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-2024	BB	A3	Stable	Maintain	-
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 a family-owned business with a majority stake lying with Mr. Muhammad Saleem Bikiya. BIPL is among the top five manufacturers 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 to the demand for food products and consumer goods. Considering the higher demand, the utilization level has remained on the higher side. Going forward, considering optimum utilization level and further strengthening of market share, the Company is planning to expand its operations. As per management representation, currently, the average market share of the Company stands at ~5% in the tissue paper industry. Mr. Muhammad Saleem Bikiya CEO/director of BIPL, embodies the pivotal figure in its operations, who brings over three decades of industry experience to the table. With only two members on the Board, BIPL's governance model is improving since last year performance with regards to board management meetings and decisions taken ability of the board in comparison to established corporations however room for improvement is present. Currently, board committees are not active since establishment of the committee took place 2 years back. Moreover, to ensure operational efficiency through the identification, assessment, and reporting of all types of risk arising out of the business operations, the Company has just started internal audit function that operates under the direct supervision of directors which does not commensurate the weak areas of the Company. Furthermore, external auditors are not QCR-rated and denote room for improvement. The management team demonstrates strong operational expertise and a keen understanding of industry trends. The financial risk profile of the Company is considered adequate. The Company and its brand are still in the development phase. In FY23, Bikiya Industries Private Limited achieved a topline of PKR 2,784ml, marking a modest increase of about ~12% compared to PKR 2,482ml in FY22 (FY21: PKR 510ml). Furthermore, the Company faced challenges with rising raw material costs due to inflation and exchange rate fluctuations but successfully managed to improve its profit margins by transferring it to the consumers. As a result, the gross profit margin rose from ~ 23.4% in FY22 to ~ 23.7% in FY23 (FY21: ~13.5%). This increase contributed to a high net profit margin of ~10.9% during FY22 & FY23 (FY21: ~9.1%). As a result of these improvements, the company achieved a bottom line of ~PKR 303mln in FY23, compared to ~PKR 269ml in FY22. The product demand is expected to come full circle once the macro-level fundamentals improve. A low leveraged capital structure of Bikiya Industries Private Limited provides comfort to the assigned ratings.

The ratings are dependent upon the management’s ability to improve margins while sustaining its market share. Prudent management of the working capital, and maintaining sufficient cash flows and coverages are essential for the ratings. Any significant change in margins and coverages will impact the ratings.

Disclosure

Name of Rated Entity	Bikiya Industries (Pvt.) 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 | Paper and Packaging(Nov-23)
Rating Analysts	Muhammad Atif Chaudhry | Atif.Chaudhry@pacra.com | +92-42-35869504

Profile

Legal Structure Bikiya Industries (Pvt.) Limited ("BIL" or the "Company") was established in 2014 under the 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 materials from China, Indonesia, and Malaysia and sells to northern, central, and southern regions of Pakistan. All sales of the Company are direct sales and no dealers are involved in the chain. As of Jun'23, about 58% of the customer base is located in the southern region for BIL with geographical concentration and 29% in the central region with the remaining 12.7% being in the northern region. There is a constant growth in the revenues of the Company since FY19.

Ownership

Ownership Structure Bikiya Industries (Pvt.) Limited 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 light asset and high turnover base model of business has provided strength to the Company to establish its brand name amongst the leading importers of paper and related products in the south market.

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. At Bikiya Industries (Pvt) Ltd. absence of management committees are indicating the room for improvement.

Financial Transparency The Company has appointed M/s Hussain Lakhani & Co chartered accountants 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, 2023. The firm QCR rated but not on SBP's panel of auditors, therefore there is room for improvement in the corporate governance framework.

Management

Organizational Structure Bikiya Industries (Pvt.) Limited has developed a defined organizational structure keeping in mind the Company's operational needs. 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 experience of the sponsors along with a professional management team has helped the Company to streamline its operations. However, Management's effectiveness and efficiency can be ensured through the presence of management committees. At Bikiya Industries (Pvt.) Limited, absence of management committees are indicating the room for improvement.

MIS To generate MIS and operational reports, the ERP software, SAP Business is being used.

Control Environment For identification, assessment, and reporting of all types of risk arising out of the business operations because there is no internal audit department in place to ensure operational efficiency which operates under the direct supervision of directors.

Business Risk

Industry Dynamics Pakistan's packaging industry consists of four major segments, paper, plastic, tinplate and glass. Paper and plastic segments occupy the major share in total market. Despite, the economic slowdown caused by several issues, demand for the segment remained almost consistent as it falls in the supply chain of various essential products and industries. The segment's direct costs consist largely of imported raw materials. 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 Bikiya Industries (Pvt.) Limited maintains a strong market presence in Pakistan for importing tissue paper and hold's a significant share in tissue paper product. 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's top line shows an increasing trend due to an increase in sale price but the increase in prices of products has impacted demand. Though, an industry-wide volumetric decrease in sales has been reported but the selling prices have absorbed the impact to much extent. During FY23, the Company generated a top line of ~PKR 2,784mln (FY22: ~PKR 2,482mln, FY21: ~PKR 510mln), showing an increase of ~ 12% in revenue.

