

HKB RETAIL (SMC – PRIVATE) LIMITED

Analyst:

M. Amin Hamdani
amin.hamdani@vis.com.pk

RATING DETAILS

RATINGS CATEGORY	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A-	A2	A-	A3
RATING WATCH/OUTLOOK	Stable		Stable	
RATING ACTION	Upgrade		Reaffirmed	
RATING DATE	April 07, 2026		February 18, 2025	

Shareholding (5% or More)

Mr. Shehryar Ahmed Baksh - ~100%

Other Information

Incorporated in 2016
Private Limited Company
Chief Executive: Mr. Shehryar Ahmed Baksh
External Auditor: BDO Ebrahim & Co. Chartered Accountants

Applicable Rating Methodology

VIS Entity Rating Criteria Methodology – Corporates Ratings
<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

Rating Scale

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Rating Rationale

The assigned ratings reflect HKB's established brand presence in the women's apparel segment and sustained focus on the higher-margin Pret line, which has helped stabilize revenue despite moderate contraction in volumes. Higher average selling prices partially offset the decline in volumes and supported gross margins, while net margins benefitted from reduced finance costs and taxation. The Company's capital structure remained moderately leveraged, with short-term borrowings comprising the bulk of the debt profile. Debt coverage ratios improved underpinned by lower finance costs, while liquidity remained adequate relative to higher working capital requirements. Going forward, improvement in liquidity and revenue stability will remain key credit considerations.

Company Profile

HKB Retail (SMC – Private) 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 H. Karim Buksh Enterprises (AOP) and H. Karim Buksh (Pvt.) Limited in which the CEO holds ~36% and ~13% ownership, respectively. HKB is principally engaged in retail and e-commerce of apparel, shoes and accessories. In 2010, Mr. Shehryar developed two brands, namely, 'Beechtree' and '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 'Beechtree'. The Company currently operates 23 retail outlets spread across 13 cities including Lahore, Karachi, Islamabad and Peshawar with their registered office located in Peshawar.

Management and Governance

Mr. Shehryar Ahmed Buksh serves as CEO and oversees the strategic direction of the Company. He holds an MBA from Lahore University of Management Sciences (LUMS). Operational management is supported by Ms. Kehkashan Raza (COO), who leads the design function. The organizational structure comprises segregated design, sourcing and production teams for the Pret, Unstitched and Beechtree Kids segments, providing specialization across product lines. The management team comprises experienced professionals, while the Company has implemented a fully integrated ERP system to support operational efficiency and internal controls.

Business Risk

INDUSTRY UPDATE

The Pakistani retail clothing sector is a strategically important segment within one of Pakistan's largest industries, primarily dealing in ready-to-wear (RTW)/Pret, home textiles and fashion apparel. Retailers serve both domestic consumers and the overseas Pakistani diaspora through a combination of physical stores and growing online channels, reflecting a diversified distribution footprint. Retail demand continues to be influenced by demographic growth, urbanization and sustained consumer preference for branded and Pret products.

The sector is showing signs of structural normalization in early FY26 following the sharp inflationary shocks in FY23. Headline inflation peaked at 38% in May 2023 (Pakistan Bureau of Statistics), contributing to a 4.4% contraction in wholesale and retail trade during that fiscal year, according to the State Bank of Pakistan (SBP). The contraction weakened discretionary consumer demand and slowed inventory turnover, placing pressure on retail cashflows and working capital.

Macroeconomic conditions have since stabilized, although residual cost pressures persist. Headline inflation rose to 7.0% in February from 5.6% in December 2025, primarily driven by higher fuel and utility costs. Core inflation, a key indicator for underlying cost trends, remained at 7.6%, indicating that manufacturing and distribution costs for apparel have not fully adjusted to the easing of headline inflation. On a sectoral basis, wholesale and retail trade is expected to record real GDP growth of 3.75%-4.75% in FY26, supported by a broader industrial recovery, with Large-Scale Manufacturing expanding 4.8% during 1HFY26.

These macroeconomic conditions directly influence retail operations, particularly regarding cost management, seasonality and supply chain flexibility. Retailers operate with relatively high fixed costs, including store rentals, marketing and inventory financing. Seasonal revenue concentration around festivals such as Eid, weddings and summer continue to shape cashflow patterns, while reliance on domestic manufacturers or third-party vendors limits cost flexibility during economic downturns.

