

RATING REPORT

BBJ Pipe Industries Limited (BBJP)

REPORT DATE:

March 31, 2023

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
Entity	BBB/A-2	BBB/A-2
Rating Date	March 31, 2023	October 25, 2022
Rating Outlook	Rating Watch Developing	Stable
Outlook Date	March 31, 2023	October 25, 2022
Rating Action	Maintained	Initial

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):	
<i>Zubair Qayyum Butt – 51.0%</i>	
<i>MST Nabila Zubair – 20.0%</i>	
<i>Abmed Zubair – 15.0%</i>	
<i>Fatima Zubair – 7.0%</i>	
<i>Shaima Zubair – 7.0%</i>	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (August 2021)
[CorporateMethodology202108.pdf \(vis.com.pk\)](#)

BBJ Pipe Industries Limited (BBJP)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
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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.

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. Total production capacity for the steel and polyethylene segments amount to 150,000MT and 20,000MT, respectively. 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	HIDPE, MDPE & PPRC Pipes along with fittings
Unit 4	HIDPE 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.

Rational for placement of ratings on Rating Watch-Developing.

The business and financial risk of the steel sector has increased on a timeline basis emanating from import restrictions, limited raw material coverage, soaring raw material prices, exchange rate volatility, and higher interest rates, resulting in inflationary pressures and a decline in demand in the construction, engineering, automobiles and infrastructure development projects. The ongoing situation is expected to persist in the mid-term impacting the financial risk profile of companies across the sector. Accordingly, VIS Credit Rating Company Limited (VIS) has placed the steel sector and the companies rated therein by VIS under 'Rating Watch' status.

The ratings will remain under Rating Watch based on the unfolding of the economic and market developments going forward and updated over time line according to availability of financial information.

BBJ Pipe Industries Limited

Appendix I

FINANCIAL SUMMARY				
<i>(amounts in PKR millions)</i>				
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				
	31-03-2023	BBB	A-2	Rating Watch Developing	Maintained
	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	NA				