The Pakistan Credit Rating Agency Limited

Rating Report

BBJ Pipe Industries Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
08-Nov-2019	BBB-	A3	Stable	Maintain	-
09-May-2019	BBB-	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

BBJ Pipes Industries Limited, a family operated business, is engaged in steel and polyethylene pipes industry. The company has been catering to the demand of government/ corporate projects since last many years. The ratings reflect an adequate market presence of the company in a highly fragmented industry. Over the last few years, the company's business risk profile has strengthened on account of better volumetric sales. Furthermore, the company has expanded its production capacity in last years which may bode well in the future. Steel pipe industry has some vital players operating in the market yet BBJ has earned a good name in its respective niche. BBJ Pipes has completed the process of establishing its subsidiary - BBJ Steels which is wholly owned subsidiary; the company was legally bind to follow this under S.R.O 565 (I). During FY19, topline witnessed decline attributable to cessation of CRC sales. However, CRC sales are expected to pick up in near future under BBJ Steels. BBJ Pipes' margins remained intact even though challenges remained on demand front. Volumes were largely maintained however working capital requirements enhanced which were largely catered by sponsor's injection of funds. The financial risk revolves around higher short-term borrowings to support the working capital - inherent need of the business model followed by the company. The ratings also take into account strong equity base (FY19: PKR 2.4bln; FY18: PKR 2.4bln) - providing intrinsic risk absorption capacity. Going forward, the Company’s debt levels are expected to remain range-bound as no long-term financing is planned in foreseeable future.

The ratings are dependent upon the company’s ability to sustain and improve its business profile in the wake of challenges in current diluted economic scenario. Herein, effective and prudent management of financial risk indicators remain important.

Disclosure	
Name of Rated Entity	BBJ Pipe Industries Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-19),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria | Rating Modifier(Jun-19)
Related Research	Sector Study | Steel(Sep-19)
Rating Analysts	Usama Zubair | usama.zubair@pacra.com | +92-42-35869504

Profile

Legal Structure BBJ Pipes Industries Limited was incorporated in January 1991, it was converted into a public limited entity in 2013 and is currently not listed on PSX.
Background BBJ Pipes is engaged in manufacturing of steel, iron and polyethylene pipes for government and private sectors. Steel pipes are utilized in constructing buildings and houses, plumbing in commercial and domestic buildings, pipelines and etc. The head office is located in Lahore. The manufacturing facility is located at 48.5km, Multan road, Bhai Pheru.
Operations BBJ Pipes commenced its operations in 1991. BBJ pipes broadly produces 5 products; i) Steel Line Pipe – API 5L, ii) Steel Pipe and Tubes, iii) Polyethylene Pipes, iv) Polyethylene Fittings and v) PPR-C Pipes and Fittings. All products conform to international standards.

Ownership

Ownership Structure The shareholding is vested within the Zubair Family. Mr. Zubair Qayyum Butt holds 51% of the shares, Mrs. Nabila Zubair holds 20% and Mr. Ahmed Zubair holds 15% shareholding in the company. Ms. Shaima Zubair and Ms. Fatima, daughters of Mr. Zubair – holds 7% each.
Stability BBJ Pipes' ownership structure is seen stable as no ownership changes are expected in foreseeable future. Majority stake will rest with the Zubair Family.
Business Acumen The business acumen is considered good on account of three decades long association of Mr. Zubair with the steel sector on account of his business. Furthermore, Mr. Ahmed s/o Mr. Zubair and Chief Operating Officer of the Company is actively involved in managing affairs of the Company.
Financial Strength The sponsor's sole business interest is vested in steel sector on BBJ Pipes. Furthermore, the sponsor has properties (BBJ House and a retail shop). Hence, willingness to support in case of need arising is being demonstrated recently when sponsors injected funds to support working capital requirements. The financial muscle of the sponsor is considered adequate.

Governance

Board Structure The overall control of board vests with three members, wherein all members are from sponsoring family including the CEO. Mr. Zubair Qayyum is a mechanical engineer by profession. Ms. Nabila Zubair and Mr. Ahmed, wife and son of Mr. Zubair, are also present on board.
Members' Profile Two board members, Mr. Zubair and Mr. Ahmed are equipped with necessary technical skills owing to long association with the company. Ms. Nabila is not part of the business and financial decisions of the company.
Board Effectiveness BoD meetings are regularly conducted and during FY19, complete directors' attendance was witnessed in the meetings. The board meeting minutes are not maintained formally. The board has three committees to oversee the company's business and financial matters. These committees include: i) Management; ii) Human Resource & Remuneration (HR&R) and iii) Audit.
Financial Transparency Iqbal Yasir & Company, Chartered Accountants are the external auditors of the company. They are listed on QCR but not on the SBP Auditors list. Audit of June 2019 financials is underway. Previously, the auditors expressed unqualified opinion on the financial statements for the year end June 30th, 2018.

