

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

## RATING REPORT

# Bhanero Textile Mills Limited (BHAT)

### REPORT DATE:

19th October, 2017

### RATING ANALYST:

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### RATING DETAILS

| Rating Category | Initial Rating                  |            |
|-----------------|---------------------------------|------------|
|                 | Long-term                       | Short-term |
| Entity          | A+                              | A-1        |
| Rating Outlook  | Stable                          |            |
| Rating Date     | 28 <sup>th</sup> September 2017 |            |

### COMPANY INFORMATION

|   |  |
|---|--|
| Incorporated in March 1980                | External auditors: Mushtaq & Co. Chartered Accountants |
| Public Limited Company                    | Chairman: Mr. Mohammad Shaheen                         |
| Key Shareholders (with stake 5% or more): | Chief Executive Officer: Mr. Khurram Salim             |
| Admiral (Pvt) Ltd (16.7%)                 |  |
| Mrs. Samia Bilal (11.1%)                  |  |
| Mr. Adil Shakeel (8.9%)                   |  |
| Mr. Faisal Shakeel (8.3%)                 |  |
| Mrs. Fatima Amin (5.7%)                   |  |
| Mr. Mohammad Amin (5.3%)                  |  |
| Mr. Mohammad Qasim (5.3%)                 |  |

### APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporates (May 2016)*

<http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf>

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## Bhanero Textile Mills Limited

### OVERVIEW OF THE INSTITUTION

BHAT is part of the Umer Group of companies and was established in 1980 as a public limited company under Companies Ordinance, 1984 and is quoted on Pakistan Stock Exchanges Limited. BHAT started with a single spinning unit situated in Dadu district. Over the years BHAT has expanded into 2 spinning units and a weaving unit situated in Ferozewatan, Sheikupura.

### RATING RATIONALE

Bhanero Textile Mills Limited (BHAT) was established in 1980 as part of the Umer group of companies. The sponsor is mainly associated with textile businesses specifically in the spinning and weaving sector. Ownership of BHAT is split between an institutional investor whereas the rest is vested with individuals.

BHAT produces yarn (both coarse & fine counts) and griegie cloth through two spinning units (B1 & B2) and a weaving unit (B3). The company's yarn is primarily sold to large scale local textile finishing segment. BHAT has a strong international market for its fabrics; Italy, Japan, and Belgium have been sizeable export markets since the last three years. The company does not operate in the high value-added branded garments sector.

#### **Rating Drivers:**

**Business Risk:** Inherent cyclicity of cotton price and crop levels drives performance of textile companies which are in the medium to low non-value added segment. Sectors performance has witnessed decline on account of oversupply of cotton produce post termination of China's stockpiling policy. The resultant oversupply has somewhat contained the cotton yarn price levels on the lower side. However, there has been a positive upward trend in prices since 2016. Adverse changes in cotton prices may impact financial performance.

**Funding and Capitalization:** BHAT's short-term borrowings are seasonal in nature and in line with industry dynamics. As sizeable procurement is undertaken during the season, gearing and leverage increase in line with short term borrowings, however, these are expected to normalize to historically low levels at the end of every fiscal year.

**Profitability:** Sales of BHAT have sustained year on year owing to yarn sales gaining foothold in the domestic market as well as weaving segment's resilience in the export market. Gross margins have exhibited an increase on a timeline basis from recovery in cotton prices. Resultantly, earnings and cash flows have witnessed growth in FY17.

**Liquidity:** Overall liquidity profile is supported by healthy cash flows related to debt obligations and adequate current ratio. Although cash conversion cycle has increased due to higher inventory, the same is considered seasonal in nature, in line with procurement cycle and is expected to improve going forward. Furthermore, aging of trade debt remains within manageable limits.

#### **Outlook**

The addition of 10,800 spindles financed from loan will increase yarn production to be used as input in the weaving unit to subsequently increase the production of fabric. Management views growth in fabric production will directly impact volumetric growth in exports as well lead to improvement in margins. On a timeline basis gearing and leverage ratios have remained low. Given BHAT's expansion plan and long term borrowings emanating from the same, risk profile of the company is expected to remain commensurate with the outstanding rating.

