



The Pakistan Credit Rating Agency Limited

Rating Report

Mughal Energy Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Dec-2023	A	A2	Stable	Maintain	-
01-Dec-2022	A	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Mughal Energy Limited (MEL) or the Company is a wholly own subsidiary of Mughal Iron & Steel Industries Limited (MISIL). The Company is in the process of installing a 36.5MW hybrid captive power plant that will supply electricity majorly to the MISIL. The company has been granted a generation license by NEPRA of 30 years starting from the Commercial Operation Date (COD). The total estimated cost of the project is PKR 6.5bln which will be financed through expected debt to equity mix of 60:40. The debt financing will be utilized towards installation and testing of the plant for commercial operations. The company has already procured the plant and land for plant site through equity injected by the sponsors, thus mitigating the procurement risk. The plant equipment is already at the site, providing further comfort. The Company has assigned local contractors for the civil work, installation, fabrication and testing of the plant at the site which will take approximately 13 months. The plant is expected to be commissioned with-in 18 months from the construction start date, which was started in October'23. Local EPC insulates against risk of foreign EPC's travel risk. Further, the off-take risk is mitigated as the long-term power purchase agreement has already been signed with MISIL. MISIL has approved issuance of corporate guarantee of PKR 6bln in favor of banks on behalf of MEL for the purpose of availing financing for a period of 5 years.

The assigned rating captures the groups strength and business acumen. Going forward, timely completion of the project and successful commissioning of the plant remains crucial to uphold the assigned ratings.

Disclosure

Name of Rated Entity	Mughal Energy Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Independent Power Producer Rating(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Power(Jan-23)
Rating Analysts	Ali Arslan Malik Ali.Arslan@pacra.com +92-42-35869504

Profile

Plant Mughal Energy Limited (MEL) or the Company has approved the procurement and installation of a 36.5MW hybrid captive power plant located at 17-km on Lahore- Sheikhupura Road, Punjab that will supply electricity majorly to the Mughal Iron & Steel Industries Limited (MISIL).
Tariff A mutually agreed tariff has been allowed to be charged to MISIL from MEL.
Return On Project Return on the project is yet to be finalized.

Ownership

Ownership Structure MISIL members in their Extraordinary General Meeting held in Sep'23 have approved the purchase of shares of MEL. MEL is wholly owned subsidiary of the MISIL.
Stability Stability is drawn from the company's commitment to increase energy efficiency and complete the project to provide uninterrupted supply to their facility.
Business Acumen The sponsors carry over five decades of experience in the iron and steel industry. Previously, the group was involved in the successful installation of 25MW captive power house to supply electricity to Mughal Iron and Steel Industries Limited (MISIL).
Financial Strength Sound sponsorship and successful operations of MISIL has been the deriving component of the strong financial position of the group. Over the years Mughal Group has grown to be one of the leading companies of Pakistan in the iron and steel sector.

Governance

Board Structure MEL's board consists of 7 members belonging from the sponsoring group. All board members are interrelated and are present on the board of associated companies.
Members' Profile Mr. Mirza Javed Iqbal is the Chairman of the board. He has been involved in the family business since 1976 and has more than four decades of experience in the steel and iron industry. Remaining members of the board also possess satisfactory experience.
Board Effectiveness The board conducts regular meetings throughout the year to discuss matters related to the company. Attendance during the meetings remains satisfactory and proper minutes of the board meetings are maintained.
Financial Transparency M/s Muniff Ziauddin & Company Chartered Accountants is the external auditor of the company and they have expressed an unqualified opinion on the financial statements for the year ended on 30th June, 2023.

Management

Organizational Structure The company has a very basic organization structure with the presence of senior management. Further divisions are expected to be established once the company achieves its commercial operations.
Management Team Currently the management team consists of CEO, CFO, COO, Deputy General Manager and Company Secretary. The team is expected to expand once the company begins its commercial operations.
Effectiveness As of now there are no management committees. However, the senior management conducts regular meetings with the BoD in matters relating to the company's strategy and plan.
Oversight Of Third-Party Service Providers The company has awarded the engineering and construction contracts for the plant to local contractors with a good reputation in the industry. These contractors bring significant and relevant experience to the table, showcasing their proficiency in similar projects. Regular meetings are conducted to assess and track the contractors' performance, allowing for timely adjustments and proactive management.

Completion Risk

Engineering And Procurement The plant has been procured and sourced from a Germany. The plant equipment including, boilers, generators and turbines which have already been procured and has reached the installation site.
Power Purchase Agreement The PPA is finalized between Mughal Energy Limited and Mughal Iron and Steel Industries Limited.
Pre-Commissioning Progress The Company has procured hybrid captive power plant which will be installed at the site by a local contractor. All plant equipment has been procured by the Company and is available on the plant site. Ground breaking ceremony was held in October'23 whereby civil contract award to Izhar Construction. Further advance payment has also been released to Izhar and work has commenced. The overall timeline of plant completion is 18 months.
Performance Default Risk The plant has been procured from Germany. The Company is planning to borrow remaining project cost for installation work. The installation work expected to begin after completion of civil work and will take approximately 13 months. The installation work of the plant is expected to commence from end of Aug'24.

