

## RATING REPORT

## Bhanero Textile Mills Limited

**REPORT DATE:**

March 14, 2019

**RATING ANALYST:**

Talha Iqbal  
[talha.iqbal@vis.com.pk](mailto:talha.iqbal@vis.com.pk)

Muhammad Tabish  
[mubammad.tabish@vis.com.pk](mailto:mubammad.tabish@vis.com.pk)

## RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity</b>	A+	A-1	A+	A-1
<b>Rating Date</b>	February 21, 2019		September 28, 2017	
<b>Rating Outlook</b>	Stable		Stable	
<b>Rating Action</b>	Reaffirmed		Initial	

## COMPANY INFORMATION

<b>Incorporated on March, 1980</b>	<b>External auditors:</b> M/s Mushtaq & Co. Chartered Accountants
<b>Public Limited Company</b>	<b>Chairman:</b> Mr. Mohammad Shaheen
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Mr. Khurram Salim
<i>Admiral (Pvt) Ltd (16.7%)</i>	
<i>Mrs. Samia Bilal (11.1%)</i>	
<i>Mr. Adil Shakeel (8.9%)</i>	
<i>Mr. Faisal Shakeel (8.3%)</i>	
<i>Mrs. Fatima Amin (5.7%)</i>	
<i>Mr. Mohammad Amin (5.3%)</i>	

## APPLICABLE METHODOLOGY(IES)

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

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

**Bhanero Textile Mills Limited**

**OVERVIEW  
OF THE  
INSTITUTION**

**RATING RATIONALE**

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 Exchange Limited. BHAT started with a single spinning unit situated in Dadu district. Over the years BHAT has expanded with 2 spinning units and a weaving unit situated in Ferozewanat, Sheikhpura.

Financial Statements of the company for FY18 were audited by Mushtaq & Co., Chartered Accountants. Auditors belong to category 'B' on the approved list of auditors published by the State Bank of Pakistan (SBP).

**Profile of Chairman**

Mr. Shabeen has over 37 years of top management experience in textile business. He completed the Director Education from Pakistan Institute of Corporate Governance in June, 2013.

**Profile of CEO**

Mr. Khurram is serving the board of Umer Group of Companies for more than 20 years. He

**Group Profile**

Bhanero Textile Mills Limited (BHAT) is a part of the Umer group of industries having diversified presence in footwear, retail, leather, dairy, power generation and construction; however, its core strength lies in textile business. Umer group operates through 3 companies in the textile sector.

Within textile sector, the group has over three decades of experience and is primarily engaged in the business of manufacturing and trading of grey and dyed yarn and greige fabric. The group is recognized as a prominent player in spinning and weaving segment with annual turnover of around Rs. 30b. Umer Group has a strong presence in the export market with more than 50% of total sales comprising exports with presence in China, Italy, Japan, Turkey and Belgium & other European countries. Around 60% of the total sales revenue of the Group has been generated through the spinning segment while the remaining comprises sales of greige fabric. Going forward, given the favorable incentives for enhancing exports along with significant rupee devaluation, management expects proportion of export sales in sales mix to increase to around two-third of total sales. Break up of segment-wise group sales and volume is tabulated below:

Segments	FY17				FY18			
	Sales (Rs. in million)	%	Volume (unit)	Selling price/unit (Rs.)	Sales (Rs. in million)	%	Volume (unit)	Selling price/unit (Rs.)
Spinning - Yarn	14,497.1	57.8%	47,032,361 (Kg)	308.2	18,213.9	61.6%	55,038,842 (Kg)	330.9
Weaving - Fabric	10,597.0	42.2%	68,720,448 (Mtr.)	154.2	11,343.2	38.4%	74,557,452 (Mtr.)	152.1
<b>Total</b>	<b>25,094.1</b>	<b>100.0%</b>			<b>29,557.1</b>	<b>100.0%</b>		

Umer Group has a total installed capacity of 186,960 spindles and 565 looms. The group carries its operations through five spinning and three weaving units each producing a unique specialized product. Moreover, in order to ensure an uninterrupted power supply, the group has established its own captive power generation plants for each unit with a total capacity of 37 megawatt (MW).