Competitive dynamics are increasingly favorable to vertically integrated Tier-1 retailers. Under FBR regulations, a Tier-1 retailer is defined by operational thresholds, including shop size exceeding 1,000 sq ft, annual electricity consumption over PKR 1.2 million or operation within an air-conditioned mall. These entities are required to integrate POS systems within the FBR. They are also subject to a standardized 18% sales tax (GST), up from 15% in FY24, introducing a 300 basis point increase has introduced a tax push on retail prices and is testing consumer price sensitivity in a market currently valued at ~USD 5.88 billion (Statista).

The transition to the Normal Tax Regime comprising 29% corporate tax plus up to 10% Super Tax has implications for overall profitability and leverage, though it does not directly affect working capital. For Tier-1 retailers with significant input tax, delays in GST refunds, often extending six to ten months, can tie up cash and increase reliance on short-term commercial financing. While digital payment penetration supports operational efficiency, processing roughly 88% of retail transactions, fixed costs such as energy tariffs and rental obligations continue to compress margins.

Overall, while macro stabilization has restored baseline demand, credit fundamentals remain contingent on operational scale, vertical integration and the ability to absorb the 18% GST without eroding consumer demand. Retailers that can efficiently manage working capital, maintain high inventory turnover and leverage structural advantages in Tier-1 operations are better positioned to sustain profitability and manage credit risk through FY26.

PROFITABILITY

In FY25, HKB's gross sales declined by ~5% year-on-year (YoY), primarily due to a ~20% decline in volumes. Net sales, however, remained largely stable at PKR 7.1 billion (FY24: PKR 7.3 billion), supported by an increase in average selling prices (ASP). The sales tax rate increased from 15% to 18%, leading to a rise in tax incidence, a portion of which was absorbed by the Company during the year.

Though the Company continued to prioritize the Pret segment in line with market trends, the Pret segment declined by 11% YoY in volumetric terms, while Luxury Pret volumes increased by 2%, and the Unstitched segment recorded a 22% decline. In terms of contribution to net sales, the Unstitched segment remained the largest at 49% (FY24: 53%), whereas Pret and Luxury Pret contributed 26% (FY24: 21%) and 5% (FY24: 4%), respectively.

Brand wise contribution remained consistent as 'Beechtree' constituted 86% (FY24: 85%) of net sales whereas 'Pepper Land' reported 14% contribution (FY24: 15%). Online sales contribution remained unchanged at 33%.

In FY25 gross and operating margin remained stable at 44.9% (FY24: 44.7%) and 11.8% (FY24: 12.0%), respectively. Finance costs declined to PKR 490 million (FY24: PKR 635 million) supported by lower interest rates compared to FY24. Resultantly, net margin improved to 4.1%, up from 3.2% during FY24.

During 1HFY26, net sales increased to PKR 4.6 billion compared to PKR 4.3 billion in the corresponding period last year, supported by the higher-margin Pret segment. Gross margin declined to 38.0% (1HFY25: 40.4%) amid elevated input costs with the resulting margin pressure translated into a lower operating margin of 8.3% (1HFY25: 10.5%). However, net margin improved to 3.1% (1HFY25: 1.2%), mainly due to lower finance costs stemming from reduced debt levels and lower taxation charges during the period.

Going forward, sales are expected to witness growth, supported by selective outlet renovations and relocations aimed at improving visibility of HKB outlets. Margins are also expected to improve, supported by favorable product mix and increasing contribution from the higher margin Pret segment.

FINANCIAL RISK

CAPITAL STRUCTURE

The Company's capital structure remains moderately leveraged. At end-FY25 equity base strengthened with further improvement at end-1HFY26, reaching PKR 2.1 billion (FY25: PKR 2.0 billion). This growth was supported by profit retention and a continued interest-free, long-term loan from the sponsor. Total debt marginally declined owing to higher principal repayments relative to fresh mobilization of long-term debt. Consequently, gearing and leverage improved to 0.95x (FY25: 1.14x) and 1.76x (FY25: 2.04x) at end 1HFY26, respectively. Debt profile remained dominated by short-term borrowings, primarily utilized to finance working capital requirements. Going forward, the Company's capital structure is anticipated to remain largely stable, underpinned by steady internal cash generation and routine CAPEX.

