RATING REPORT

HKB Retail (SMC-Pvt.) Limited

REPORT DATE:
February 18, 2025

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		**Previous Rating**	
Rating Category	**Long -term**	**Short -term**	**Long -term**	**Short -term**
Entity	A-	A3	A-	A3
Outlook/Rating Watch	Stable		Stable	
Rating Action	*Reaffirmed*		*Reaffirmed*	
Rating Date	18 February, 2025		11 January, 2024	

COMPANY INFORMATION

Incorporated in 2016	**External auditors:** BDO Ebrahim & Co. Chartered Accountants
Private Limited Company	**CEO:** Mr. Shehryar Ahmed Buksh
Key Shareholders (with stake 5% or more):	
Mr. Shehryar Ahmed Buksh -100%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

VIS Rating scale
https://docs.vis.com.pk/docs/VISRatingScales.pdf

HKB Retail (SMC-Private) Limited

OVERVIEW OF THE INSTITUTION

HKB Retail (SMC-Private) Limited *(formerly Ahead Brands (SMC-Private) Limited)* is a Single Member Company registered under the (repealed) Companies Ordinance 1984, on June 23, 2016. The Company is principally engaged in the business of retail and e-commerce of branded apparels, shoes & accessories all over Pakistan. Presently, the Company is operating through 24 rented retail outlets in the country.

Profile of the CEO:

Mr. Shehryar Ahmed Buksh is the CEO of HKB Retail. He holds an MBA from the Lahore University of Management Sciences (LUMS), which he completed in 1995. Following his graduation, he joined the family business and played a key role in its diversification into brand management.

RATING RATIONALE

Corporate Profile

HKB Retail (SMC Pvt.) Limited ('HKB' or 'the Company') is a single-member company owned by Mr. Shehryar Ahmed Buksh. The Company is part of the HKB Group comprising of H. Karim Buksh Enterprises (AOP) and H. Karim Buksh (Pvt.) Limited in which the CEO holds approximately, 36% and 13% ownership, respectively. In 2010, Mr. Shehryar developed two brands, namely, 'Beechtree' and 'Pepperland' (rebranded as 'Beechtree Kids') catering to the apparel needs of women and children, respectively. In 2021, the Company launched its first online brand 'Morbagh' which has since been merged into as 'Beechtree'. HKB is principally engaged in retail and e-commerce of apparels, shoes and accessories. The Company currently operates 24 retail outlets spread across 13 cities including Lahore, Karachi, Islamabad and Peshawar with their registered office located in Peshawar.

Sector Update

The erosion of household purchasing power, exacerbated by record-high inflation and stagnant wages, continues to weigh heavily on Pakistan's retail sector. While inflation, which peaked at 38% in May 2023, has receded to around 4% by December 2024, the impact of two years of economic hardship has left many families unable to engage in discretionary spending. This has impacted the living standards, curbing demand for non-essential goods and services.

The State Bank of Pakistan's aggressive monetary tightening, which pushed interest rates to 22% in mid-2023, has since been reversed, with the policy rate dropping to 12% by January 2025. Although these measures have eased financial conditions, the combination of high unemployment, underemployment, and limited wage growth continues to constrain consumer spending.

Wholesale and retail trade, which constitutes 17.7% of Pakistan's GDP and nearly one-third of its services sector, showed marginal growth of 0.4% in FY24, recovering from a contraction of 4.4% in FY23. Despite the easing of import restrictions improving product availability, stagnant demand remains a major challenge for the sector. Despite the challenges, Pakistan's retail market has shown resilience through adaptation. Many retailers have introduced rebate plans and installment options via online banking and non-banking platforms, enabling middle- and upper-middle-class consumers to stretch their budgets for apparel, beauty products, confectioneries, and dining experiences. Shopping remains a therapeutic activity for many, with secure malls offering a popular outlet for leisure and retail therapy. At the same time, new brands and retail chains have entered the market, demonstrating confidence in Pakistan's economic potential. Analysts note that the country's large, dynamic middle class and growing adoption of technology are driving this trend.

As per Statista, the apparel market in Pakistan presents a mixed outlook for 2025, with revenue expected to reach US$5.66 billion. However, the sector faces challenges, as it is projected to experience a compound annual growth rate (CAGR) of -2.33% between 2025 and 2029, indicating a potential contraction over the medium term.