Margins Tissue paper rolls being used by the Company are 100% imported. So, to maintain the margins, the Company passes on the cost to B2B consumers. In FY23, gross margin and operating profit margin both increased as compared to FY22. The GP margin increased from ~23.4% in FY22 to ~23.7% in FY23 while the OP margin increased from ~15.3% to ~15.5%. Consequently, the net profit margin also increased from ~10.5% to ~10.9% during the same period. The bottom line of the Company clocked in at ~PKR 303mln during FY23 increased from ~PKR 269mln during FY22 (FY21: ~PKR (-47)mln).

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 Going through the financials the rating team explained that Bikiya Industries (Pvt.) Limited experienced a decline in inventory days, decreasing from ~49 days at end-Jun22 to ~37 days at end-Jun23. Inventory days are still on the higher side because the Company has imported raw materials in huge quantities due to the rise in raw material prices and currency rate fluctuations. The trade receivable days also increased significantly from ~27 days to ~57 days during the same period. However, the trade payable days decreased from ~15 days at the end of FY22 to ~10 days at the end of FY23. Consequently, the Company's net working capital days increased significantly to ~84 days at the end of FY23 from ~61 days at the end of FY22.

Coverages In FY23, the Company's EBITDA stood at ~PKR 448mln increasing from ~PKR 397mln in FY22 (FY21: ~PKR (-48)mln). As a result in FY23, the Company's FCFOs stood at ~PKR 577mln increasing from ~PKR 282mln in FY22 (FY21: ~PKR 54mln); however, this is still a good coverage level for the Company.

Capitalization The Company has a low-leveraged capital structure. Long-term debt is related to expansion activities. Its gearing ratio has decreased from ~4.7% at the end of FY22 to ~3.3% at the end of FY23 due to an increase in equity. Equity has increased to ~PKR 1,118mln from ~PKR 782mln during the same period.

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Financial Summary
PKR mln

Bikiya Industries Private Limited	Jun-23	Jun-22	Jun-21
Corporate	12M	12M	12M
A BALANCE SHEET			
1 Non-Current Assets	229	221	138
2 Investments	-	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	1,134	670	370
a Inventories	*347*	*218*	*283*
b Trade Receivables	*534*	*329*	*35*
5 Total Assets	1,363	890	508
6 Current Liabilities	206	70	245
a Trade Payables	*76*	*70*	*139*
7 Borrowings	39	39	610
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	-	-	-
10 Net Assets	1,118	782	(348)
11 Shareholders' Equity	1,118	782	(348)
B INCOME STATEMENT			
1 Sales	2,784	2,482	510
a Cost of Good Sold	*(2,124)*	*(1,902)*	*(441)*
2 Gross Profit	660	580	69
a Operating Expenses	(228)	(195)	(100)
3 Operating Profit	433	385	(31)
a Non Operating Income or (Expense)	-	-	*1*
4 Profit or (Loss) before Interest and Tax	433	385	(30)
a Total Finance Cost	-	-	*(9)*
b Taxation	*(130)*	*(115)*	*(8)*
6 Net Income Or (Loss)	303	269	(47)
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*577*	*282*	*54*
b Net Cash from Operating Activities before Working Capita	*577*	*282*	*70*
c Changes in Working Capital	*(559)*	*(287)*	*(63)*
1 Net Cash provided by Operating Activities	19	(5)	6
2 Net Cash (Used in) or Available From Investing Activities	(23)	-	32
3 Net Cash (Used in) or Available From Financing Activitie	-	-	-
4 Net Cash generated or (Used) during the period	(4)	(5)	39
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	12.2%	386.6%	0.0%
b Gross Profit Margin	23.7%	23.4%	13.5%
c Net Profit Margin	10.9%	10.9%	-9.1%
d Cash Conversion Efficiency (FCFO adjusted for Working (	0.7%	-0.2%	-1.9%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	31.9%	62.0%	13.4%
2 Working Capital Management			
a Gross Working Capital (Average Days)	94	76	N/A
b Net Working Capital (Average Days)	84	61	-74
c Current Ratio (Current Assets / Current Liabilities)	5.5	9.6	1.5
3 Coverages			
a EBITDA / Finance Cost	N/A	N/A	-5.7
b FCFO / Finance Cost+CMLTB+Excess STB	N/A	N/A	6.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	0.1	0.1	12.2
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equi	3.3%	4.7%	232.3%
b Interest or Markup Payable (Days)	N/A	N/A	0.0
c Entity Average Borrowing Rate	0.0%	0.0%	1.4%

Credit Rating

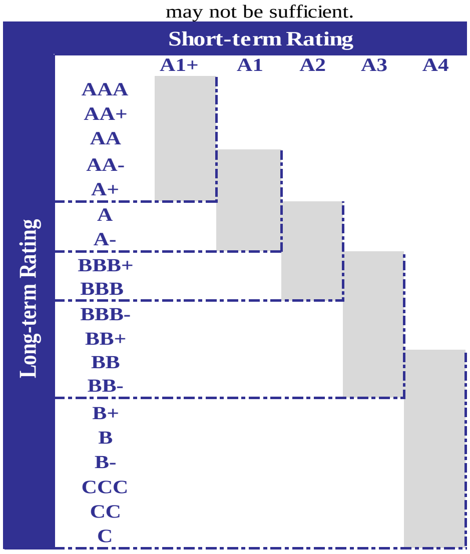
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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