

RATING REPORT

Bhimra Textile Mills (Pvt.) Limited (BTML)

REPORT DATE:

April 27, 2020

RATING ANALYSTS:Maimoon Rasheed
maimoon@vis.com.pk

RATING DETAILS				
Rating Category	Latest Rating		Initial Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB-	A-2	BBB-	A2
Rating Date	27 th April 2020		26 th March 2019	
Rating Action	Maintain		Initial	
Rating Outlook	Rating Watch – Negative		Stable	

COMPANY INFORMATION

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

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (May 2019)

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

Bhimra Textile Mills (Pvt.) Limited (BTML)

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

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 Limited was incorporated as a private limited company in 2004 under the Companies Ordinance 1984 (now repealed companies act 2017).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 of the company is situated in Lahore while plant is situated in Sheikhpura district.

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

Bhimra Textile Mills (Pvt.) Limited (BTML) is small sized spinning unit having 20,640 spindles with production capacity of 6.64m kg of yarn converted to 30/S. BTML added 5,160 compact devices on remaining spinning frames during Nov-Dec 2019 that increased production capacity to 450 bags per day. 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

Capacity utilization remained relatively higher during FY19 as tabulated below:

Spinning	FY18	FY19
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	6.23
Capacity Utilization %	86.3%	93.8%

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

During FY19, the company reported net sales of Rs. 2.21b (FY18: Rs. 1.72b) driven largely by notable increase in volumetric sales of 6.12m Kgs (FY18: 5.59m Kgs) and favorable average selling prices of yarn in the local market as prices of yarn increased to Rs. 355/Kg (FY18: Rs. 301/Kg). Since the company utilized only local cotton during current year, the output remained low due to higher quantity of waste in the local cotton which resulted in higher raw material consumed at 74.1% (FY18: 68.7%). However, despite higher raw material consumption, fuel and depreciation charges stood lower and resulted in stagnant gross margins of 7.7% (FY18: 7.7%) during FY19. Top 10 customers generated sales of around 43% (FY18: 41%). Operating expenses of the company increased to Rs. 60m (FY18: Rs. 52m) mainly on account of higher salaries & wages of Rs. 30m (FY18: Rs. 23m). The increase in salaries & wages resulted from higher average number of employees during the year at 511 employees (FY18: 481 employees) along with increase in salaries. The interest expense increased to Rs. 80m (FY18: Rs. 48m) on account of higher average utilization of both long and short term borrowings along with higher interest rates. After accounting for taxation of Rs. 25m (FY18: Rs. 15m), BTML was able to generate net profit of Rs. 15m (FY18: Rs. 19m) while net profit margin stood lower at 0.7% (FY18: 1.1%).

As per HYFY20, the company generated sales of Rs. 1.31b which was 8.5% higher on an annualized basis. This along with higher gross margins, resulted in higher net income of Rs. 31m during the period. BTML has projected to generate sales of Rs. 2.5b during FY20 which might be difficult to achieve given depletion in textile sales in the current pandemic scenario worldwide. BTML has also projected improvement in gross and net margins on account of installation of compact devices on spindles which will approve yarn quality, which is expected to fetch higher prices.

While the company did not carry out any major CAPEX during last two years, an amount of Rs. 75.8m (FY18: Rs. 75.5m) was spent on installation of compact devices, auto cone & carding machine; the fixed assets therefore stood higher at Rs. 659m (FY18: Rs. 624m) at end-FY19. 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. The inventory of the company stood at Rs. 658m (FY18: Rs. 434m) which consisted of mainly raw material inventory of Rs. 497m (FY18: Rs. 318m) and finished goods inventory of Rs. 132m (FY18: Rs. 92m). Trade receivables continue to remain modest at Rs. 9m (FY18: Rs. 3m) as yarn is mostly sold on the cash basis. Trade deposits &

short term prepayments stood at Rs. 99m (FY18: Rs. 107m) which mainly consisted of prepayments of Rs. 95m (FY18: Rs. 95m). The prepayments mainly included an amount of Rs. 90.8m charged by SNGPL as unbilled amount and late payment surcharge. BTML had filed petition against these charges in High Court wherein the court dismissed plea of the company in February 2019. However, BTML has again filed an appeal with Supreme Court of Pakistan against Lahore High Court decision. No hearing on this appeal has been held yet in Supreme Court. Tax refund from government stood at Rs. 37m (FY18: Rs. 31m) which consisted of advance income tax of Rs. 21m (FY18: Rs. 21m) and sales tax refundable of Rs. 16m (FY18: 10m). Cash & bank balances amount decreased to Rs. 4m (FY18: Rs. 12m).

The company carried out CAPEX of Rs. 15.9m on plant & machinery during HYFY20 while net fixed assets decreased to Rs. 639m (FY19: Rs. 659m) on account of higher depreciation charges. The inventory decreased to Rs. 595m (FY19: Rs. 658m) on account of decrease in raw material inventory to Rs. 416m (FY19: Rs. 497m). The company has planned CAPEX of around Rs. 475m during FY21 for addition of 10,800 new spindles with compact devices along with two carding machines, three simplex machines & two auto cones which will be financed through debt and equity mix of Rs. 350m and Rs. 125m respectively. BTML is in process of arranging long term financing from banks which is under approval process. The gearing is projected to remain around the current levels.