<u>Key Rating Drivers</u>

Recognized Retailer in Women's Apparel Category

HKB has established itself as a notable player in the women's apparel category under the brand name, competing alongside industry leaders such as Sapphire, Khaadi and Ethnic. These brands are widely recognized for their strong market dominance, largely driven by their extensive local and some international presence. HKB is actively reinforcing its market position through a shift in the product mix, aimed at aligning with evolving consumer preferences and expanding its retail presence. As part of the growth strategy, HKB has 24 established retail outlets across 13 cities and is on track to increase their footprint to 30 outlets by 2027. This expansion will further strengthen its brand visibility, improve access to a broader customer base and capitalize on emerging opportunities.

Marginal Decline in Sales Due to Lower Volumetric Offtake; Slight Recovery in 1HFY25 Driven by Shift in Product Mix

In FY24, the Company's sales declined by 11%, reaching PKR 7.3 billion (FY23: PKR 8.2 billion). This decrease was primarily attributed to a reduction in overall volumetric sales, particularly in the unstitched segment, as market preferences shifted towards pret (ready to wear apparel). In response, during the ongoing fiscal year, HKB shifted its product mix to focusing more on pret collections to align with the evolving consumer demands.

In terms of volume, overall sales declined in FY24. The unstitched segment's volume fell by 25% (FY23: +25%), while the pret segment's volume declined by 23% (FY23: +13%). In terms of product mix, the unstitched segment contributed 53% of total sales (FY23: 50%) and the pret segment accounted for 28% (FY23: 30%).

Furthermore, a breakdown of sales by brand shows the contribution of each brand has remained consistent over the years. 'Beechtree' accounted for 85% of total sales (FY23: 84%), while 'Pepperland' ('Beechtree Kids') contributed 15% (FY23: 16%). Segment-wise, total retail sales increased to 66.5% of overall sales (FY23: 63.6%) driven by strong retail performance in the North, where the Company's shift towards pret proved successful. Conversely, online sales declined to 33.5% (FY23: 36.4%), as the online segment continues to focus primarily on the unstitched category.

In 1HFY25, HKB sales increased to PKR 4.3 billion, compared to Rs 4.1 billion in 1HFY24, driven by improved performance in the higher-margin, pret collection. Going forward, the management expects sales to reach PKR 8.7 billion in FY25.

Improvement in Profit Margins amid Shift in Product Mix

Gross profit margin increased to 44.7% in FY24 (FY23: 42.1%), driven by the higher margin associated with the pret segment, which outperformed the unstitched segment despite the overall sales decline. As a result, operating profit increased to PKR 875 million (FY23: PKR 769 million), leading to an improvement in operating profit margin to 12% (FY23: 9.4%). This increase in operating profit margin was primarily attributable to the higher gross profit margin, while distribution, selling and administrative expenses remained in line with the overall sales decline.

Moving further down the income statement, the finance costs increased to PKR 635 million in FY24, (FY23: PKR 523 million), primarily due to an increase in short-term debt. Despite this increase, higher operating profit led net profit for FY24 to PKR 232 million (FY23: 197 million) thus improving net profit margin to 3.2% (FY23: 2.4%).

In 1HFY25, gross profit margin improved to 40.4% compared to the SPLY. While operating profit margin followed a similar trend, net profit margin did not experience the same growth due to higher finance costs, increased taxation and lower other income relative to the SPLY.

Looking ahead, the Company expects gross profit margin to remain stable in FY25, with a slight improvement in net profit margin.

Adequate Cash Flow, Debt Coverage and Liquidity Profile
In FY24, Funds from Operations (FFO) increased to PKR 768 million (FY23: PKR 541 million), primarily driven by higher profits during the year. As a result, FFO to long-term debt improved significantly to 177.3% (FY23: 87.2%), while FFO to short-term debt demonstrated a marginal improvement due to additional short-term debt. In IHFY25, annualized FFO amounted to PKR 551 million, resulting in a notable decrease in both FFO to long-term debt and FFO to short-term debt.

Moreover, in FY24, the Company maintained an adequate Debt Service Coverage Ratio (DSCR) at 1.44x (FY23: 1.33x) however, during the 1HFY25 DSCR reduced to 1.02x (FY24: 1.44x) due to incidence of higher current portion of debt relative to FY24.

In FY24, the Company maintained an adequate liquidity profile, with the current ratio improving slightly to 1.11x (FY23: 1.03x), supported by equity support from sponsors, however, since majority of the funds were channeled towards lending to related parties, liquidity profile remained largely constrained. Short-term debt coverage declined to 1.74x (FY23: 2.51x), reflecting a rise in short-term debt relative to trade receivables and inventory. Additionally, the net operating cycle lengthened to 166 days (FY23: 102 days), primarily due to a decrease in payable days. In 1HFY25, the liquidity profile exhibited a marginal improvement through the current ratio.