## JCR-VIS Credit Rating Company Limited

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| <b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions)</i> |                      |                    |                    | Appendix I |
|---|----------------------|--------------------|--------------------|------------|
| <b><u>BALANCE SHEET</u></b>                               | <b><u>9MFY17</u></b> | <b><u>FY16</u></b> | <b><u>FY15</u></b> |            |
| Fixed Assets  | 1,985.5              | 1,957.6            | 2,080.1            |            |
| Investments   | -                    | -                  | -                  |            |
| Stock-in-Trade  | 3,298.0              | 1,742.8            | 1,511.7            |            |
| Trade Debts   | 430.5                | 413.6              | 472.3              |            |
| Cash & Bank Balances                                      | 95.6                 | 65.3               | 177.1              |            |
| Total Assets  | 6,336.3              | 4705.2             | 4721.5             |            |
| Trade and Other Payables                                  | 398.4                | 408.2              | 417.4              |            |
| Long Term Debt <i>(*incl. current maturity)</i>           | 476.8                | 426.1              | 650.2              |            |
| Short Term Debt   | 1,346.7              | 0.0                | 0.0                |            |
| Total Equity  | 3921.7               | 3,639.6            | 3,427.0            |            |
|   |                      |                    |                    |            |
| <b><u>INCOME STATEMENT</u></b>                            | <b><u>9MFY17</u></b> | <b><u>FY16</u></b> | <b><u>FY15</u></b> |            |
| Net Sales   | 5,064.2              | 6,637.4            | 7,350.1            |            |
| Gross Profit  | 585.9                | 684.4              | 641.5              |            |
| Operating Profit  | 361.1                | 391.0              | 352.0              |            |
| Profit After Tax  | 252.1                | 220.3              | 207.4              |            |
|   |                      |                    |                    |            |
| <b><u>RATIO ANALYSIS</u></b>                              | <b><u>9MFY17</u></b> | <b><u>FY16</u></b> | <b><u>FY15</u></b> |            |
| Gross Margin (%)  | 11.6%                | 10.3%              | 8.7%               |            |
| Net Working Capital                                       | 2,491.6              | 2,227.5            | 2,099.9            |            |
| FFO to Total Debt (x)                                     | 0.2                  | 1.1                | 0.6                |            |
| FFO to Long Term Debt (x)                                 | 0.8                  | 1.1                | 0.6                |            |
| Gearing   | 0.7                  | 0.1                | 0.2                |            |
| Leverage  | 0.6                  | 0.3                | 0.4                |            |
| Debt Servicing Coverage Ratio (x)                         | 3.4                  | 3.6                | 2.8                |            |
| ROAA (%)  | 4.3%                 | 4.6%               | 4.2%               |            |
| ROAE (%)  | 6.6%                 | 6.1%               | 6.1%               |            |

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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

**Rating Watch:** JCR-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.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.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.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.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

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.

and not on the basis of the credit quality of the issuing entity alone.

**'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.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when JCR-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.

## JCR-VIS Credit Rating Company Limited

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| REGULATORY DISCLOSURES              |   |                            |                   |                       | Appendix III         |
|-------------------------------------|---|----------------------------|-------------------|-----------------------|----------------------|
| <b>Name of Rated Entity</b>         | Bhanero Textile Mills Limited   |                            |                   |                       |                      |
| <b>Sector</b>                       | Textiles  |                            |                   |                       |                      |
| <b>Type of Relationship</b>         | Solicited   |                            |                   |                       |                      |
| <b>Purpose of Rating</b>            | Entity Rating   |                            |                   |                       |                      |
| <b>Rating History</b>               | <b>Rating Date</b>  | <b>Medium to Long Term</b> | <b>Short Term</b> | <b>Rating Outlook</b> | <b>Rating Action</b> |
|                                     | <b>RATING TYPE: ENTITY</b>  |                            |                   |                       |                      |
|                                     | 28/09/2017  | A+                         | A-1               | Stable                | Initial              |
| <b>Instrument Structure</b>         | N/A   |                            |                   |                       |                      |
| <b>Statement by the Rating Team</b> | JCR-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.  |                            |                   |                       |                      |
| <b>Probability of Default</b>       | JCR-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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