RATING REPORT

Pakistan Tiles (Pvt.) Limited

REPORT DATE:
May 18, 2022

RATING ANALYSTS:

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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	BBB+	A-2
Rating Outlook	*Stable*	
Rating Action	Initial	
Rating Date	*May 18, 2022*	

COMPANY INFORMATION

Incorporated in 2016	**External auditors:** PKF F.R.A.N.T.S. Chartered Accountants.
Private Limited Company	**CEO:** Chaudhary Yaqoob Hussain
Key Shareholders (with stake 5% or more):	
Chaudhary Yaqoob Hussain – 78.7%	
AR Chaudhary Industries (Pvt.) Limited – 21.1%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Pakistan Tiles (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Pakistan Tiles (Pvt.) Limited was incorporated as a private limited company on October 28, 2016 under the Companies Ordinance 1984 (now the Companies Act, 2017). The company is principally engaged in manufacturing of ceramic and porcelain tiles and related products. Registered office of the company is located at 200 A-1 Main Ferozepur Road, Lahore and production plant is located at 48.5 km Multan Road, Bhai Pheru, District Kasur, Punjab.

Financial Snapshot

Tier-1 Equity: *end-FY21: Rs. 1.2b; end-FY20: Rs. 856.3m; end-FY19: Rs. 827.7m.*

Assets: *end-FY21: Rs. 2.8b; end-FY20: Rs. 2.4b; end-FY19: Rs. 2.4b.*

Profit After Tax: *FY21: Rs. 360.2m; FY20: Rs. 28.7m; FY19: Rs. (292.3)m.*

RATING RATIONALE

Pakistan Tiles (Pvt.) Limited (PTPL) is involved in manufacturing of ceramic and porcelain tiles, primarily distributed through its associated concern. PTPL is a part of Abu Yousaf Group, mainly engaged in retail trading of wide range of local and imported sanitary items, ceramic and porcelain tiles, kitchen ware and home office furniture for more than two decades. The company started commercial operations in July 2018 and net revenue has depicted a sizeable growth since then on a YoY basis due to already established and growing customer base. Gross margins improved notably in FY21 on account of economies of scale and higher average rates of premium tiles, which contributed nearly half to the topline. Liquidity position improved in line with higher FFO and is considered adequate in terms of cash flow coverages. The leverage indicators are also considered manageable. The management expects profit margins to remain largely intact as increasing costs of imported raw material along with fuel and power are passed on to customers as there is a significant price differential between local and imported tiles. However, any relaxation in regulatory import duties on raw material may have negative connotation for the local industry. The ratings will remain dependent on increase in revenue, adequate coverages and further improvement in capitalization indicators as projected by the management.

Key Rating Drivers

Company's overview: Abu Yousaf Group has been engaged in the business of retail trading for more than twenty years, under the banners of Abu Yousaf Traders and Al-Raheem Traders. Abu Yousaf Traders is a sole proprietorship, owned by Ch. Yaqoob Hussain. Display centers are located at Lahore, Rawalpindi and Faisalabad. The sponsors intend to expand its retail coverage in other major cities of Pakistan within a span of one year. AR Chaudhary Industries (Pvt.) Limited (ARCIL) is another company operating under the umbrella of Abu Yousaf Group that is involved in manufacturing of Jacuzzis and processing of tiles for large panels. ARCIL is located on a farmhouse, with an area of 37.5 acres, owned by the sponsoring family.

PTPL was incorporated in 2016 and started commercial operations in July, 2018. The company inducted technical experts from Spain, Italy and China for the plant commissioning process and training of local staff. The company has an installed production capacity of 40,000 square meters of tiles per day. PTPL is equipped to produce multiple sizes of wall and floor tiles with different surface finishes of matt, glossy, 3-D punched, embedded in wide range of designs and colors. Complete plant and machinery for ceramic and porcelain tiles was imported from China including hydraulic press, kilns, ball mills, spray dryers, crushers, digital inkjet machines, glazing lines, polishing line and gloss firing machines. To maintain high quality standards, PTPL has imported advanced ceramic laboratory testing equipment. The plant is capable to manufacture tiles conforming European quality standards at a reasonable price.

