The Pakistan Credit Rating Agency Limited

Rating Report

Bikiya Industries (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
03-Apr-2023	BB	A3	Stable	Maintain	-
14-Sep-2022	BB	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Bikiya Industries Private Limited ('BIPL' or the 'Company') is family-owned business with majority stake lying with Mr. Muhammad Saleem Bikiya. BIPL is among the top five manufacturer of tissue paper. Over the period, the Company has established its brand name "TUX" amongst the leading tissue providers in Pakistan. The production of the segment is directly linked with the demand of food products and consumer goods. considering the higher demand, the utilization level has remained on higher side. Going forward, considering optimum utilization level and further strengthening of market share, the Company is planning to expand its operations. Currently, the average market share of the Company stood at ~5% in the tissue paper industry. The CEO/owner has an extensive knowledge of industry trends and tissue business with overall 30 years of experience. While the Management has a well understanding of business and operational efficiencies. The governance structure is considered weak due to the absence of a formal board structure, board committees, and independent oversight, furthermore external auditors are not QCR rated and denote room for improvement. The Company structure is not complex making management of operations an easy and timely task with one head office and two production offices.
The financial risk profile of the Company is considered adequate. The Company and its brand are still under development phase, there are higher operating expenses since past four fiscal years resulting in negative after-tax profits. Revenue for the Company during FY22 stood at PKR 644mln (FY21: PKR 510mln) with net profit margin of -10.6% (FY21: -9.1%). The net working capital days fall on higher side, depicting higher utilization of running finance resultantly, the leveraging of the company remained on higher side during the period under review. The profitability of the Company would remain under pressure considering developmental expenses and higher finance cost. However, financial commitments from sponsors exist in times of need.

The ratings are dependent on the Company's ability to sustain its position amidst changing business environment and management's ability to run the operations of the Company optimally. With the upcoming growth in firm's business & volumes; prudent financial discipline and implementation of a stringent control environment shall remain imperative.

Disclosure

Name of Rated Entity	Bikiya Industries (Pvt.) 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 | Paper and Packaging(Nov-22)
Rating Analysts	Muhammad Azmat Shaheen | azmat.shaheen@pacra.com | +92-42-35869504

Profile

Legal Structure Bikiya Industries (Pvt) Ltd. ("BIL" or the "Company") was established in 2014 under directorship of Mr. Muhammad Saleem Bikiya,

Background The Company was established to manufacture tissue papers. The Company is among the top five manufacturers of tissue paper with the brand name "TUX"

Operations The Company has its head office situated in Karachi. BIL deals in five products; namely: i) Pop-up Tissue Box, ii) Toilet Roll, iii) Pop-up Mini Tissue, iv) Hand Towel and v) Party Pack. The Company imports raw material from China, Indonesia and Malaysia and sells to northern, central and southern regions of Pakistan. All sales of Company are direct sales and no dealers are involved in the chain. As of Mar'22, about 58% of customer base is located in southern region for BIL with geographical concentration and 29% in central region with remaining 12.7% being in northern region. There is a constant growth in revenues of the Company since FY19 with a slight dip in revenues during FY21.

Ownership

Ownership Structure The Company is privately owned by three shareholders: Mr. Muhammad Saleem Bikiy holds 80% shares, Mr. Usman Saleem Bikiya and Mr. Muhammad Bilal 10% each. Mr. Muhammad Saleem Bikiya is the head of family with Mr. Usman Saleem Bikiya and Mr. Muhammad Bilal are his sons.

Stability Mr. Saleem Bikiya shows the financial commitment in times of need. All the group companies - Bikiya Industries, Madiha International and International Business Management - provide supported to each other in the form of long term loans when needed.

Business Acumen The directors associated with the Company have an extensive knowledge of the business practices and Company processes, being associated with the Company for 6 years. The Major shareholder/Director Muhammad Saleem Bikiya has an overall experience of 30 years. The other two shareholders/directors have an accumulative experience of 10 years each.

