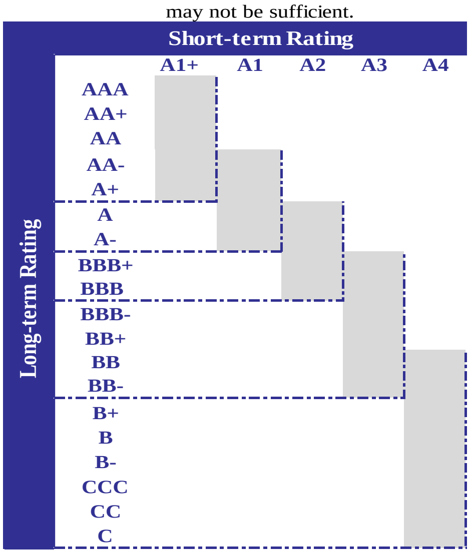
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies 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)

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

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(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).

(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)

(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)

Independence & Conflict of interest

(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)

(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

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)

Proprietary Information