**Company Profile**

BHAT is engaged in the business of manufacturing and trading of yarn and knitted fabric. The Company maintains two separate spinning units of which Unit-I consist of 27,840 spindles and Unit-II consist of 52,272 spindles (this includes 10,800 additional spindles installed during 2018). Both units are adequately equipped to produce cotton, rayon, ring spun & carded yarn. There is a separate facility for weaving operations installed with 160 air-jet looms. This unit produces mix ranges of fine woven greige cloths, from light to heavy, wider width, plain, textured, twills and luxurious satins. At end-FY18, BHAT operated with total 80,112 spindles (FY17: 69,312) and capacity utilization was reported on the higher side at over 90%. The power unit for spinning unit II and weaving unit has a total capacity of 10.5MW.

**Expansion Plans**

Going forward, in view of long term growth strategy the company has planned capex during FY19 to expand business operations. Planned capex pertains to acquisition of fresh land, building and installation of new machinery. This expansion will enhance & diversify revenues and improve margins.

*has been serving the position of CEO since 2011. He completed his bachelor's degree from Government College of Commerce Karachi and holds versatile experience in textile industry.*

#### **Financial Snapshot**

**Net Equity:** Sept 2018: Rs. 4.4b, June 2018: Rs. 4.3b

**Net Revenue:** 1QFY19: Rs. 2.0b, FY18: Rs. 8.1b

#### **Key Rating Drivers:**

**High cyclicity & competitive intensity for spinning industry, volatility in cotton prices translate into high business risk profile. Diversification in the weaving segment, favourable cost of inventory carried on balance sheet, along with government's favourable policy towards the textile sector supports assessment of business risk profile.**

The assigned ratings take into account favorable textile industry dynamics with government of Pakistan (GoP) focused on facilitating textile sector in order to enhance country's exports. Measures undertaken include reduction in energy prices (gas at USD 6.5/mmBTU and electricity at 7.5 US cents/kWh) and reduction in regulatory duty to zero on imported cotton. Going forward, recent rupee devaluation and increased focus of GoP on enhancing exports (through reducing cost of doing business and commitment for timely release of refunds and rebates) bodes well for competitiveness of textile business. Nonetheless, business risk profile remains dependent on inherent cyclicity of prices, crop levels, and demand supply fluctuations. Given the high degree of fragmentation specifically in the weaving segment; pricing power of companies operating in the segment remains limited. Moreover, reduction in rebate rates and increase in cotton prices may impact margins; timing and quantum of which will depend on average prices and quantity carried by different players. Given the cost of inventory carried on balance sheet, BHAT is well positioned in this regard.

**Healthy sales growth in FY18. Approximately two-third of sales mix comprised local sales. Going forward, management is focused to increase proportion of export sales in both spinning and weaving segment.**

Net sales of the company increased by 18.1% to Rs. 8.1b (FY17: Rs. 6.8b) during FY18. Historically, around two-third of topline has comprised local sales. The same increased by 24.1% to Rs. 5.2b (FY17: Rs. 4.2b) in FY18. Exports increased by 7.1% to Rs. 2.8b (FY17: Rs. 2.6b) in FY18. Segment wise yarn continues to be the major contributor with 65% (FY17: 59%) share in total revenue. Moreover, yarn sales have gained foothold in the domestic market whereas weaving segment largely comprises exports. Going forward, addition of new spindles during 2018 and the on-going expansion project in white sheeting would positively impact total production and sales volumes. Significant rupee depreciation during FY18 and in ongoing year and increase in international yarn prices would also contribute to increase in total sales in the coming period.

**Earning profile depicted improvement on the back of utilization of lower priced cotton inventory. Future margins are further expected to improve with its full-year impact.**

Gross margins of the company have improved to 11.7% (FY18: 10.8%; FY17: 11.0%) during 1QFY19. Efficient raw material procurement, higher sales volume in the spinning segment and increased average sales prices of yarn and fabric have resulted in improved gross margins. Overall operating expenses increased primarily due to higher distribution cost incurred. However, one-off gain from sale proceeds of assets along with higher tax credit availed supported the bottom line, amounting to Rs. 482.0m (FY17: Rs. 275.7m) during FY18. Consequently, net margins also improved considerably to 6.0% (FY17: 4.0%) during the same period. During 1QFY19, the company posted profit after tax (PAT) of Rs. 112.4m (1QFY18: Rs. 71.5m). Going forward, future margins are expected to improve further given that average inventory carried on balance sheet is significantly lower than current cotton prices.

