



The Pakistan Credit Rating Agency Limited

Rating Report

Madiha International (Pvt.) Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

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

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 businesses 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. 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 sponsors are one of the leading players in the imported paper market in Pakistan. During FY23, the company recorded a healthy topline driven by increased volumetric sales on the back of a strengthened customer base. Resultantly, the company scored good net profit. The financial matrix of the company is considered good. The working capital is managed through a mix of internal cash flows and short-term borrowings. At end-Jun23, the commercial short-term borrowings of the company registered a decline. A large portion of the total borrowings come from the sponsoring family and these are interest-free loans which gives a comfort on the financial costs. The equity came under pressure during FY20 due to import restrictions, however, it is gradually getting stable on the back of improving profitability. At end-Jun23, the equity base of the company witnessed a significant improvement. Hence, the leveraging of the company declined, providing a cushion to the assigned rating. During the period, in order to enhance financial transparency, the company has appointed a QCR-rated external auditor. However, the MIS of the company remains of adequate quality. Going forward, the management is changing its business strategy by selling to direct customers rather than wholesalers and distributors, this will have a positive impact on the margins of the company.

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. Moving forward, improvement in the governance and management framework remains of vital importance.

Disclosure

Name of Rated Entity	Madiha International (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 Usman Ameer usman.ameer@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 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.

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 The Board meetings are held on quarterly basis.

Financial Transparency The absence of an internal audit function further creates room for improvement in the corporate governance framework. The company has appointed Mushtaq & Co. Chartered Accountants as the external auditors of the company for FY23. The auditor is QCR rated by ICAP and rated B by SBP. Previously, the external auditors were Sajid & Co. Chartered Accountants.

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 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 The average market share (in terms of printing paper imports) of the Company remained at ~12% during FY23.

Revenues During FY23, the revenue of the company inclined to PKR 2,041mln (FY22: 736mln) attributable to strengthened customer base.

Margins During FY23, the gross margin of the company declined to 9.9% (FY22: 12.2%) mainly due to expensive imports. The operating margin of the company witnessed a similar trend clocking in at 9.4% (FY22: 11.8%). The finance cost of the company increased to PKR 47mln (FY22: PKR 16mln) owing to the increase in the policy rate. However, the net income of the company was recorded at PKR 41mln (FY22: PKR 8mln). However, the net margin inched to 2% (FY22: 1%) to strong topline.

Sustainability As per the management, the demand for printer paper in the corporate sector and other organizations will remain on an increasing trend. Going forward, MIL will generate a healthy net income.

Financial Risk

Working Capital At end-Jun23, the net working capital cycle days inched down to 18 days (end-Jun22: 21 days). Furthermore, trade assets of the company increased to stand at PKR 934mln (end-Jun22: PKR 356mln) owing to a higher trade receivable level clocking in at PKR 757mln (end-Jun22: 26mln). The company’s short-term borrowings are inclined to PKR 352mln (end-Jun22: PKR 403mln).

Coverages During FY23, the free cash flows inclined to PKR 118mln (FY22: PKR -41mln). The increasing policy rate led to higher finance costs clocking in at PKR 44mln (FY22: PKR 16mln). Hence, the interest coverage of the company improved to 2.6x (FY22: -2.6x) and the debt coverage inclined to 2.6x (FY22: -2.6x). Furthermore, the debt repayment period of the company is inclined to 3.9 years (FY22: -2.3 years).

Capitalization At end-Jun23, leveraging of the company decreased to 84.1% (end-Jun22: 94.1%) owing to a higher increase in the equity base clocking in at PKR 66mln (end-Jun22: PKR 25mln) attributable to enhanced profits. The borrowings of the company declined to PKR 352mln (end-Jun22: PKR 403mln).



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Madiha International (Pvt.) Limited Paper and Packaging	Jun-23 12M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	8	5	-	-
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	993	426	67	240
a Inventories	155	331	2	4
b Trade Receivables	757	26	64	234
5 Total Assets	1,001	432	67	240
6 Current Liabilities	583	3	1	2
a Trade Payables	582	3	1	2
7 Borrowings	63	271	48	235
8 Related Party Exposure	288	132	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	66	25	18	3
11 Shareholders' Equity	66	25	18	3
B INCOME STATEMENT				
1 Sales	2,041	736	342	73
a Cost of Good Sold	(1,840)	(646)	(299)	(63)
2 Gross Profit	201	90	43	10
a Operating Expenses	(9)	(3)	(2)	(1)
3 Operating Profit	192	87	42	9
a Non Operating Income or (Expense)	-	0	-	-
4 Profit or (Loss) before Interest and Tax	192	87	42	9
a Total Finance Cost	(47)	(16)	(8)	(73)
b Taxation	(104)	(63)	(19)	(4)
6 Net Income Or (Loss)	41	8	15	(68)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	118	(41)	23	5
b Net Cash from Operating Activities before Working Capital Changes	70	(56)	15	(68)
c Changes in Working Capital	22	(290)	172	(103)
1 Net Cash provided by Operating Activities	93	(346)	187	(171)
2 Net Cash (Used in) or Available From Investing Activities	(5)	(6)	-	-
3 Net Cash (Used in) or Available From Financing Activities	(51)	355	(188)	169
4 Net Cash generated or (Used) during the period	36	3	(0)	(2)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	177.3%	115.2%	365.6%	-90.4%
b Gross Profit Margin	9.9%	12.2%	12.7%	13.9%
c Net Profit Margin	2.0%	1.0%	4.4%	-92.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	6.9%	-45.0%	57.0%	-133.4%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	89.6%	34.8%	147.1%	-185.2%
2 Working Capital Management				
a Gross Working Capital (Average Days)	70	22	159	915
b Net Working Capital (Average Days)	18	21	157	898
c Current Ratio (Current Assets / Current Liabilities)	1.7	125.7	52.6	152.9
3 Coverages				
a EBITDA / Finance Cost	4.4	5.5	5.5	0.1
b FCFO / Finance Cost+CMLTB+Excess STB	2.6	-2.6	3.0	0.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3.9	-2.3	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	84.1%	94.1%	72.8%	98.9%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	11.8%	9.8%	5.4%	48.2%

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.

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+	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	
BBB-	
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	
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	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility.
CC	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

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent