

RATING REPORT

Bhimra Textile Mills (Pvt.) Limited (BTML)

REPORT DATE:

April 17, 2019

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	BBB-	A-2
Rating Outlook	Stable	
Rating Date	26 March 2019	

COMPANY INFORMATION

Incorporated in 2004	External auditors: Tariq Abdul Ghani Maqbool & Co. Chartered Accountants
Private Limited Company	Chairman of the Board: Mr. Zahid Qadeer Alam
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Zahid Qadeer Alam
Mr. Zahid Qadeer Alam – 73%	
Mr. Afan Zahid – 27%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Industrial Corporates (May 2016)

<https://www.vis.com.pk/kc-meth.aspx>

Bhimra Textile Mills (Pvt.) Limited (BTML)

OVERVIEW OF THE INSTITUTION

Bhimra Textile Mills (Pvt.) Limited was incorporated as a private limited company in 2004 under the Companies Ordinance 1984 (now repealed companies act 2017). Registered office & plant of the company is situated in the vicinity of Lahore.

Profile of Chairman & CEO

Mr. Zahid Qadeer Alam has over 45 years' of experience in machinery import and trading. He is also the CEO of an associated company Bhimra (Pvt.) Limited which manages restaurant under the name of Freddy's Café in Lahore.

RATING RATIONALE

Bhimra Textile Mills (Pvt.) Limited (BTML) was incorporated as a private limited company in 2004. The company commenced commercial production on 30th June 2007 as spinning unit with capacity of 19,608 spindles to produce 100% cotton yarn of various counts. Registered office of the company is situated in Lahore while manufacturing facility of the company is in the vicinity of Lahore, Pakistan.

In October 2007, the company carried out its first BMR which resulted in the increase of total number of spindles to 20,640. In December 2010, the company added 2 carding machines and one roving opening machine whereas one Auto Corner machine was added in 2011 that helped to increase production from 280 bags per day to 300 bags per day. During 2016, the company installed 6,192 compact devices on 12 ring spinning frames which increased production capacity by 10 bags per day. Later on based on successful results from compact devices, the company installed 14,448 compact devices on remaining 28 spinning frames which increased production capacity to 425 bags per day. During 2016, the company replaced gas fired generator of 1.2 MW. The cumulative power requirement of the unit is 2.5 MW which is met through gas fired generators of 2.2 MW and remaining 0.3 MW through WAPDA.

Product Portfolio – focused on manufacturing of cotton yarn

BTML manufactures 100% cotton carded compact yarn from imported and locally procured cotton with counts ranging from 12/S to 30/S for multiple uses. The coarser yarn mainly caters to denim, towel and socks while fine carded compact yarn caters to shirt fabric etc.

Spinning Products			
Yarn Type	Count Range	Composition	End Use
Carded Compact	12/S - 30/S	100% cotton yarn	Denim, Upholstery, Apparel, Towels

Operational Capabilities & Performance – increasing capacity utilization on a timeline basis

BTML has 20,640 spindles with production capacity of 6.64m kg of yarn converted to 30/S. Capacity utilization remained relatively higher during FY18 as tabulated below:

Spinning	FY18	FY17
Total Spindles (All operational)	20,640	20,640
Installed Capacity Converted to 30/S Count (m Kgs)	6.64	6.64
Actual Production (m Kgs)	5.73	4.95
Capacity Utilization %	86.3%	74.5%

Sales growth emanating from increase in volumetric sales and favorable prices – Trade debts remains negligible on account of sales primarily on cash

During FY18, the company reported net sales of Rs. 1.73b (FY17: Rs. 1.39b; FY16: Rs. 1.18b), driven largely by notable increase in volumetric sales and favorable average selling prices of yarn in the local market. BTML fetched relatively higher selling price on the back of higher average yarn prices locally with quality control owing to compact devices installed on spinning frames. Resultantly, gross margins improved to 7.7% (FY17: 5.9; FY16: 6.7%) during FY18. Operating expenses of the company increased to Rs. 52m (FY17: Rs. 29m) mainly on account of higher salaries & wages of Rs. 23m (FY17: Rs. 9.6m) and other operating expenses of Rs. 7.3m (FY17: Rs. 0.6m). The increase in salaries & wages resulted from higher production activities along with losses of Rs. 3.7m on sales of obsolete equipment. The company was able to generate net profit of Rs. 19m (FY17: Rs. 15m) while net profit margin stood modest at 1.1% (FY17: 1.1%). As per projections, revenue generation is expected to grow to around Rs.