**Healthy liquidity profile and strong financial flexibility.**

In absolute terms, Funds from Operations (FFO) amounted to Rs. 600.5m (FY17: Rs. 511.5m) depicting a 17% increase on account of higher overall profitability. Debt Service Coverage Ratio (DSCR) and FFO/Long-Term Debt remain strong at 5.0x (FY18: 4.0x, FY17: 3.8x) and 0.8x (FY18: 0.6x, FY17: 1.0x) during 1QFY19, respectively. Inventory levels have remained elevated as part of a deliberate strategy in

anticipation of increase in cotton prices during FY18 and in the ongoing year. Inventory and trade debts provide strong coverage for short-term debt obligations while current ratio was reported at 3.0x at end-1QFY19. Moreover, liquidity profile also draws support from management's conservative approach of maintaining long term debt repayments lower than depreciation charge during any given period, thus providing the financial flexibility to undertake expansion projects.

**Capitalization indicators supported by low leveraged capital structure and higher equity base.**

On account of higher profit retention, net equity of the company was reported at Rs. 4.4b (FY18: Rs. 4.3b; FY17: Rs. 3.9b) at end-1QFY19. Dividend payout ratio was reported at 40% (FY17: 40%, FY16: 13.6%) during FY18. Total debt carried on balance sheet amounted to Rs. 1.3b at end-1QFY19; around three-fourth of the total debt is long-term in nature while 70% of which is LTFF, acquired at considerably lower rate. With a larger equity base, leverage indicators have remained on lower side with debt leverage and gearing reported at 0.61x (FY18: 0.56) and 0.29x (FY18: 0.28) at end-1QFY19, respectively.

## Bhanero Textile Mills Limited

## Appendix I

<b>FINANCIAL SUMMARY</b>				
	<i>(amounts in PKR millions)</i>			
<b><u>BALANCE SHEET</u></b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>
Fixed Assets	2,080.1	1,957.6	2,029.9	2,794.9
Stock-in-Trade	1,511.7	1,742.8	2,713.4	2,347.2
Trade Debts	472.3	413.6	544.5	841.5
Cash & Bank Balances	177.1	65.3	39.8	68.3
<b>Total Assets</b>	<b>4,721.5</b>	<b>4,705.2</b>	<b>5,895.1</b>	<b>6,645.6</b>
Trade and Other Payables	417.4	408.2	487.8	771.7
Long Term Debt (*incl. current maturity)	650.2	426.1	506.2	966.6
Short Term Debt	-	-	676.6	220.5
<b>Total Equity</b>	<b>3,427.0</b>	<b>3,639.6</b>	<b>3,886.3</b>	<b>4,262.7</b>
<b><u>INCOME STATEMENT</u></b>				
Net Sales	7,350.1	6,637.4	6,837.3	8,073.8
Gross Profit	641.5	684.4	754.3	868.4
Operating Profit	352.0	391.0	456.3	636.1
Profit After Tax	207.4	220.3	275.7	482.0
<b><u>RATIO ANALYSIS</u></b>				
Gross Margin (%)	8.7%	10.3%	11.0%	10.8%
Net Working Capital	2,113.9	2,227.5	2,527.4	2,701.3
FFO to Total Debt (%)	0.6	1.1	1.0	0.6
FFO to Long Term Debt (%)	0.6	1.1	0.4	0.5
Debt Servicing Coverage Ratio (x)	2.7	3.5	3.8	4.0
ROAA (%)	4.1%	4.7%	5.2%	7.7%
ROAE (%)	6.2%	6.2%	7.3%	11.8%
Gearing	0.2	0.1	0.3	0.3
Leverage	0.4	0.3	0.5	0.6

**VIS** Credit Rating Company Limited

**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](http://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](http://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](http://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
<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><u>RATING TYPE: ENTITY</u></b>				
	02/21/2019	A+	A-1	Stable	Reaffirmed
	12/17/2018	A+	A-1	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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>	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.				
<b>Disclaimer</b>	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2019 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				