RATING REPORT

BBJ Pipe Industries Limited (BBJP)

REPORT DATE:
October 25, 2022

RATING ANALYSTS:

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Rating Category	Initial Rating
Entity	BBB/A-2
Rating Date	October 25, 2022
Rating Outlook	*Stable*
Outlook Date	October 25, 2022

COMPANY INFORMATION	
Incorporated in 1991	**External auditors:** Iqbal Yasir & Co. Chartered Accountants
Public Unlisted Company	**Chairman of the Board:** Mr. Zubair Qayyum Butt
	Chief Executive Officer: Mr. Zubair Qayyum Butt
Key Stakeholders (with stake 5% or more):	
Zubair Qayyum Butt – 51.0%	
MST Nabila Zubair – 20.0%	
Ahmed Zubair – 15.0%	
Fatima Zubair – 7.0%	
Shaima Zubair – 7.0%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Industrial Corporates (August 2021) ***CorporateMethodology202108.pdf (vis.com.pk)***

BBJ Pipe Industries Limited (BBJP)

OVERVIEW OF THE INSTITUTION

BBJ Pipe Industries Limited (BBJP) was incorporated in Pakistan in 1991 as a private limited company and was later converted into a Public Unlisted company in 2013. BBJP is in the business of manufacturing and marketing of steel and polyethylene pipes and tubes. BBJP has a wholly owned subsidiary by the name of BBJ Steel Limited which deals in manufacturing of Cold Rolled Coild.

Mr. Zubair Qayyum Butt founded the company in 1991 and continues to serve as the Chairman & CEO of the company. Previously, Mr. Butt served in the armed forces for a period of 16 years. Later on, he achieved certification in Metallurgy from the UK and established BBJ Pipe Industries Limited. He also introduced the concept of API 5L Steel Line Pipes in Pakistan.

RATING RATIONALE

BBJ Pipe Industries Limited (BBJP) was incorporated in 1991 as a private limited company and was later converted into a public unlisted company in 2013. It is a family owned business primarily engaged in the manufacturing and supply of wide variety of pipes. The firm imports hot rolled coils and Polyethylene from countries like China, UAE and Saudia Arabia etc. and produces Steel & Polyethylene tubes and pipes of different sizes & specification according to customers and market need. These pipes are mainly used in construction industry, along with other industries such as water, oil & gas, automobile, furniture, houses, scaffolding etc. BBJP runs four main manufacturing units situated in Industrial estate in Chunian, Lahore as indicated in the table below. Registered and Regional office of the company are located in Lahore and Islamabad, respectively. BBJ Group consists of two main companies; BBJ Pipes Industries Limited and BBJ Steel Limited (BBJS). BBJS was a part of BBJP till FY18 and then it was separated as a separate legal entity (100% owned subsidiary of BBJP) in FY19.

BPIL's Manufacturing Units	
Unit 1	API-Steel Line Pipe & MS Pipes
Unit 2	Steel Tube & Hollow Sections
Unit 3	HDPE, MDPE & PPRC Pipes along with fittings
Unit 4	HDPE Fittings

The shareholding of the company is vested within the Zubair Family. Mr. Zubair Qayyum Butt holds 51% of the shares, Mrs. Nabila Zubair holds 20% and Mr. Ahmed Zubair holds 15% shareholding in the company. Ms. Shaima Zubair and Ms. Fatima, daughters of Mr. Zubair hold 7% shareholding each. Ratings derive comfort from three decades of relevant experience of the sponsors and financial support provided in FY20 in the form of interest free loans.

Product Portfolio and their uses –Steel Pipes & Tubes and Polyethylene Pipes

- API (American Petroleum Institute) 5L Steel Line pipe ranging from ½” to 12” for oil and gas applications
- MS (Mild Steel) Pipes ranging from ½” to 12” for water and other industrial applications
- Steel Tubes ranging from 5/8” to 6” with thickness range from 0.5mm to 3.5mm for construction, fabrication and automobile applications
- HSS (Hollow Structural Sections) ranging from ½” x ½” to 12” x 12” with thickness range from 0.8mm to 12.0mm for fabrication and structural applications
- Scaffolding Pipes in 48.3mm diameter for various scaffolding applications
- HDPE (High Density Polyethylene) Water Pipes from 16mm to 500mm diameter
- MDPE (Medium Density Polyethylene) Gas Pipes ranging from 20mm to 250mm
- HDPE Cable Duct Pipes ranging from 16mm to 250mm for fibre optic applications
- HDPE Fittings
- PPRC (Polypropylene Random Copolyme in simple words- Plastic) Pipes and Fittings ranging from 20mm to 100mm for hot and cold water applications

Capacity Utilization

Capacity utilization of both segments are on the lower side due to varying diameters of pipes manufactured. However, as per management, the company has sufficient capacity to cater projected increase in demand post destruction caused by floods. Furthermore, the company is also in the process of setting up a Galvanization unit in the medium-term in order to enhance value-addition in the offered product portfolio.

