

RATING REPORT

BBJ Pipe Industries Limited

REPORT DATE:

January 02, 2024

RATING ANALYSTS:

Saeb Muhammad Jafri

saeb.jafri@vis.com.pk

Muhammad Subhan

subhan@vis.com.pk

RATING DETAILS

Rating Category	Latest Rating	Previous Rating
Entity	BBB/A-2	BBB/A-2
Rating Date	January 02, 2024	March 31, 2023
Rating Outlook	Stable	Rating Watch - Developing
Rating Action	Maintained	Maintained

COMPANY INFORMATION

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

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates

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

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

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

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. The company's primary operations encompass the production and distribution of steel and polyethylene pipes and tubes. Additionally, BBJP maintains full ownership of a subsidiary, BBJ Steel Limited, which is engaged in the manufacturing of Cold Rolled Coils.

CEO and Chairman Profile: Mr. Zubair Qayyum Butt founded the company in 1991 and continues to serve as the Chairman & CEO of the company. His career includes a notable 16-year tenure in the armed forces, followed by a foray into academics where he obtained a certification in Metallurgy from United Kingdom. Leveraging this expertise, he established BBJ Pipe Industries Limited. Furthermore, Mr. Butt is credited with introducing the concept of API 5L Steel Line Pipes to the Pakistani market.

RATING RATIONALE

Corporate Profile

BBJ Pipe Industries Limited ("BBJP" or "the Company") 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 company specializes in manufacturing Steel & Polyethylene tubes and pipes, tailored to various sizes and specifications to meet customer and market demands. BBJP operates four major manufacturing units, located in the Industrial estate in Chunian, Lahore. The company's registered office is situated in Lahore, with a regional office in Islamabad.

BBJ Group consists of two main companies; BBJ Pipes Industries Limited and BBJ Steel Limited (BBJS), which was a part of BBJP until FY18, and was later separated as a separate legal entity (100% owned subsidiary of BBJP) in FY19.

Key Rating Drivers

High business risk profile characterized with higher financing and energy costs

The steel pipes and tube sector in Pakistan exhibits moderate to high business risk, primarily due to its cyclical nature. The industry's performance is intrinsically linked to the broader economic landscape, with demand significantly influenced by the construction sector's health and other key industries, including water, oil, gas, and automobile sectors. The industry has several players ranging from large integrated steel pipe manufacturing to smaller, specialized companies. Moreover, the competitive landscape, market concentration, and pricing dynamics affects the profitability and sustainability of business within the industry.

A significant cost factor in the manufacturing of steel pipes is the procurement of Hot Rolled Coils (HRC). These coils, predominantly imported from China, UAE, and Saudi Arabia, undergo processing into pipes through continuous or semi-continuous production lines to meet customer requirements. The sector is notably impacted by the heavy taxation on imported raw materials, encompassing customs duty and regulatory duty, which in turn affects product pricing and overall profitability.

In FY23, Pakistan's economy faced difficulties, including foreign exchange shortages that led to currency fluctuations and heightened inflation. The State Bank of Pakistan implemented contractionary measures to stabilize the economy, affecting sectors like construction, cement, and steel, resulting in reduced sales volumes and decreased capacity utilization. Currently, the sector is facing heightened financial pressures due to:

Higher Financing Costs: The State Bank of Pakistan's increased policy rates to 22%, which have led to rising finance costs, particularly impacting industries reliant on bank financing.

Elevated Energy Costs: Escalating gas and electricity prices have significantly influenced sales and profitability, leading to increased unit prices for steel products.

The short to medium-term outlook for Pakistan's steel sector remains apprehensive with uncertainty. The sector's recovery and future growth are contingent on industry reforms and government support measures, such as fuel price stabilization, efficient inventory management, reinforcement of import restrictions, and anti-dumping measures. However, growing urbanization and industrialization of water and wastewater transportation, oil and gas pipelines and construction projects may contribute to increased demand for application of steel pipes.

Growth in the Company's profitability, attributed to higher sales volumes and price increases.

In FY23, the Company reported an 18.9% growth in its topline. This growth, despite the import restrictions imposed by SBP and demand-supply constraints, is primarily attributable to higher growth in volumes and increase in sale prices. Moreover, BBJP managed to improve its gross margins in FY23 to 15.4% (FY22: 12.3%) mostly on account of inventory gains. However, this increase in gross margins did not translate into a commensurate rise on the bottom line. Net margins remained unchanged at 1.2% (FY22: 1.2%) due to an escalation in finance costs, attributed to an 825-basis-point increase in local policy rate during FY23.

Capitalization profile improved with reduced short-term debt drawdown during the year.

BBJP's capitalization profile reported improvement with a gearing ratio of 0.9x (FY22: 1.3x) and a leverage ratio of 1.3x (FY22: 2.0x). This improvement is attributed to decreased short-term debt utilization, a result of lower working capital requirements for the Company. This is supported by a sustained contraction in the cash conversion cycle to 118 days (FY22: 137 days).

The Company continues to maintain an adequate liquidity and coverage profile, despite operational constraints in FY23.

The Company has consistently maintained an adequate liquidity profile throughout the years which has remained commensurate with assigned ratings during the period under review. The current ratio was reported at 1.3x (FY22: 1.2x) in FY23. Meanwhile, heightened finance burden exerted pressure on the Company's ability to meet its debt servicing needs. The debt service coverage ratio (DSCR) deteriorated to 1.1x (FY22: 1.3x) in FY23, albeit remaining adequate for assigned ratings.

BBJ Pipe Industries Limited

Appendix II

REGULATORY DISCLOSURES					
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
	<u>RATING TYPE: ENTITY</u>				
	02-01-2024	BBB	A-2	Stable	Maintained
	31-03-2023	BBB	A-2	Rating Watch - Developing	Maintained
	25-10-2022	BBB	A-2	Stable	Initial
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	S.No.	Name	Designation	Date	
	1.	Mr. Sameem Ahmad	Chief Financial Officer	December 20, 2023	
	2.	Mr. Muhammad Mohsin Ehsan	Manager Accounts		