Going forward, enhancing cash flow coverage and optimizing working capital management will be important for the assigned ratings.

Capitalization Indicators Remain Elevated
Over the years, capitalization has registered an improvement albeit remaining elevated. By the end of FY24, equity had grown to PKR 1.7 billion (FY23: PKR 1.3 billion), primarily driven to profit retention and an increase in the interest-free long-term loan from the sponsor, which rose by PKR 136 million to PKR 635 million (FY23: PKR 499 million). However, on the other hand, receivables from related parties grew by PKR 204 million to stand at PKR 352 million at end-FY24. Resultantly, the adjusted equity stood at PKR 1.3 billion (FY23: PKR 1.5 billion). Furthermore, total debt increased to PKR 2.1 billion (FY23: PKR 1.9 billion) with an increase in short-term debt to PKR 1.7 billion (FY23: 1.3 billion). although the Company's debt increased, its gearing and leverage ratios improved to 1.27x (FY23: 1.49x) and 2.33x (FY23: 3.83x), respectively with growth in equity. However, despite this improvement, the leverage ratio remains on the higher side.

At end-1HFY25, equity grew marginally, with total debt also rising due to additional short-term debt. Consequently, gearing increased slightly to 1.30x (FY24: 1.27x), while leverage inched down to 2.11x (FY24: 2.33x), supported by a reduction in total liabilities. Going forward, successfully implementing the forecasted plans will be crucial from a ratings perspective.

HKB Retail (SMC-Pvt.) Limited Annexure I

FINANCIAL SUMMARY					*(amounts in PKR millions)*
BALANCE SHEET	**FY21**	**FY22**	**FY23**	**FY24**	**1HFY25**
Fixed Assets	552	796	1,279	1,178	1,204
Stock-in-Trade	1,627	2,610	3,303	2,840	3,016
Trade Debts	47	145	63	125	91
Cash & Bank Balances	43	86	10	25	29
Total Assets	3,167	4,809	6,360	5,616	5,395
Trade and Other Payables	944	1,692	2,012	1,077	821
Long Term Debt	260	347	621	433	418
Short Term Debt	759	945	1,340	1,703	1,831
Total Debt	1,019	1,292	1,961	2,136	2,249
Sponsor's Loan	17	290	499	635	635
Total Equity	443	910	1,316	1,684	1,735
Adjusted Equity (Adjusted for Related Party Transaction)	406	862	1,167	1,332	1,735
INCOME STATEMENT					
Net Sales	4,583	6,620	8,209	7,279	4,341
Gross Profit	1,871	2,512	3,457	3,252	1,752
Operating Profit	356	563	769	875	455
Profit After Tax	160	193	197	232	51
RATIO ANALYSIS					
Gross Margin (%)	40.8%	37.9%	42.1%	44.7%	40.4%
Net Margin (%)	3.5%	2.9%	2.4%	3.2%	1.2%
FFO	414	510	541	768	275
FFO Annualized	414	510	541	768	551
FFO to Total Debt (%) *	40.7%	39.5%	27.6%	36.0%	24.5%
FFO to Long Term Debt (%) *	159.6%	147.0%	87.2%	177.3%	131.6%
Current Ratio (x)	0.95	1.03	1.03	1.11	1.13
Debt Servicing Coverage Ratio (x) *	2.06	2.06	1.33	1.44	1.02
Gearing (x)	2.30	1.42	1.49	1.27	1.30
Leverage (x)	6.14	4.28	3.83	2.33	2.11
ROAA (%) *	6.0%	4.8%	3.5%	3.9%	1.9%
ROAE (%) *	43.1%	28.5%	17.7%	15.5%	5.9%
(Stock in Trade + Trade Debts) / Short Term Borrowings	2.20	2.91	2.51	1.74	1.70
Net Operating Cycle	96	90	102	166	159

REGULATORY DISCLOSURES Annexure II

Name of Rated Entity	HKB Retail (SMC-Pvt.) Limited
Sector	Retail-Clothing
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see table below
Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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Due Diligence Meetings Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Outlook/Rating Watch	Rating Action
18-02-2025	A-	A3	Stable	Reaffirmed
11-01-2024	A-	A3	Stable	Reaffirmed
30-09-2022	A-	A3	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Muhammad Umer Junaid	CFO	January 02, 2025
Mr. Aamir Sohail	Senior Manager Finance	