Steel	2019	2020	2021	2022
Capacity (MT)	150,000	150,000	150,000	150,000
Production (MT)	36,563	27,493	18,528	22,783
%	**24%**	**18%**	**12%**	**15%**

PE	2019	2020	2021	2022
Capacity (MT)	20,000	20,000	20,000	20,000
Production (MT)	2,197	1,173	3,443	3,648
%	**11%**	**6%**	**17%**	**18%**

High Business Risk

Steel sector is characterized by moderate to high business risk given the cyclical nature of the industry. During 2022, the industry faced significant volatility in steel prices where Hot Rolled Coil (HRC) prices tumbled down to an average of $600/MT as compared to highs of $1,100/MT with the resumption in supplies from China. Although raw material prices declined, sizeable weakening in rupee has maintained the landed cost of HRC in the review period.

The domestic steel tubes and pipes market size hovers around 750,000 MT being largely fragmented in nature as this industry consists of large number of small to medium sized manufacturers across the country. Some key competitors for BBJP include International Industries Limited (IIL), Bashir Pipes and Jamal Pipes.

Demand drivers for growth in the domestic steel sector going forward emanates from the commencement of second phase of CPEC, construction of 1,100 km gas pipeline from Karachi to Kasur (Pakistan Steam Gas Pipeline project with Russia), and multiple high-rise projects in the pipeline. Pakistan's average steel consumption is approximately 0.5 kg/capita whereas the world average is 6 kg/capita; this again indicates a substantial potential for growth in this segment. Imminent industry risks include inventory losses arising as a result of exchange rate volatility. Amidst monsoon flooding in Pakistan, the demand of variety of pipes & tubes is expected to further escalate due to the need of improving the country's infrastructure and rebuilding the residential and commercial areas.

Growth in topline largely attributable to volumetric increase in sales of steel pipes in the commercial segment

Sales Mix	2020	%	2021	%	2022	%
Steel						
Commercial	644	19%	1,620	49%	4,174	88%
Institutional	2,800	81%	1,658	51%	550	12%
Sub-Total	**3,444**	**91%**	**3,279**	**73%**	**4,723**	**79%**
PE						
Commercial	103	32%	406	33%	1,185	92%
Institutional	224	68%	822	67%	104	8%
Sub-Total	**327**	**9%**	**1,228**	**27%**	**1,289**	**21%**
Grand Total	**3,771**		**4,507**		**6,012**	
INSTITUTIONAL SALES						
Steel						
SNGPL	2,800	100%	1,484	90%	149	27%
SSGC	0	0	174	10%	401	73%
	2,800		**1,658**		**550**	
PE						
SNGPL	224	100%	822	100%	0	0%
SSGC	0	0%	0	0%	104	100%
	224		**822**		**104**	

Revenue base of the company reported a three year CAGR (FY19-FY22) of 19% with sales reported at Rs. 5.1b (FY21: Rs. 3.8b) in FY22. Of the total sales, around 79% was contributed by the Steel pipe segment while the remaining (21%) emanated from Polyethylene (PE) pipe segment in FY22. Sales revenue is directed towards wholesalers in the local market. Over the last two years, a change in sales mix has been noted with BBJP catering around 88% of the sales to commercial segment which used to be 19% of sales in FY20. Remaining institutional sales (SNGPL/SSGC) of 12% (FY20: 81%) are dependent on announcement of tenders floated by the Government. The sales shift was a deliberate strategy of the company to keep revenue base stable in times when GoP tender based orders are on the lower side and to support working capital cycle as payments from GoP are usually delayed. In terms of customer mix for institutional sales, volatility between two main customers is noticed which is dependent on tenders floated by respective companies.