DEBT COVERAGE & LIQUIDITY

Liquidity profile remained adequate, with the current ratio recorded at 1.08x at end-FY25 (FY24: 1.11x), reflecting higher working capital requirements associated with the Company's retail operations. At end-1HFY26, liquidity indicators improved, with the current ratio rising to 1.16x and the short-term debt coverage ratio increasing to 2.11x (FY25: 1.85x), supported by improved internal cash generation and moderation in short-term borrowings relative to same period last year (SPLY). The net operating cycle shortened to 141 days at end-1HFY26 (FY25: 200 days). Liquidity remains adequate to support operational requirements; however, continued positive trend will remain important from the rating perspective.

Debt servicing capacity improved at end-FY25 and 1HFY26. Funds from Operations (FFO) moderated at end-FY25 to PKR 753 million (FY24: PKR 795 million) and the annualized FFO at end-1HFY26 declined to PKR 644 million. However, FFO to long-term borrowings strengthened to 2.30x at end-FY25 (FY24: 1.83x) and remained at 2.29x at end-1HFY26, driven by reduction in long-term borrowings. The Debt Service Coverage Ratio (DSCR) also improved to 1.83x at end-FY25 (FY24: 1.47x) and further to 1.89x at end-1HFY26, supported by lower finance costs. Going forward, debt servicing capacity is expected to improve further, supported by stronger cashflow generation.

FINANCIAL SUMMARY		(Amounts in PKR Million)			
BALANCE SHEET	FY22A	FY23A	FY24A	FY25A	1HFY26M
Property, Plant, & Equipment	796	1,279	1,178	1,516	1,422
Stock-in-Trade	2,610	3,303	2,840	3,283	3,445
Trade Debts	145	63	125	249	211
Cash & Bank Balances	86	10	25	70	46
Total Assets	4,809	6,360	5,616	5,985	5,836
Trade and Other Payables	1,692	2,012	1,077	1,288	1,393
Long Term Debt (Inc. Current Maturity)	347	621	433	328	281
Short Term Debt	945	1,340	1,703	1,914	1,731
Total Debt	1,292	1,961	2,136	2,242	2,012
Total Liabilities	3,899	5,045	3,932	4,014	3,723
Paid Up Capital	100	100	100	100	100
Total Equity	910	1,316	1,684	1,970	2,113
INCOME STATEMENT					
Net Sales	6,620	8,209	7,279	7,067	4,566
Gross Profit	2,512	3,457	3,252	3,174	1,734
Operating Profit	563	769	875	837	380
Profit Before Tax	329	265	316	408	193
Profit After Tax	193	197	232	287	142
RATIO ANALYSIS					
Gross Margin (%)	37.9%	42.1%	44.7%	44.9%	38.0%
Operating Margin (%)	8.5%	9.4%	12.0%	11.8%	8.3%
Net Margin (%)	2.9%	2.4%	3.2%	4.1%	3.1%
Net Working Capital	97	106	386	316	557
Trade debts/Sales *	2.2%	0.8%	1.7%	3.5%	2.3%
FFO	534	559	795	753	322
FFO to Total Debt (x) *	0.41	0.29	0.37	0.34	0.32
FFO to Long Term Debt (x) *	1.54	0.90	1.83	2.30	2.29
Debt Servicing Coverage Ratio (x) *	2.13	1.36	1.47	1.83	1.89
Current Ratio (x)	1.03	1.03	1.11	1.08	1.16
Stock + Trade Debts/STD	2.91	2.51	1.74	1.85	2.11
Gearing (x)	1.42	1.49	1.27	1.14	0.95
Leverage (x)	4.28	3.83	2.33	2.04	1.76
ROAA (%) *	4.8%	3.5%	3.9%	4.9%	4.8%
ROAE (%) *	28.5%	17.7%	15.5%	15.7%	13.9%
Net Operating Cycle *	90	102	166	200	141
*Annualized, if required A - Audited Accounts M - Management Accounts P - Projected Accounts					

REGULATORY DISCLOSURES

Appendix II

Name of Rated Entity	HKB Retail (SMC - Private) Limited				
Sector	Retail - Clothing				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Outlook/Rating Watch	Rating Action
	RATING TYPE: ENTITY				
	07/04/2026	A-	A2	Stable	Upgrade
	18/02/2025	A-	A3	Stable	Reaffirmed
	11/01/2024	A-	A3	Stable	Reaffirmed
	30/09/2022	A-	A3	Stable	Initial
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.				
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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Due Diligence Meetings Conducted	Name		Designation		Date
	Mr. Umer Junaid		CFO		March 11, 2026
	Mr. Noman Sunny		Company Secretary		