Performance Risk

Industry Dynamics With shortage of fuel and high electricity prices, industrial sector has been shifting to alternate sources of providing energy to their facilities. Sugar, Textile, Steel and Cement have all shifted towards captive power generation and have been granted license by NEPRA. Captive Power Plants ensure continuous supply of electricity without outages, reduces energy costs with less reliance on WAPDA.
Operation And Maintenance The company has yet to finalize their Operations & Maintenance agreement with third party to manage regular supervision, repair and maintenance of the plant. Two to three local firms, who are successfully running power plants of sugar mills might be awarded the O&M contract.
Resource Risk The company has yet to finalize their coal supply agreement for sourcing of coal. The plant can be operated on both local and imported coal. The company has yet to signed agreement with Sindh Lakhra Coal Mining for procurement of local coal whereas the company is considering to import coal from Afghanistan, which has same calorific value as good as imported coal, while the trade will be denominated in PKR, which further secures the company from any adverse exchange rate movements.
Performance Benchmark The minimum required performance benchmark yet to be finalized.

Financial Risk

Financing Structure Analysis The expected cost of the installation and procurement of the plant along with cost of land is PKR 6.5bln which will be financed through a combination of debt and equity in ratio of 60:40 respectively. The sponsors have already injected equity worth PKR 3,081mln while the remaining cost will be raised through local borrowings for a period of 7 years after the COD of the plant.
Liquidity Profile Mughal Energy Limited has been granted a generation license by NEPRA for a period of 30 years starting from the COD of the plant. Under the agreement, the company will supply electricity majorly to MISIL, based on mutually agreed tariff.
Working Capital Financing The company has not yet started commercial operations.
Cash Flow Analysis The company has not yet started commercial operations.
Capitalization The Company plans on borrowing to fund its project installation and testing for commercial operations. As of FY-23, leverage of the Company stood at 9%, PKR 300mln disbursed from PAIR Investment Company Limited. The tenor of the loan is 7 years including grace period of 1.5 year. Post grace period, principal will be repayable in 22 equal quarterly installments at 3MK+1.5% markup per annum. The Company plans on borrowing PKR 2.5-3bln for erection of the plant and the remaining borrowing arrangements and underway.



The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Mughal Energy Limited Power	Jun-23 12M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	3,052	1,672	799	468
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	339	154	162	36
a Inventories	-	-	-	-
b Trade Receivables	-	-	-	-
5 Total Assets	3,390	1,826	962	504
6 Current Liabilities	9	10	14	0
a Trade Payables	-	-	-	-
7 Borrowings	300	-	-	-
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	3,081	1,816	948	503
11 Shareholders' Equity	3,081	1,816	948	503
B INCOME STATEMENT				
1 Sales	-	-	-	-
a Cost of Good Sold	-	-	-	-
2 Gross Profit	-	-	-	-
a Operating Expenses	(33)	(15)	(2)	(1)
3 Operating Profit	(33)	(15)	(2)	(1)
a Non Operating Income or (Expense)	6	6	-	-
4 Profit or (Loss) before Interest and Tax	(28)	(9)	(2)	(1)
a Total Finance Cost	(0)	(0)	(0)	(0)
b Taxation	-	-	-	-
6 Net Income Or (Loss)	(28)	(9)	(2)	(1)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	(36)	(18)	(3)	(2)
b Net Cash from Operating Activities before Working Capital Changes	(51)	(18)	(3)	(2)
c Changes in Working Capital	(137)	(115)	2	0
1 Net Cash provided by Operating Activities	(188)	(133)	(1)	(2)
2 Net Cash (Used in) or Available From Investing Activities	(300)	(873)	(331)	(92)
3 Net Cash (Used in) or Available From Financing Activities	529	878	447	87
4 Net Cash generated or (Used) during the period	40	(128)	114	(7)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	N/A	N/A	N/A	N/A
b Gross Profit Margin	N/A	N/A	N/A	N/A
c Net Profit Margin	N/A	N/A	N/A	N/A
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	N/A	N/A	N/A	N/A
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	N/A	N/A	N/A	N/A
2 Working Capital Management				
a Gross Working Capital (Average Days)	N/A	N/A	N/A	N/A
b Net Working Capital (Average Days)	N/A	N/A	N/A	N/A
c Current Ratio (Current Assets / Current Liabilities)	37.5	14.8	11.7	318.4
3 Coverages				
a EBITDA / Finance Cost	N/A	N/A	N/A	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	N/A	N/A	N/A	N/A
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-8.3	0.0	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	8.9%	0.0%	0.0%	0.0%
b Interest or Markup Payable (Days)	N/A	N/A	N/A	N/A
c Entity Average Borrowing Rate	0.0%	--	--	--

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.

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

Scale	Short-term Rating 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 conditions.
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 surveil 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

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(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

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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)
- (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)

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