

RATING REPORT

BBJ Pipe Industries Limited

REPORT DATE:

January 20, 2025

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
Entity	BBB+/A2	BBB/A2
Rating Date	January 20, 2025	January 02, 2024
Rating Outlook/Rating Watch	Stable	Stable
Rating Action	Upgrade	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
<i>Mr. Zubair Qayyum Butt – 51.0%</i>	
<i>Ms. MST Nabila Zubair – 20.0%</i>	
<i>Mr. Ahmed Zubair – 15.0%</i>	
<i>Ms. Fatima Zubair – 7.0%</i>	
<i>Ms. Shaima Zubair – 7.0%</i>	

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

RATING RATIONALE

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.

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 a 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.

Industry Overview:

Pakistan's steel tubes and pipes market contracted to approximately 625,000 MT in FY24 compared to 725,000 MT in FY-23. The overall domestic steel products market is estimated at 9-10 mln tons. The steel tubes and pipes market remain highly fragmented, comprising primarily small-to-medium sized manufacturers spread across the country. While the pipe segment experienced negative growth on overall basis, the lower end of the market saw an increase in demand due to a shift in consumer preferences towards more economical, lower-quality pipes, primarily manufactured from low-grade material. Going forward, the domestic demand for steel is expected to remain sluggish for the near term, however, with recent reduction in interest rates it is anticipated to recover in the medium to long-term.

Key Rating Drivers

Business Risk Profile

Industry Risk; High.

The steel pipes and tube sector in Pakistan exhibits 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 affect 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 FY24, the industry experienced a contraction in production, influenced by reduced activity in key consuming sectors such as development and rehabilitation projects. Moreover, the industry's dependence on imported raw materials, particularly iron and steel scrap, introduces vulnerability to global price volatility and

exchange rate fluctuations. The local industry also faces challenges like import substitution from regional countries.

Macroeconomic factors, including inflation and interest rates, have further impacted on the sector's performance. Elevated inflation and high interest rates have constrained construction activity, a primary driver of steel pipe demand. Additionally, the industry's dependence on large-scale infrastructure projects further exacerbates the industry risk profile.

Financial Risk Profile

Profitability Profile

In FY24, the Company recorded a 21.03% increase in revenue, primarily attributed to higher volumes in the polyethylene segment and elevated product sale prices. However, gross margins normalized to 9.68% (FY23: 15.33%). Margins in prior years were comparatively higher due to inventory gains resulting from price increases caused by exchange fluctuations. With exchange rates stabilizing in FY24, margins normalized to approximately 10%.

In 1QFY25, gross margins inched up to 10.74%, supported by ongoing price adjustments and a shift in the sales mix toward higher-margin products. Going forward, the demand outlook for the steel sector has strengthened amid improving economic conditions, as lower interest rates are expected to bolster construction activity. BBJP's main source of revenue is through non-institutional sale, however, it has managed to procure additional institutional contracts that will support its topline for the medium term.

Capitalization Profile

BBJP's capitalization profile reported improvement with a gearing ratio of 0.76x (FY23: 0.91x) and a leverage ratio of 1.01x (FY23: 1.30x). This improvement is attributed to decreased total debt, as the Company paid off its final long-term debt obligation. In 1QFY25, gearing and leverage further reduced to 0.61x and 0.94x, respectively with lower short-term debt drawdowns as of September 2024. The Company managed its working capital through internal cash generation and minimized its dependence on short-term debt due to the elevated interest rate environment during the quarter.

Liquidity Profile and Coverage Profile

The Company maintained a liquidity profile aligned with its assigned ratings during the period under review. The current ratio stood at 1.33x in 1QFY25 (FY24: 1.29x; FY23: 1.28x). Meanwhile, the coverage profile is considered healthy. In FY24, short-term debt utilization levels remained low during the period except for on the final day of the reporting period. This reduced the overall finance cost and supported the debt service coverage ratio (DSCR) to 2.50x (FY23: 1.14x) in FY24. In 1QFY25, constrained operational cashflows in value terms, despite improved margins, resulted in a DSCR of 1.57x, albeit at healthy levels.

BBJ Pipe Industries Limited

Appendix I

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>				
	20-01-2025	BBB+	A2	Stable	Upgrade
	02-01-2024	BBB	A2	Stable	Maintained
	31-03-2023	BBB	A2	Rating Watch - Developing	Maintained
	25-10-2022	BBB	A2	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.				
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Due Diligence Meetings Conducted	S.No.	Name	Designation	Date	
	1.	Mr. Kashif Rauf	Chief Financial Officer	1-Jan-2025	
	2.	Mr. Nadeem Ahmed	Manager Accounts		