2.3b during FY19 on account of higher capacity utilization along with increase in the price of yarn during FY19. Although the company did not carry out any major CAPEX during FY18, however the company spent Rs. 75m on installation of compact devices and auto cone machine due to which fixed assets of the company stood higher at Rs. 624m (FY17: Rs. 595m). The company follows the practice of procuring local cotton between July and March and imported cotton between January and June while maintaining a buffer stock of around four months. At end-FY18, BTML held raw material inventory of worth Rs. 318m (FY17: Rs. 255m). Trade receivables of the company continues to remain modest at Rs. 3m (FY17: Rs. 4m) as yarn is mostly sold on the cash basis. Trade deposits & short term prepayments stood at Rs. 107m (FY17: Rs. 99m) which also include receivable of Rs. 95m (FY17: Rs. 94m) from SNGPL charged as late payment charges. The company has filed petition against these late payment charges imposed by SNGPL in High Court which is under review.

Sound coverages and adequate liquidity

Funds from operations (FFO) increased to Rs. 73m (FY17: Rs. 59m) in line with slight improvement in profits during FY18. The company has the policy of meeting working capital requirements from short term loan as internal cash generation is insufficient to finance the growth in working capital requirements. FFO to total debt ratio remained stable at 0.16x (FY17: 0.16x) while FFO to long-term debt, albeit decreased, stood healthy at 0.95x (FY17: 1.29x) as the company availed lease facility to finance routine CAPEX. The debt service coverage ratio also remained sound at 1.83x (FY17: 2.12x). The current ratio remained largely stable at 1.12x (FY17: 1.15x). Meanwhile, inventory plus trade receivables to short-term borrowings improved to 1.13x (FY17: 1.09x), which also highlights adequate liquidity position of the company. Going forward, coverages are expected to remain sound as the management intends to maintain gearing around the current level.

Manageable leverage indicators

Total equity base augmented to Rs. 460m by end-FY18 (FY17: Rs. 444m; FY16: Rs. 380m) on the back of profit retention. Equity base includes loan from directors & associated concern. Bhimra (Pvt.) Ltd, amounting Rs. 212m (FY17: Rs. 195m) at end-FY18. Out of these, sponsor loan amounting Rs. 182m (FY17: Rs. 163m) is due on November 30, 2019, and is renewable subject to the mutual consent (the management has no plan to withdraw it). During FY17 and FY18, the company incurred capital expenditure of Rs. 65m & Rs. 76m, respectively, which was partly financed by financial lease facility of Rs. 35m & Rs. 31m, respectively. Given increase in total borrowings, gearing and debt leverage stood higher at 0.99x and 1.40x (FY17: 0.83x and 1.21x), respectively, by end-FY18.

Governance & Internal Audit

The Board of Directors of BTML comprises two members; representatives of the sponsoring family. The senior management team comprises experienced resources from the textile sector and has largely depicted stability. The company has Oracle based ERP in place. The company has no internal audit department while “Tariq Abdul Ghani Maqbool & Co.” are external auditors of the company.

Bhimra Textile Mills (Pvt.) Limited
Appendix I

FINANCIAL SUMMARY		<i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>		30-Jun-16	30-Jun-17	30-Jun-18
Non-Current Assets		515	595	624
Stock-in-Trade		211	363	434
Trade Debts		11	4	3
Trade Deposits & Short Term Prepayments		129	99	107
Other Assets		36	40	51
Cash & Bank Balances		13	7	12
Total Assets		915	1,108	1,231
Trade and Other Payables		70	96	106
Short Term Borrowings		295	323	377
Long Term Liabilities subject to Financial Lease		18	45	77
Total Interest Bearing Debt		313	368	453
Other Liabilities		77	71	82
Total Liabilities		460	535	642
Tier 1 Equity (Inc. sponsors loan)		380	444	460
Revaluation Reserves		76	130	130
Total Equity including Revaluation Reserves		455	573	589
<u>INCOME STATEMENT</u>		30-Jun-16	30-Jun-17	30-Jun-18
Net Sales		1,188	1,394	1,726
Gross Profit		80	82	133
Operating Profit		52	61	82
Finance Cost		34	38	48
Profit after Tax		8	15	19
<u>RATIO ANALYSIS</u>		30-Jun-16	30-Jun-17	30-Jun-18
Gross Margin (%)		6.7%	5.9%	7.7%
Net Margin (%)		0.6%	1.1%	1.1%
Current Ratio (x)		1.01	1.15	1.12
Net Working Capital		5	67	64
Debt Leverage (x)		1.21	1.21	1.40
Gearing (x)		0.82	0.83	0.99
FFO		48	59	73
FFO to Long Term Debt (x)		2.66	1.29	0.95
FFO to Total Debt (x)		0.15	0.16	0.16
Debt Servicing Coverage Ratio (x)		1.46	2.12	1.83
Inventory + Receivables/Short-term Borrowings (x)		0.70	1.09	1.13
ROAA (%)		0.8	1.5	1.6
ROAE (%)		2.0	3.7	4.2

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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

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	Bhimra Textile Mills (Pvt.) Limited				
Sector	Textiles				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	26-03-2019	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.				
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