



The Pakistan Credit Rating Agency Limited

Rating Report

Madiha International (Pvt.) Limited

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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

Madiha International (Pvt) Limited (“MIPL” or “the Company”) is primarily engaged in the import of printer papers; sizing, cutting, and trading. MIPL is a family-owned business. The other family business of the Company are Bikiya Industries and IBM Pakistan. The sponsors have vast experience in the trading business of paper and manufacturing tissue papers, since 1993. As per management representation, out of the total paper market of Pakistan, ~ PKR 37% is met through import. During FY22. The group’s average market share in total imports of paper and paper products is ~40% while MIPL’s average market share is ~12%. The Company mainly covers the southern region of Pakistan, particularly Karachi. Due to the small business size, the sponsors are looking after the management and governance side of the Company themselves. The external auditor is not QCR-rated. The Company’s MIS is considered adequate.

The financial risk profile of the Company is considered good. The Company is managing working capital in a mix through i) Running finances and ii) Own sources. Hence, the leveraging of the Company remained on the lower side providing a cushion to the assigned rating. While in near future the Company doesn’t intend to have any CAPEX requirements. The Company’s revenue during FY22 stood at PKR 736mln and grew by 115.2% since Jun’21. The net profitability of the Company decreased on account of elevated finance costs during the period. The equity came under pressure during FY20 due to import restrictions, however, it is gradually getting stable on the back of improving profitability. Currently, the Company’s equity stood at PKR 25.3mln at the end of Jun’22.

The Rating is dependent on sustaining its market share and prudent management of the working capital. While 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	Madiha International (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 Madiha International (Pvt) Limited (“MIPL” or “the Company”) was established in 2016 as a private limited Company registered with SECP under Companies Act, 2017.

Background The Company is primarily engaged in the import of paper; sizing, cutting and trading of printer paper in the local market. The Company has its head office situated in Karachi.

Operations The Company operates under three directors who are also the owners of the Company. Since its inception the Company is engaged in the trading of printer papers and providing to the local industry in Pakistan. The Company is enjoying good market reputation, situated in Sindh, Pakistan mainly in Karachi. The Company does not have any non-current assets and does not intend to have any CAPEX in near future. All sales of the Company are direct sales and no dealers are involved in the chain. The Company’s revenue is in constant growth since FY19, except for FY20 where MIPL was in losses due to COVID-19.

Ownership

Ownership Structure The Company is owned by four shareholders having 25% stake each: i) Mr. Usman Saleem Bikiya. ii) Mr. Muhammad Bilal and remaining 50% with other family members.

Stability Being part of a group wherein tacit intergroup cooperation exists, bodes well for the rating.

Business Acumen The owners and directors of the Company have extensive relevant experience and insights concerning the packaging industry owing to their family background. Mr. Muhammad Bilal and Mr. Usman Saleem Bikiya are leading in dynamic ways based on business experience.

Financial Strength The light asset and high turnover base model of business have 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 the Company comprises three members who are also owners of the Company.

Members’ Profile Mr. Usman Saleem Bikiya is experienced personnel in the field of business, he is working with the Company since its inception and has made the Company a huge success. Mr. Muhammad Bilal graduated from the USA and has got vast experience in the field of business.

Board Effectiveness During 9MFY22, four official board meetings took place and all three directors attended the meetings where the agendas were discussed along with future meeting agendas laid down as well. The latest meeting was held on 15-Mar-22.

Financial Transparency The absence of an internal audit function further creates room for improvement in the corporate governance framework. Sajid & Co. Chartered Accountants is the external auditor of the Company. The auditor does not fall under the QCR rating list issued by ICAP. Room for improvement exists for financial transparency.

Management

Organizational Structure The Company has a lean organizational structure divided into three functional departments. Currently, the organizational structure is divided into three main functions namely; 1) Sales & Marketing 2) Human Resource 3) Accounts & Finance.

Management Team Mr. Muhammad Bilal is the CEO provides external assistance to the Company over financial matters. Mr. Usman Bikiya is one of the directors of the Company. There are 4-5 levels of hierarchy within each department which shows an adequate governance structure.

Effectiveness The Company structure is not complex making management of operations an easy and timely task. The BoD/Senior management holds major control of operations.

MIS The Company’s MIS generates Balance Sheets, Profit and Loss, and Cash flow statements on a monthly basis for the Board.

Control Environment The Company has not appointed any in-house audit team.

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 of the total market, while other materials such as tinplate and glass have relatively smaller sizes. Despite, the economic slowdown caused by the global pandemic of COVID-19, 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 materials (~100%). Therefore, volatility in exchange rates and international price trends has an impact on costs.

Relative Position The average market share (in terms of printing paper imports) of the Company remained at ~12% during FY22.

