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
18-Mar-2024	A-	A2	Stable	Upgrade	-
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') is a preeminent player in Pakistan's lead smelting and recycling sector. Its core operations comprise recycling Used Lead Acid Batteries and refining lead bullion. 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 from the company's ownership structure as it is a strategic Joint venture among the leading global players including one of China's largest lead recyclers, Jiangsu Chunxing Resources Recycling Company, having over 4 decades of expertise in the production and recycling of secondary lead and MIJ International, a UAE-based global metals trader with local players having decades of exposure in the local market. MMC's association with these companies gives it access to the latest recycling technology and global clientele. The local lead recycling business is fragmented and the Company faces competition from a large unorganized segment. The local demand for recycled lead is directly linked with the quantum of energy deficit and auto sector dynamics. During FY23, the production volume of lead acid batteries decreased YoY on the back of increased prices leading to the deterioration of the purchasing power of the consumers that prompted the company to strengthen its export base. MMC has realized hefty synergies in the export segment on the back of its strategic alliance with MIJ, who acts 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 globally renowned commodity trader. This is also reflected by the hefty increase of ~44% in the export volume during 1HFY24 which resulted in a substantial increase of ~74% in export sales during the period. Moreover, the company's top line grew by ~21% during FY23 on top of an exponential growth of ~92% during FY22. This trickled down to a healthy bottom line reflecting strong financial performance. The Company's Capacity utilization decreased during FY23 on the back of hurdles in importing raw materials. Going forward, the production is expected to get back on track as the imports have normalized now. MMC has long-term plans to enhance its production capacity in three years. Also, the company has diversified its product portfolio by becoming the only local producer of Calcium Alloy and Antimony Alloy which are used in battery terminals and maintenance-free batteries. The MMC's board has more of an 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 working capital cycle. 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 ratings depend on upholding sustainable profits while retaining sufficient cash flows and coverages. The company needs to enhance its governance framework and efficacy of the financial transparency. 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(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Metals(Dec-23)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@pacra.com | +92-42-35869504

Profile

Legal Structure Malik MIJ Chunxing Resources Recycling Co. Limited (MMC or 'the Company') is a public unlisted 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 The 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 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 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 is also incorporated outside Pakistan and the company's registered address is "Unit No.2609 JBC5 Plot # JLT-PH2- WIA, Jumeirah Lakes Towers, Dubai-UAE" and has 18.67% shareholding. The remaining 35.5% of the 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. It comes under the umbrella of Jiangsu Chunxing Alloy Group Co., Ltd, a company with over 40 years of experience in 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 experience in processing ULAB (Used Lead Acid Battery). The present ULAB treatment capacity is 1 million MT/annum and the secondary lead output capacity is 600,000 MT/annum. MIJ International is a Dubai-based metal merchant specializing in trading, processing, and production of ferrous and non-ferrous metals. MMC has an equity base of PKR 3.8bln as of Dec-23.

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 a need 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 an advisory nature as all members on average possess 30 years of experience. The board has an audit committee and a strategic management committee in place. All the 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. They gave an unqualified opinion on the company's financial statements for the year ended June 30, 2023.

Management

Organizational Structure The Company has an adequate Organizational structure. The departments 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 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 a daily basis to discuss ongoing issues and plans.

MIS The Company has implemented two software, one is SQL web-based and the other one is 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, the Company has technical collaboration agreements with international firms to ensure that quality standards are adhered to.

Business Risk

Industry Dynamics Lead is one of the most recycled materials due to its high recovery rate. The global production of refined lead during CY23 was recorded at ~12.8mln MT reflecting a growth of ~2.1% YoY. Global lead prices were up ~2.7% during FY23, averaging at USD 2,084.1/MT. During 5MFY24, the trend has continued with prices averaging at USD 2,167.5/MT. Batteries industry is the primary consumer of lead. Locally, the battery production was down ~9.0% YoY during FY23 (151,519 units sold compared to 166,470 units in FY22). An increase in raw material costs and elevated interest rates have strained the profitability margins of the lead industry during FY23.

Relative Position The organized lead smelting segment is dominated by two players including MMC and International Metal Industries (Pvt.) Ltd, who enjoy a majority of the market share. Their recycling capacity is 50,000MT and 86,400MT per annum respectively. MMC has a market share of ~15% as of FY23.

Revenues During FY23, the Company's top line increased by ~21.2% YoY and stood at PKR 20,307mln (FY22: PKR 16,761mln) mainly on the back of price hikes. Furthermore, 37% of the Company revenues were contributed by exports providing an inflation and PKR devaluation hedge to the company's financial matrix. Moreover, the company's sales clocked in at PKR 11,303mln during 1HFY24.

Margins During FY23, the gross margins of the Company diluted and stood at 6.8% (FY22: 9.5%). Meanwhile, the net margin also declined to 1.4% (FY22: 4.5%). The company achieved a net profit of PKR 289mln during FY23 (FY22: PKR 754mln) attributable to an increase in raw material prices and a considerable surge in finance cost to PKR 496mln (PKR 278mln, FY22). However, the company has regained momentum as evidenced by its GP Margin of 8.5% and NP Margin of 3.2% during 1HFY24.