Some major local manufacturers include Master Tiles & Ceramic Industries, Time Ceramics Ltd., Oreal Ceramics (Fuijan) Company Ltd., PTPL and Shabbir Tiles & Ceramics Ltd. Master Tiles has the largest capacity of 100,000 square meters tiles per day, followed by Times Ceramics of 80,000 square meters/day capacity, Oreal Ceramics of 60,000 square meters/day capacity and Shabbir Tiles of 30,000 square meters/day capacity. Some other companies involved in the manufacturing of ceramic sanitary ware and allied products also produce tiles. As per management, around 80% of the local demand is met though local production and the rest through imports. The government has imposed heavy regulatory duties of upto 55% on the import of tiles in order to protect the local industry. Meanwhile, the custom duty on the import of related raw material is only 0-2%.

Raw material procurement and power requirements: The main raw material for production of tiles is clay, which in terms of volume, constitutes around 90% of the material composition. However, in terms of value, clay costs less than one-fourth of the total purchases. Clay is largely purchased from local market while some types of clay are being imported. PTPL procured raw materials worth Rs. 1.04b (FY20: Rs. 642.8m; FY19: Rs. 739.7m) in FY21, out of which 81% (FY20: 77%; FY19: 82%) of the material was imported. Glaze/frit is one of the main imported raw materials that constituted 37% (FY20: 40%; FY19: 54%) of the total material cost. Other main components include tripoli, colors, and various chemicals. Average procurement cost of almost all materials increased in the outgoing year mainly due to rupee depreciation.

The plant has a total power requirement of 3.5 MW while operating at full capacity for which the company has a sanctioned load of 4.5 MW from the national grid. At current capacity utilization, the company requires power of 1.12 MW. The company has in place five Caterpillar generators having a total capacity 5 MW and five Jenbacher gas engines with 10 MW power capacity. The company has sanctioned gas of 0.96 MMcfd for these engines, which are used as backup power source. Capacity utilization of the company, albeit increased to 32% (FY20: 25%; FY19: 15%) in FY21 have remained low. The management expects the same to improve going forward on the back of increasing demand and brand recognition. Property, plant and equipment stood at Rs. 1.37b (FY20: Rs. 1.43b; FY19: Rs. 1.47b) at end-FY21. During FY21, plant and machinery of Rs. 24.9m (FY20: Rs. 56.7m; FY19: Rs. 812.6m) was added as a part of regular capex.

Growth in topline with notable improvement in profit margins in the outgoing year: During FY21, the company recorded higher net sales of Rs. 3.0b (FY20: Rs. 2.0b; FY19: Rs. 1.1b) on account of increase in quantity sold along with higher average rates of its premium range of tiles. The company distributes around 98% of its products through the related party concern, Abu Yousaf Traders. The product mix comprised five broad categories including Superior, Standard, Commercial, Project and Breakage sale. Superior category entails premium range of tiles offered by the company which constituted 44% (FY20: 34%; FY19: 42%) of the sales mix, followed by commercial and standard tiles contributing 30% (FY20: 31%; FY19: 18%) and 26% (FY20: 34%; FY19: 19%), respectively. Project category comprised lowest grade quality tiles with a minimal contribution. Breakdown of net sales with quantity and values is tabulated below:

	FY19		FY20		FY21	
Product mix	**Quantity (Square meters)**	**Value (million Rs.)**	**Quantity (Square meters)**	**Value (million Rs.)**	**Quantity (Square meters)**	**Value (million Rs.)**
Superior	781,672	484.1	888,288	680.5	1,562,984	1,315.6
Standard	323,257	218.2	971,169	689.8	1,123,697	766.5
Commercial	311,629	205.6	1,062,750	623.5	1,599,397	895.0
Project	351,677	225.1	1,562	1.0	0	0
Breakage Sale		6.5		25.8		25.5
Total	**1,139.5**		**2,020.6**		**3,002.5**	