Financial Strength The financial strength of sponsors can be seen through the total assets of Mr. Saleem Bikiya which amounts to PKR 796mln, Mr. Bilal amounts to PKR 50.8mln and Mr. Usman amounts to PKR 50.8mln.

Governance

Board Structure The BoD of Company comprises of three members who are also owners of the Company.

Members' Profile The majority owner/director Mr. Muhammad Saleem Bikiya has an extensive experience of 30 years in paper industry.

Board Effectiveness The Board has only two members and in comparison, to established corporates, the governance model is weak and needs improvement. There are no board committees in place. During the nine months FY22, 4 official board meetings took place and all three directors attended all these 4 meetings where the agendas were discussed along with future meeting's agendas laid down as well.

Financial Transparency The Company appoints Syed Hasan & Co. as auditors. The auditors have expressed an unqualified audit opinion on the financial statements of Bikiya Industries Private Limited for the year ending June 30, 2021. The firm is not on SBP's panel of auditors and is Non-QCR rated, therefore there is room for improvement in the corporate governance framework.

Management

Organizational Structure Bikiya Industries has a lean organizational structure divided into various functional departments. Currently, the organizational structure is divided into five main functions namely; 1) Sales & Marketing 2) Production 3)Purchase 4) Accounts & Finance, and 5) Collection & Recovery.

Management Team Mr. Saleem Bikiya is the CEO of the Company. Mr. Owais Jabbar is the CFO of the Company and provides external assistance to the Company over financial matters. All departmental heads are reportable to Mr. Usman Saleem Bikiya.

Effectiveness The management structure is simple with most operations being looked by directors of the Company.

MIS The Company's MIS generates Balance Sheets, Profit and Loss, and Cash flow statements on a randomly basis for the Board. The MIS generated Sales reports are reviewed by the top management on a daily basis.

Control Environment SAP Business one is installed that provide insight into operations of Company and departmental performance as well. Reports are generated and shared showing benchmarks and achievements from each department in given periods.

Business Risk

Industry Dynamics Pakistan's packaging industry consists of three major segments: paper, plastic, and tinplate. Pakistan's paper and plastic industry has an approximate size of PKR 64bln at end CY22. The second largest segment within the local industry is paper and board which occupies ~34% of the market. The segment's direct costs consist largely of imported raw materials (75%). Therefore, volatility in exchange rates and international price trends has a major impact on costs. Demand in this segment remained relatively high. The segment's direct costs consist largely of imported raw materials (~75%). Chemical wood pulp is one of the main raw materials in the production of paper packaging. Therefore, volatility in exchange rates and international price trends has an impact on costs.

Relative Position Amongst the larger players in the tissue paper industry and market size of ~ 23000 tons/Annum, Bikiya falls under the top five convertors of tissue papers.

Revenues The Company generates revenue through tissue sales only. The Company's topline shows an increasing trend. During FY22, the Company has reported a significant growth in sales by 26.3%, to PKR 644mln (FY21: 510mln approximately). The Company makes sales directly to B2B customers and the top ten customer account for 87% of revenues.

Margins The Gross Profit margin decreased from 13.5% in FY21 to 12.6% in FY22, while the Operating profit margin are still showing negative trends from -6.1% in FY21 to -4.3% in FY22. The main reason is the initial product marketing cost.

Sustainability The Company is operating at ~84% capacity and has a plan to expand its operations further to capture more market share. The brand name "TUX" has already gotten renowned in the market and has established its foot marks.

Financial Risk

Working Capital BIPL's working capital management is supported through short-term running finance facilities obtained from banks. Considering the raw material lead time and high product demand, BIPL's inventory days stood at 173days during FY22 (FY21: 197days) and the trade receivable days at 18days (FY21: 22days). While trade payable days were 88days (FY21: 91days). Consequently, the Company's net working capital days decreased from FY21: 128days to FY22: 103days. The overall performance shows a very positive sign in working capital management.

Coverages The Company's interest coverage ratio is still standing on the lower side considering the initial developmental expenses of the Company (FY21: -5.6x to FY22: -3.0x).