Adequate coverages and liquidity

Funds from operations (FFO) increased to Rs. 81m (FY18: Rs. 73m) in line with higher profit before tax during FY19. The company has the policy of meeting working capital requirements mainly from short term borrowing while routine CAPEX is financed from long term lease facility. FFO to total debt ratio decreased to 0.14x (FY18: 0.16x) while FFO to long-term debt decreased to 0.74x (FY18: 0.95x) as the company availed lease facility to finance routine CAPEX along with increase in short term loan. The debt service coverage ratio, albeit decreased, remained adequate at 1.26x (FY18: 1.83x). The current ratio remained stable at 1.15x (FY18: 1.12x) while inventory plus trade receivables to short-term borrowings improved to 1.34x (FY18: 1.13x) which highlights satisfactory liquidity position of the company. Going forward, BTML projects to maintain coverages and liquidity at an adequate level.

Debt leverage increased mainly owing to increasing trade payables; gearing, however, remained around the similar level at end-1HFY20

Total equity base augmented to Rs. 489m (FY18: Rs. 460m) by end-FY19 on the back of profit retention and some addition of sponsor loan. Equity base included interest free loan from directors amounting Rs. 59.2m (FY18: Rs. 29.8m) and related party – Bhimra (Pvt.) Ltd – amounting Rs. 61.2m (FY18: Nil) at end-FY19 payable at the discretion of the company. The related party has also provided long term loan of Rs. 88m (FY18: Rs. 162m) which carries markup of KIBOR + 2.25%, and is renewable subject to the mutual consent of the parties. The long term financial lease facility increased to Rs. 112m (FY18: Rs. 77m) mobilized for CAPEX purpose while short term borrowings increased to Rs. 484m (FY18: Rs. 377m) mainly to finance inventory. With higher payables to raw material suppliers, trade payables increased to Rs. 168m (FY18: Rs. 106m) at end-FY19. Given increase in total borrowings, gearing and debt leverage stood higher at 1.22x and 1.77x (FY18: 0.99x and 1.40x), respectively, by end-FY19.

As per HYFY20 financials, total equity base decreased to Rs. 443m (FY19: Rs. 489m) on account of repayment of loan from sponsors amounting to Rs. 59m and from related party amounting Rs. 18m. The long term financial lease facility decreased to Rs. 97m (FY19: Rs. 112m) on account of principal repayment while short term loan also decreased to Rs. 374m (FY19: Rs. 484m). Given decrease in total borrowings, gearing decreased to 1.06x (FY19: 1.22x) while debt leverage stood higher at 1.93x (FY19: 1.77x) by end-FY19 on account of increasing trade payables. Trade payables increased as company availed better payment terms from key suppliers to benefit from interest free financing.

Impact of Corona Virus

With the advent of global Coronavirus disease (COVID-19) pandemic, the demand outlook for textile products in general and especially value-added looks weak. Given BTML is highly dependent on local sales for cash flows generation and servicing of its financial obligations, status of the assigned rating is therefore uncertain as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action, warranting a 'Rating-Watch' status. With the demand compression emerging from ongoing global economic crisis and continued lockdown situation coupled relatively high financial risk profile vis-à-vis peer companies, ratings are being placed on 'Negative' outlook.

Bhimra Textile Mills (Pvt.) Limited
Appendix I

FINANCIAL SUMMARY			
	<i>(Amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>	30-Jun-18	30-Jun-19	31-Dec-19
Non-Current Assets	624	659	639
Stock-in-Trade	434	658	595
Trade Debts	3	9	20
Trade Deposits & Short Term Prepayments	107	99	104
Tax Refund from Government	31	37	33
Other Assets	20	21	23
Cash & Bank Balances	12	4	13
Total Assets	1,231	1,487	1,427
Trade Payables	106	168	289
Short Term Borrowings	377	484	374
Long Term Liabilities subject to Financial Lease	77	112	97
Total Interest Bearing Debt	454	596	471
Other Liabilities	82	104	94
Total Liabilities	642	868	854
Tier 1 Equity	459	489	443
Revaluation Reserves	130	130	130
Total Equity including Revaluation Reserves	589	619	573
Paid Up Capital	191	191	191
<u>INCOME STATEMENT</u>	30-Jun-18	30-Jun-19	31-Dec-19
Net Sales	1,726	2,214	1,313
Gross Profit	133	170	122
Finance Cost	48	80	41
Profit Before Tax	34	40	51
Net Profit	19	15	31
<u>RATIO ANALYSIS</u>	30-Jun-18	30-Jun-19	31-Dec-19
Gross Margin (%)	7.7	7.7	9.3
Net Margin (%)	1.1	0.7	2.3
Current Ratio (x)	1.12	1.15	1.09
Debt Leverage (x)	1.40	1.77	1.93
Gearing (x)	0.99	1.22	1.06
FFO	73	81	64
FFO to Total Debt (x)	0.16	0.14	0.14
FFO to Long Term Debt (x)	0.95	0.72	0.67
Debt Servicing Coverage Ratio (x)	1.82	1.26	1.39
Inventory + Receivables/Short-term Borrowings (x)	1.13	1.34	1.58

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

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: 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

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

(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.

'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

'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.

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				
	27/04/2020	BBB-	A-2	Rating Watch - Developing	Maintain
	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.				
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	Name		Designation	Date	
	1	Mr. Muhammad Shuaib	CFO	20-March-2020	
	2	-	Auditor	-	
	3	-	Creditor	-	