Gross profit increased to Rs. 632.9m (FY20: Rs. 264.6m; FY19: Rs. (284.1)m) in FY21. The gross margins increased notably to 21.1% (FY20: 13.1%; FY19: NM) mainly on account of economies of scale and higher average selling prices of its premium tiles. Cost of sales increased to Rs. 2.4b (FY20: Rs. 1.8b; FY19: Rs. 1.4b) in FY21. Raw material consumed amounted to Rs. 1.1b (FY20: Rs. 846m; FY19: Rs. 618.2m) and accounted for 45% of the cost of goods manufactured (FY20: 48%; FY19: 43%). Fuel and power cost amounted to Rs. 976.0m (FY20: Rs. 782.3m; FY19: Rs. 637.9m) and accounted for 41% (FY20: 45%; FY19: 45%) of COGM. Salaries, wages and benefits also increased to Rs. 69.4m (FY20: Rs. 53.5m; FY19: Rs. 56.3m) in line with inflationary adjustments. Administrative expenses were recorded higher at Rs. 52.7m (FY20: Rs. 38.0m; FY19: Rs. 22.2m) mainly due to higher salaries and other benefits. Other expenses increased to Rs. 39.5m (FY20: Rs. 10.3m; FY19: Rs. 4.7m) due to higher contributions in employee related funds. Finance cost decreased to Rs. 87.9m (FY20: Rs. 176.1m; FY19: Rs. 105.3m) in line with decrease in borrowings and lower average markup rates during FY21. Accounting for taxation, net profit was recorded higher at Rs. 360.2m (FY20: Rs. 28.7m; FY19: Rs. (292.3)m) with increase in net margins to 12.0% (FY20: 1.4%; FY19: NM).

During 1HFY22, PTPL recorded net sales of Rs. 2b and projects to generate Rs. 3.7b on a full year basis. Gross margins are expected to remain largely intact despite increase in raw material cost due to local currency depreciation and hike in fuel cost, given the company's ability to pass its impact almost fully on to the final consumers. Meanwhile, net margins are projected to improve steadily with rationalization of operating costs. The management expects the topline to grow at a cumulative annualized growth rate of 23% over the three years period.

Adequate liquidity in terms of cash flow coverages: Liquidity position of the company has improved notably in the outgoing year in line with higher cash flows. Funds from operations (FFO) increased to Rs. 511.5m (FY20: Rs. 151.8m; FY19: Rs. (321.2)m) in FY21. Resultantly, FFO to total debt and FFO to long-term debt increased to 0.63x (FY20: 0.14x; FY19: NM) and 1.11x (FY20: 0.27x; FY19: NM), respectively. Debt service coverage has also improved to 2.96x (FY20: 1.04x; FY19: NM) due to higher cash flows and lower long-term repayments of Rs. 100m (FY20: Rs. 140m; FY19: Nil).

Stock in trade stood at Rs. 390.8m (FY20: Rs. 385.7m; FY19: Rs. 424.9m) at end-FY21. Raw material inventory amounted to Rs. 82.2m (FY20: Rs. 79.6m; FY19: Rs. 282.8m) and finished goods stock worth Rs. 308.1m (FY20: Rs. 304.9m; FY19: Rs. 141.0m) was held by the company at end-FY21. Trade debts increased notably to Rs. 481.1m (FY20: Rs. 8.5m; FY19: Rs. 2.0m) and as a percentage of net sales accounted for 16% in FY21. The receivables are considered good given majority of sales are made to the related party. Coverage of short-term borrowings via trade debts and stock in trade increased to 2.48x (FY20: 0.75x; FY19: 0.71x). Amount due from government with respect to recoverable taxes amounted to Rs. 239.0m (FY20: Rs. 300.8m; FY19: Rs. 339.7m). Current ratio improved slightly to 1.0x (FY20: 0.82x; FY19: 0.76x). Net operating cycle improved to 15 days (FY20: 39 days; FY20: 73 days) with increase in payables days outstanding along with improvement in inventory turnover. Trade and other payables increased to Rs. 658.4m (FY20: Rs. 304.0m; FY19: Rs. 141.9m) owing to increase in bills payable to Rs. 317.3m (FY20: Rs. 197.8m; FY19: Rs. 18.3m) and advances from customers to Rs. 203.0m (FY20: Nil; FY19: Rs. 3.4m); the advances were from Mente Tiles and Ceramics (Pvt.) Limited and Shafique Enterprises. Local material is procured on 30 to 45 days credit while majority of imports made on 190 days letter of credit. Going forward, liquidity indicators are projected to improve further in line with higher cash flows along with working capital management.