Management

Organizational Structure BBJ Pipes has a streamlined organizational structure. All functional heads report to their respective department heads and department heads report to the COO – Mr. Ahmed Zubair. Furthermore, the COO reports directly to the CEO - Mr. Zubair Qayyum Butt.
Management Team The CEO is supported by a team of experienced management, equipped with necessary technical skills. The COO, has been associated with the company since the last one decade. Mr. Imran, the CFO, has long association with the company and handles all financial matters. The long association of some senior key management personnel is considered good for vigilant business decisions.
Effectiveness The Company has five management committees. These committees review key performance areas of the company, inter-alia, daily production analysis, yield analysis, mechanical or production breakdown and downtime analysis. Namely these committees are i) Management Review, ii) Production Planning, iii) Material Management, iv) Sales Review and v) Quality Control. However, the effectiveness is considered adequate.
MIS The Company generates MIS reports on daily, fortnightly and monthly basis. Some of these reports are, Production costing, Monthly key figures, Comparison of actual and projected current assets and liabilities, Statement of current ratio and projected cash flows etc.
Control Environment The Company's core business software is an oracle-based ERP system for smooth functioning of processes as well as for management reporting. It is a user friendly, low maintenance and security protected software.

Business Risk

Industry Dynamics Domestic steel industry is undergoing expansions (flat and long products' producers) announced in previous government's regime. With the commencement of capacity expansions, industry player's performance in current scenario of slowdown in infrastructure projects remains vital. Regulatory protections in form of increased anti-dumping duties is a positive indicator. However, improved business performance and margins is essential for industry players in era of growing key policy rate, fluctuating rupee against other currencies and inflationary pressures.
Relative Position BBJ Pipes is one of the solid names in steel pipe industry of Pakistan. SNGPL is the key customer for the company. Steel pipe industry has some vital players operating in the market yet BBJ has earned a good name in its respective niche. The company has sustained its market positioning in the recent few years.
Revenues During FY19, the Company's topline declined whereby revenue stood at PKR 4.4bln (FY18: 7.5bln). The decline is mainly due to the separation of CRC business with BBJ Pipe as per S.R.O 565(I)/2006 (signed on 24th May 2018). BBJ Pipes was legally bind to separate CRC manufacturing from pipe manufacturing. The company sell its products locally while dealing with public organisations and also in retail market. Gross profit stood at PKR 334bln (FY18: PKR 547), down by 39% YoY. The company's operating expenses reduced by 28.4% YOY. Furthermore, finance cost increased to PKR 210mln (FY18: PKR 171mln) driven by increase in key policy rate. Due to the aforementioned factors, the company reported Net Loss of PKR 66mln (FY18: Profit: PKR 132mln).
Margins During the year, the company's profitability declined but the margins remained intact which is a positive. Gross margin stood at 7.6% (FY18: 7.3%, FY17: 6.8%). Operating margins largely remained same at 4.9% in FY19 (FY18: 5.1%, FY17: 4.2%).
Sustainability Going forward, the demand for steel pipes is expected to witness lagged pattern in the medium term. This is due to the cyclicality factor regarding sales. BBJ Pipes has completed establishment of subsidiary 'BBJ Steel Limited' to fulfill regulatory requirements. The subsidiary is engaged in the business of manufacturing, trading and distribution of steel products. BBJ Pipes has 99.8% ownership of the subsidiary.

Financial Risk

Working Capital During FY19, BBJ Pipes' cash conversion cycle increased to 187 days (FY18: 119days, FY17: 202days). The stretched working capital cycle is inherent need of business as the company imports raw material for both Steel and PE Pipes; surge mainly witnessed due to depreciation of rupee against other currencies and high key policy rate. However, trend of short-term borrowings (STBs) (FY19: PKR 2.0bln; FY18: PKR 2.4bln) remained largely same; which is considered positive. Current ratio inched down to 5.8x (FY18: 7.7x, FY17: 8.7x) but still remained strong .
Coverages During FY19, FCFO stood at PKR 133mln (FY18: PKR 268mln) attributable to cessation of CRC sales coupled with high finance costs. Interest coverage stood at 0.6x (FY17: 1.6x). Going forward, as no major debt planned, coverage is expected to improve steadily dependent upon management's ability to enhance profitability.
Capitalization In FY19, the equity stood at PKR 2.4bln and the debt to capital ratio improved to ~46% (FY18: 50%; FY17: 39%). All of BBJ's outstanding debt pertains to be short-term; inherent need of business model followed by the company. Going forward, the Company's debt levels are expected to remain inbound as no long-term financing is planned in foreseeable future.