Growth in domestic steel sales was attributable to strong marketing efforts supported by rebound in sales volumes last year with recovery noted in CR tubes used in automotive and general fabrication segments, and broad-based improvement in construction activities. API sales are contingent on tenders by the GoP, which the company foresees to witness an uptick close to the elections. The following illustration displays orders in hand to be catered over the next year:

Tender #	Description	Size	Volume (mtrs)	Total Value (mlns)	Status
SN 4324/21 (SNGPL)	MS Pipe	8"	12,573	101.7	Supplied in July 2022
SND 2293/22 (SNGPL)	PE	2"	500,000	401.9	Presently in process
SN 4330/22 (SNGPL)	MS Pipe	6"	187,250	1,123.8	Production to start from 01/10/2022
			699,823	**1,627.5**	

Furthermore, purchase orders are awaited for orders to the tune of Rs. 2b as depicted below. Timely commencement of awarded and expected projects is considered important to support revenue visibility profile of the company.

Tender #	Description	Size	QTY (Meters)	Total Value (In m)	Status
SND 2313 (SNGPL)	MS Pipe	4"	236,000	1,069	Financial Op. 12-08-22 PO Awaited
SND 2312 (SNGPL)	PE PIPE	1/4"	600,000	520	Financial Op. 12-08-22 PO Awaited
SSGC 1647734	PE Pipe	0mm	25,000	182	Financial Op. 03-08-22 PO Awaited
SSGC 1657744	MS Pipe	8"	30,000	316	Financial Op. 16-08-2022 PO Awaited
			891,000	**2,087.6**	

Shift towards commercial clients yielding economies of scale positively affected the profitability profile of the company

With lower reliance on tender based orders and gradual shift towards sales to commercial clients, profitability profile of the company has improved after incurring losses for two consecutive years as commercial sales are volume driven yielding economies of scale. Gross margins of the company were reported lower at 10.8% (FY21: 14.4%; FY20: 7.6%) in FY22 due to higher cost of raw materials because of rupee depreciation. Although international steel prices are following a downward trajectory in the ongoing year, dollar appreciation has nullified the benefit of RM cost decline. Hence, given expected order pipeline, management targets maintaining gross margins at current levels over the rating horizon. Selling and distribution expenses increased in FY22 amounting Rs. 17.3m (FY21: Rs. 2.3m) majorly on account of higher freight and forwarding charges due to change in business model. The company also recorded higher administrative expenses (FY22: Rs. 116.9m; FY21: Rs. 103.3m) on the back of inclined salary expense during the outgoing year. With lower gross margins, elevated operating expenses and higher financial charges on elevated debt, overall profitability profile of the company was affected with net margins reported lower at 1.6% (FY20: 2.1%) in FY22. Management forecasts increase in profits going forward on absolute terms supported by higher projected sales revenue. Ratings are underpinned on meeting projected profitability levels amidst high interest rate scenario dragging overall quantum of profits.

Adequate liquidity profile

With lower taxes paid in cash, Funds from Operations increased in FY22 to Rs. 230m (FY21: Rs. 104.4m) consequently improving cash flow coverages in relation to outstanding obligations despite higher debt levels. The same translated into Debt servicing Coverage Ratio, FFO to Total debt and FFO to Long Term Debt of 1.38x (FY21: 1.26x), 18.7% (FY21: 5.2%) and 62.1% (FY21: 22.2%) for FY22, respectively. Cash conversion cycle of the company has witnessed improvement due to shift in business model towards commercial clients who largely pay on time. Furthermore, gradual shift towards procurement from commercial importers to mitigate price volatility risk is expected to further relax working capital cycle. With sizeable orders on hand, inventory levels at end-June'22 are elevated. Ageing profile of trade debts is considered satisfactory with room for improvement. 66% of dues lie in the 0-90 day bucket and 30% are overdue for more than a year. Collection of the same is considered important. Current ratio of the company has remained above 1.00x over the past four years. Liquidity profile is also constrained on account of inadequate coverage of short-term borrowings through stock-in-trade and trade debts at 87% (FY21: 94%) at end-FY22. As per management, re-profiling of short-term debt to long-term is on the cards. Materialization of the same will be monitored. With projected increase in revenue base and consequent greater need of short-term borrowings to meet additional working capital requirements as a part of the business model; improving liquidity profile is considered a key rating sensitivity.

Elevated leverage levels due to higher working capital requirement. Ratings factor in projected improvement in the same through consistent profit retention.

Equity base of the company (excluding revaluation surplus) reported a three year CAGR (FY19-FY22) of 12% and was reported at Rs 1.6b (FY21: Rs. 1.5b, FY20: Rs. 1.3b) at end-June'22 due to profit retention. Debt profile of the company mainly comprises of short-term borrowings. Short-term debt was reported higher at Rs. 2.1b (FY21: Rs. 1.6b, FY20: Rs. 2.9b) at end-June'22 in order to fund the increase in inventory levels while long-term debt was recorded at a meager quantum of Rs. 0.3b (FY21: Rs. 0.4b, FY20: Nil). With elevated total debt levels, leverage indicators have trended upwards where gearing and leverage ratios stood at 1.59x (FY21: 1.38x, FY20: 2.21x) and 1.92x (FY21: 1.67x, FY20: 2.71x), respectively at end-June'22. With greater quantum of projected revenue, working capital requirements are expected in line. In view of the same, improving capitalization indicators through profit retention will be an important rating driver.