Revenues The Company has generated a topline of PKR 736mln in FY22 (FY21: PKR 342mln). Further, the Company showed staggering performance in FY22. Net profit of the Company in FY22 was 8mln while in FY21 it was PKR 15mln.

Margins The gross profits and net profit margin were reported at 12.2% and 1.0% respectively in FY22 (FY21: 12.7% and 4.4% respectively).

Sustainability The demand for printer paper in Banks and other organizations will remain on an increasing trend. Going forward, MIL will generate a healthy net income.

Financial Risk

Working Capital MIPL working capital management is supported through short-term running finance facilities obtained from different banks. The Net working capital days of the Company witnessed a significant decrease from 161 days in FY21 to 103 days in FY22. The Company’s inventory days stood at 82 days in FY22 (FY21: 3 days). The trade payables and trade receivable days of the Company in FY22 are 1 day and 22 days respectively. (FY21: 2 days, 159 days).

Coverages The Company’s interest coverage ratio showed no change from 5.5x in FY21 to 5.5x in FY22. However, the liquid cover increased from 3.2x in FY21 to 27.4x in FY22.

Capitalization The capital structure of the Company remained leveraged during FY22. The gearing ratio stood at 94.1% during FY22 vs 72.8% during FY21 on the back of increase in short-term borrowings.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Madiha International Pvt Limited Paper and Package	Jun-22 12M	Jun-21 12M	Jun-20 12M	Jun-19 12M
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A BALANCE SHEET

1 Non-Current Assets	5	-	-	-
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	426	67	240	142
<i>a Inventories</i>	331	2	4	4
<i>b Trade Receivables</i>	26	64	234	134
5 Total Assets	432	67	240	142
6 Current Liabilities	3	1	2	5
<i>a Trade Payables</i>	3	1	2	5
7 Borrowings	403	48	235	66
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	25	18	3	71
11 Shareholders' Equity	25	18	3	71

B INCOME STATEMENT

1 Sales	736	342	73	765
<i>a Cost of Good Sold</i>	(646)	(299)	(63)	(703)
2 Gross Profit	90	43	10	62
<i>a Operating Expenses</i>	(3)	(2)	(1)	(7)
3 Operating Profit	87	42	9	55
<i>a Non Operating Income or (Expense)</i>	0	-	-	-
4 Profit or (Loss) before Interest and Tax	87	42	9	55
<i>a Total Finance Cost</i>	(16)	(8)	(73)	(7)
<i>b Taxation</i>	(63)	(19)	(4)	(44)
6 Net Income Or (Loss)	8	15	(68)	3

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	(41)	23	5	12
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	(56)	15	(68)	4
<i>c Changes in Working Capital</i>	(290)	172	(103)	(60)
1 Net Cash provided by Operating Activities	(346)	187	(171)	(56)
2 Net Cash (Used in) or Available From Investing Activities	(6)	-	-	-
3 Net Cash (Used in) or Available From Financing Activities	355	(188)	169	16
4 Net Cash generated or (Used) during the period	3	(0)	(2)	(40)

D RATIO ANALYSIS

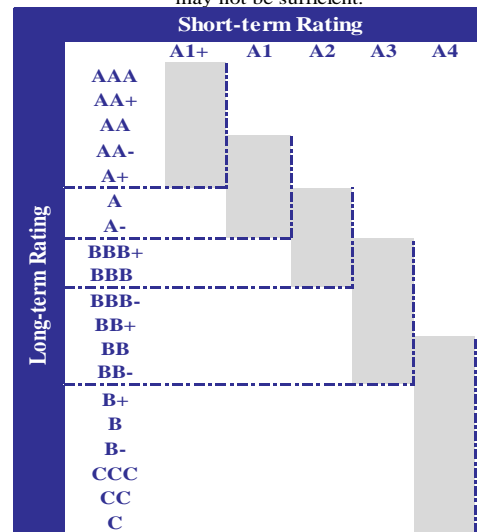
1 Performance				
<i>a Sales Growth (for the period)</i>	115.2%	365.6%	-90.4%	--
<i>b Gross Profit Margin</i>	12.2%	12.7%	13.9%	8.1%
<i>c Net Profit Margin</i>	1.0%	4.4%	-92.3%	0.4%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	-45.0%	57.0%	-133.4%	-6.4%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	34.8%	147.1%	-185.2%	4.7%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	105	162	936	66
<i>b Net Working Capital (Average Days)</i>	103	161	919	64
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	125.7	52.6	152.9	26.7
3 Coverages				
<i>a EBITDA / Finance Cost</i>	5.5	5.5	0.1	7.5
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	-2.6	3.0	0.1	1.6
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.0	0.0	0.0	0.0
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	94.1%	72.8%	98.9%	48.5%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	0.0	0.0
<i>c Entity Average Borrowing Rate</i>	9.8%	5.4%	48.2%	11.1%

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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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)

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