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.

Financial Risk

Working Capital During FY23, the Company's inventory days reached to 135days (FY22: 119 days). Meanwhile, trade receivable days have reached 115 days (FY22: 52 days). Consequently, the gross working capital days reached 250 days (FY22: 171 days) and net working capital days at 65 days reflect a stretched working capital cycle. The company has a short-term trade leverage of 10.6% reflects adequate room for further borrowing.

Coverages The Company has generated FCFO (Free Cash Flow from Operations) of PKR 1,368mln during FY23 (FY22: PKR 1,368mln). However, the interest coverage ratio reduced to 3.7x (FY22: 5.3x). Furthermore, the debt coverage ratio decreased to 3.1x (FY22: 5x). However, the company's coverages improved during 1HFY24 on the back of improved profitability during the period.

Capitalization The capital structure of the Company is leveraged. During FY23, the Company's leveraging ratio improved to ~41.7% from 46.8% in FY22 mainly on the back of improvement in net equity of the Company through unappropriated Profits. Short-term borrowings constituted ~94.6% of the Company's total borrowings and stood at PKR 2,337mln. During 1HFY24, the company's capital structure remained in line with the past year.

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The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

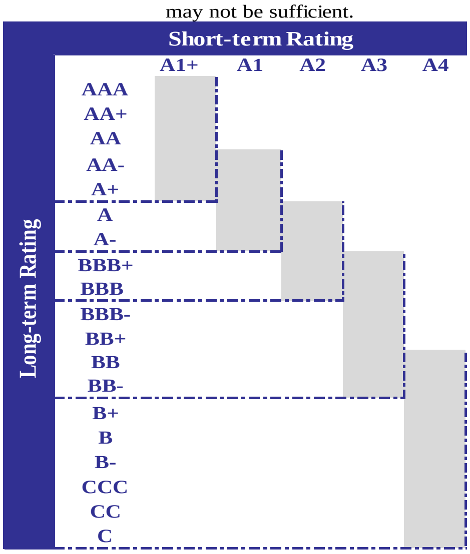
Malik MIJ Chunxing Resources Recycling Company Limited Metals	Dec-23 6M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	1,715	1,676	1,520	1,707
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	17,308	18,069	10,906	5,768
a Inventories	*8,021*	*8,241*	*6,821*	*4,117*
b Trade Receivables	*8,606*	*9,132*	*3,646*	*1,138*
5 Total Assets	19,023	19,745	12,426	7,475
6 Current Liabilities	12,778	13,821	7,194	3,050
a Trade Payables	*12,577*	*13,598*	*7,034*	*2,845*
7 Borrowings	2,321	2,337	2,315	2,190
8 Related Party Exposure	124	134	134	276
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	3,800	3,453	2,782	1,960
11 Shareholders' Equity	3,800	3,453	2,782	1,960
B INCOME STATEMENT				
1 Sales	11,303	20,307	16,761	8,711
a Cost of Good Sold	*(10,338)*	*(18,925)*	*(15,175)*	*(8,041)*
2 Gross Profit	965	1,383	1,587	669
a Operating Expenses	(180)	(296)	(352)	(177)
3 Operating Profit	785	1,086	1,235	492
a Non Operating Income or (Expense)	*(62)*	*(125)*	*(143)*	*44*
4 Profit or (Loss) before Interest and Tax	723	962	1,092	536
a Total Finance Cost	*(227)*	*(465)*	*(278)*	*(126)*
b Taxation	*(130)*	*(208)*	*(60)*	*(121)*
6 Net Income Or (Loss)	366	289	754	289
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*727*	*1,368*	*1,368*	*525*
b Net Cash from Operating Activities before Working Capital Changes	*490*	*938*	*1,098*	*389*
c Changes in Working Capital	*(267)*	*(647)*	*(795)*	*(792)*
1 Net Cash provided by Operating Activities	222	291	304	(403)
2 Net Cash (Used in) or Available From Investing Activities	(122)	(347)	(22)	(56)
3 Net Cash (Used in) or Available From Financing Activities	(35)	21	(154)	277
4 Net Cash generated or (Used) during the period	66	(35)	128	(183)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	11.3%	21.2%	92.4%	0.0%
b Gross Profit Margin	8.5%	6.8%	9.5%	7.7%
c Net Profit Margin	3.2%	1.4%	4.5%	3.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	4.1%	3.5%	3.4%	-3.1%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	20.2%	9.3%	31.8%	14.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	274	250	171	220
b Net Working Capital (Average Days)	63	65	64	101
c Current Ratio (Current Assets / Current Liabilities)	1.4	1.3	1.5	1.9
3 Coverages				
a EBITDA / Finance Cost	4.0	3.7	5.3	5.6
b FCFO / Finance Cost+CMLTB+Excess STB	3.4	3.1	2.2	1.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.1	0.1	0.4	1.3
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	39.2%	41.7%	46.8%	55.7%
b Interest or Markup Payable (Days)	44.7	52.2	36.9	55.8
c Entity Average Borrowing Rate	17.8%	18.2%	10.6%	4.6%

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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
Proprietary Information