Sound internal control and IT framework; however room for improvement exists in governance structure given family members (owners) being the directors of the company.

Given the company's ownership vested with family members, Board composition comprises three owners including the CEO. Discussions at the Board and management level are convened on a regular basis with no formal documentation for the minutes of the same. Room for improvement exists through induction of external members in accordance to corporate governance best practices. Iqbal Yasir & Company, Chartered Accountants are the external auditors of the company who classify in Category C on the SBL Panel of Auditors.

BBJP has an independent internal audit department that reports directly to the CEO and COO. Scope of the function include conducting compliance of internal policies, timely preparation of reliable financial information, performs reliable financial reporting and emphasizes prevention and detection of fraud/error. The scope of work of the internal audit function also includes topics such as the efficacy of operations, the reliability of financial reporting, deterring and investigating fraud, safeguarding assets, and compliance with laws and regulations. There is no internal audit plan in place, however the company has defined internal audit Standard Operating Procedures (SOPs) for every process; employees are required to adhere to these SOPs.

On the Information Technology front, the company has deployed a completely integrated Oracle based ERP system. It is implemented since year 2011 with major modules including Sales, Purchase, Inventory, GL(Payable, Receivable), Fixed Asset & Payroll. As per management, BBJP is in the process of adding the HR module to the Oracle System over the rating horizon. On the back-up front, the IT division backup on servers, external driver and cloud twice a day. Disaster Recovery Plan is also in place in order to recover data (in case of a mishap) through a Standby Backup Server.

BBJ Pipe Industries Limited Appendix I

FINANCIAL SUMMARY	*(amounts in PKR millions)*			
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**FY22**
Fixed Assets	1,935.3	1,580.5	1,405.3	1,485.2
Stock-in-Trade	1,749.5	1,562.8	816.9	1,244.1
Trade Debts	188.7	429.6	645.9	576.4
Cash & Bank Balances	58.2	9.7	42.4	9.2
Total Assets	4,727.8	5,643.1	4,716.1	5,247.3
Trade and Other Payables	124.9	65.2	87.8	83.7
Long Term Debt	-	-	470.7	371.2
Short Term Debt	2,289.1	2,845.7	1,554.4	2,097.0
Total Debt	2,289.1	2,845.7	2,025.1	2,468.3
Total Liabilities	2,721.5	3,486.2	2,456.6	2,985.3
Tier 1 Equity	1,103.8	1,285.1	1,470.2	1,551.7
Paid-up Capital	728.9	728.9	728.9	728.9
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**FY22**
Net Sales	3,053.9	3,201.2	3,839.7	5,143.1
Gross Profit	(172.5)	243.6	551.7	555.1
Operating Profit/ (Loss)	(312.6)	131.3	421.4	410.1
Profit Before Tax	(584.5)	(119.6)	201.7	145.8
Profit After Tax	(418.4)	(88.5)	80.3	81.5
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**FY22**
Gross Margin (%)	-5.6%	7.6%	14.4%	10.8%
Net Margin (%)	-13.7%	-2.8%	2.1%	1.6%
Net Working Capital	71.7	42.3	556.8	383.9
FFO	(569.60)	(88.99)	104.4	230.4
FFO to Total Debt (%)*	-24.9%	-3.1%	5.2%	9.3%
FFO to Long Term Debt (%)*	-	-	22.2%	62.1%
Gearing (x)	2.07	2.21	1.38	1.59
Debt Leverage (x)	2.47	2.71	1.67	1.92
Debt Servicing Coverage Ratio (x)	-1.08	0.66	1.26	1.38
Current Ratio	1.03	1.01	1.27	1.14
(Trade Debts+ Stock in trade) / Short Term Borrowings	84.7%	70.0%	94.1%	86.8%

*** Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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	**Appendix III**				
Name of Rated Entity	BBJ Pipe Industries Limited				
Sector	Steel & Pipes Industry				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: ENTITY				
	25-10-2022	BBB	A-2	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	Mr. Muhammad Faisal Naseem- Chief Financial Officer- September 5th, 2022 Mr. Usman Ashraf- Manager Accounts- September 5th, 2022				