Capitalization The Company has high leverage of 175.1% at end of Jun'22 although declined from 233.7% in FY21. The short-term borrowings remained moderate at 48% during FY22 although there was seen a decrease of 39% in short term borrowings from FY20 to FY21.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Bikiya Industries Private Limited	Jun-22	Jun-21	Jun-20	Jun-19
Corporate	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	132	138	88	89
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	701	370	380	377
a Inventories	*327*	*283*	*267*	*269*
b Trade Receivables	*30*	*35*	*27*	*43*
5 Total Assets	833	508	469	466
6 Current Liabilities	280	245	167	226
a Trade Payables	*172*	*139*	*116*	*182*
7 Borrowings	470	73	105	-
8 Related Party Exposure	499	537	497	462
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	(416)	(348)	(300)	(222)
11 Shareholders' Equity	(416)	(349)	(301)	(222)
B INCOME STATEMENT				
1 Sales	644	510	576	387
a Cost of Good Sold	*(563)*	*(441)*	*(479)*	*(309)*
2 Gross Profit	81	69	97	79
a Operating Expenses	(108)	(100)	(152)	(156)
3 Operating Profit	(27)	(31)	(55)	(77)
a Non Operating Income or (Expense)	*(2)*	*1*	*0*	*(3)*
4 Profit or (Loss) before Interest and Tax	(29)	(30)	(55)	(80)
a Total Finance Cost	*(31)*	*(9)*	*(16)*	*(1)*
b Taxation	*(8)*	*(8)*	*(9)*	*(5)*
6 Net Income Or (Loss)	(68)	(47)	(79)	(86)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*311*	*(85)*	*13*	*(81)*
b Net Cash from Operating Activities before Working Capita	*342*	*(76)*	*29*	*(80)*
c Changes in Working Capital	*(280)*	*86*	*(63)*	*2*
1 Net Cash provided by Operating Activities	62	9	(34)	(78)
2 Net Cash (Used in) or Available From Investing Activities	(46)	(12)	32	91
3 Net Cash (Used in) or Available From Financing Activitie	-	-	-	(13)
4 Net Cash generated or (Used) during the period	16	(3)	(2)	0
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	26.3%	-11.4%	48.7%	--
b Gross Profit Margin	12.6%	13.5%	16.9%	20.3%
c Net Profit Margin	-10.6%	-9.1%	-13.8%	-22.3%
d Cash Conversion Efficiency (FCFO adjusted for Working (	4.8%	0.2%	-8.7%	-20.4%
*e Return on Equity [Net Profit Margin * Asset Turnover * (*	8.9%	7.2%	15.2%	38.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	191	219	192	188
b Net Working Capital (Average Days)	103	128	98	16
c Current Ratio (Current Assets / Current Liabilities)	2.5	1.5	2.3	1.7
3 Coverages				
a EBITDA / Finance Cost	-3.0	-5.3	-5.5	-70.9
b FCFO / Finance Cost+CMLTB+Excess STB	4.1	-10.0	0.8	-70.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-F	2.0	-5.9	-172.8	-5.6
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equ	175.1%	233.7%	200.1%	192.1%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	4.2%	1.4%	3.0%	0.2%

Credit Rating

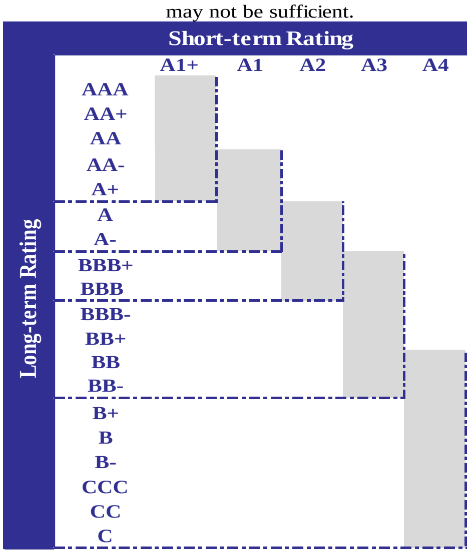
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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