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Financial Summary
PKR mln

BBJ Pipes Industries Limited	Jun-19	Jun-18	Jun-17	Jun-16
Steel	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	1,903	1,882	1,722	1,737
2 Investments	-	-	-	-
3 Related Party Exposure	199	4	-	-
4 Current Assets	3,060	3,689	2,604	2,258
a Inventories	*769*	*749*	*1,475*	*1,491*
b Trade Receivables	*1,162*	*1,935*	*781*	*500*
5 Total Assets	5,162	5,575	4,326	3,994
6 Current Liabilities	525	481	300	231
a Trade Payables	*28*	*26*	*50*	*28*
7 Borrowings	2,029	2,427	1,475	1,229
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	250	237	268	295
10 Net Assets	2,358	2,429	2,282	2,240
11 Shareholders' Equity	2,359	2,425	2,282	2,240
B INCOME STATEMENT				
1 Sales	4,408	7,468	3,767	3,398
a Cost of Good Sold	*(4,074)*	*(6,921)*	*(3,510)*	*(3,230)*
2 Gross Profit	334	547	258	167
a Operating Expenses	(118)	(165)	(100)	(119)
3 Operating Profit	216	382	157	48
a Non Operating Income or (Expense)	*(1)*	*(2)*	*(4)*	*60*
4 Profit or (Loss) before Interest and Tax	215	379	153	108
a Total Finance Cost	*(214)*	*(174)*	*(98)*	*(86)*
b Taxation	*(67)*	*(73)*	*(12)*	*(5)*
6 Net Income Or (Loss)	(66)	132	43	18
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*133*	*268*	*164*	*292*
b Net Cash from Operating Activities before Working Capital Changes	*(81)*	*93*	*66*	*206*
c Changes in Working Capital	*338*	*(583)*	*(215)*	*(541)*
1 Net Cash provided by Operating Activities	257	(490)	(149)	(334)
2 Net Cash (Used in) or Available From Investing Activities	(96)	(233)	(55)	74
3 Net Cash (Used in) or Available From Financing Activities	(172)	975	247	247
4 Net Cash generated or (Used) during the period	(10)	252	44	(14)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-41.0%	98.2%	10.9%	75.2%
b Gross Profit Margin	7.6%	7.3%	6.8%	4.9%
c Net Profit Margin	-1.5%	1.8%	1.1%	0.5%
d Cash Conversion Efficiency (EBITDA/Sales)	6.6%	6.1%	5.9%	7.6%
e Return on Equity (ROE)	-2.8%	5.6%	1.9%	0.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	191	121	206	200
b Net Working Capital (Average Days)	189	119	202	198
c Current Ratio (Total Current Assets/Total Current Liabilities)	5.8	7.7	8.7	9.8
3 Coverages				
a EBITDA / Finance Cost	1.4	2.7	2.6	3.2
b FCFO / Finance Cost+CMLTB+Excess STB	0.6	1.6	1.9	1.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0	0.4
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	46.2%	50.0%	39.3%	35.4%
b Interest or Markup Payable (Days)	65.7	0.0	0.0	0.0
c Average Borrowing Rate	9.4%	8.8%	6.3%	7.3%

Credit Rating Scale & Definitions

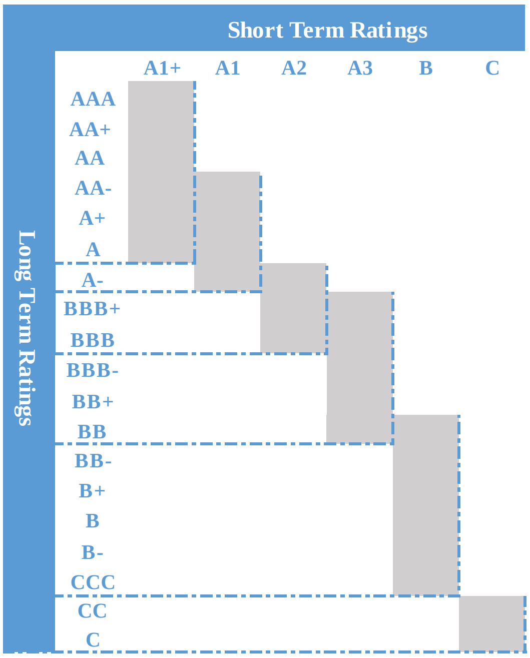
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

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 Ratings

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.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) 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.

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.

(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