Improvement in capitalization indicators on the back of internal capital generation: Tier-1 equity increased to Rs. 1.2b (FY20: Rs. 856.3m; FY19: Rs. 827.7m) by end-FY21 on account of profit retention. Paid-up capital of the company amounted to Rs. 1.1b (FY20: Rs. 1.1b; FY19: Rs. 900m). The company funds its working capital requirements through short-term borrowings and trade and other payables. Short-term borrowings decreased to Rs. 351.9m (FY20: Rs. 526.2m; FY19: 600m) by end-FY21. The company funded larger proportion of its working capital requirements through extended credit periods from foreign suppliers. Long-term borrowings including current portion amounted to Rs. 460m (FY20: Rs. 560m; FY19: Rs. 700m). This pertains to term finance facilities of Rs. 700m obtained in FY19 to finance capital expenditure related to plant and machinery. During FY20, the company deferred repayment of principal component of these facilities under relief provided by State Bank of Pakistan for Covid-19. The gearing and debt leverage decreased to 0.67x (FY20: 1.27x; FY19: 1.57x) and 1.27x (FY20: 1.80x; FY19: 1.89x), respectively. Capitalization indicators are projected to improve further in line with augmentation in equity base due to profit retention along with scheduled repayment of long-term borrowings. Meanwhile, the management does not intend to mobilize any further long-term borrowing in the near future. The management also projects dependence on short-term borrowings to decrease owing to sufficient internal cash flows, going forward.

Pakistan Tiles (Pvt.) Limited — Annexure I

BALANCE SHEET	Jun 30, 2019	Jun 30, 2020	June 30, 2021
Property and Equipment	1,468	1,436	1,371
Stores, Spares and Loose Tools	23	129	198
Stock in Trade	425	386	391
Trade Debts	2	8	481
Taxes Recoverable	340	301	239
Other Assets	130	134	78
Total Assets	**2,388**	**2,394**	**2,759**
Trade and Other Payables	142	304	658
Short Term Borrowings	600	526	352
Long-Term Borrowings (incl. current maturity)	700	560	460
Total Interest-Bearing Debt	**1,300**	**1,086**	**812**
Other Liabilities	119	148	72
Total Liabilities	**1,560**	**1,538**	**1,543**
Paid Up Capital	900	1,130	1,130
Tier-1/ Total Equity	828	856	1,216

INCOME STATEMENT	Jun 30, 2019	Jun 30, 2020	Jun 30, 2021
Net Sales	1,140	2,021	3,003
Gross Profit	(284)	265	633
Operating Profit	(311)	216	541
Finance Cost	105	176	88
Profit Before Tax	(415)	40	453
Profit After Tax	(292)	29	360

RATIO ANALYSIS	Jun 30, 2019	Jun 30, 2020	Jun 30, 2021
Gross Margin (%)	-	13.1	21.1
Net Margins	-	1.4	12.0
Current Ratio	0.76	0.82	1.00
Net Working Capital	(247)	(176)	6
Funds from Operations (FFO)	(321)	152	512
FFO to Total Debt (x)	-	0.14	0.63
FFO to Long Term Debt (x)	-	0.27	1.11
Debt Leverage	1.89	1.80	1.27
Gearing	1.57	1.27	0.67
Debt Servicing Coverage Ratio (x)	-	1.04	2.96
ROAA (%)	-	1.2	14.0
ROAE (%)	-	3.4	34.8
(Stock in Trade+ Trade Debt) to Short-Term Borrowing (x)	0.71	0.75	2.48

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Annexure III

Name of Rated Entity	Pakistan Tiles (Pvt.) Limited
Sector	Construction
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	
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 Meeting/s Conducted	

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
18-05-22	BBB+	A-2	Stable	Initial

Due Diligence Meeting/s Conducted

Name	Designation	Date
Mr. Nasir Mehmood Raufi	CFO	January 17, 2022