

## RATING REPORT

## Crescent Bahuman Limited

**REPORT DATE:**

April 22, 2020

**RATING ANALYSTS:**

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## RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Long-term	Long-term	Long-term
Entity	A-	A-2	A-	A-2
Rating Outlook	<i>Rating Watch – Developing</i>		<i>Stable</i>	
Rating Action	Maintained		Initial	
Rating Date	22 <sup>nd</sup> Apr'20		20 <sup>th</sup> Dec'19	

## COMPANY INFORMATION

Incorporated in 1993

External auditors: Riaz Ahmad &amp; Co. Chartered Accountants.

Public Limited (Unlisted) Company

Chairman/CEO: Mr. Nasir Shafi

**Key Shareholders (with stake 5% or more):**

Directors &amp; family members – 55.8%

The Crescent Textile Mills – 19.8%

International Finance Corp – 5.89%

## APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (May 2019)

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

**Crescent Bahuman Limited**

**OVERVIEW OF THE INSTITUTION**

Crescent Bahuman Limited (CBL) was incorporated in 1993 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017). The principal activity of the company is manufacturing and export of denim fabric and garments. The production facility is located at Sargodha Road, Pindi Bhattian and head office is located at 45-A Zafar Ali Road, Gulberg-V Lahore.

**Profile of the Chairman/CEO:**

Mr. Nasir Shafi is one of the founder members of CBL. He has been serving as CEO of CBL since incorporation. Mr. Nasir is an MBA from IBA, Karachi and has more than 48 years of work experience.

**RATING RATIONALE**

Crescent Bahuman Limited (CBL) is an export-oriented, vertically integrated denim fabric and garment manufacturing company. CBL was established as a joint venture between the Crescent Group and Greenwood Mills – U.S-based fabric manufacturing company – in 1995, however, the business incurred losses amidst U.S. sanctions between 1998 and 2000. Subsequently, the venture was dissolved and an extensive restructuring was carried out in 2001, whereby the Crescent Group assumed full ownership of the business and renamed it as Crescent Bahuman Limited. In response to increasing denim demand, CBL has enhanced denim fabric and garment production capacities during the past three years. Further enhancement of denim fabric and garments through system automation and staff trainings over the next 1 – 2 years is also on the cards.

Revenue model of the company encompasses denim garments, denim fabric, local retail and yarn sales, with exports accounting for more than 90% of total revenue during FY19. Net revenue of the company has increased on a timeline basis on account of favorable pricing in rupee terms and higher demand for denim products in North America. Growth in net revenue was led by increased contribution of exports, as the company reduced its interest in local retail business. Customer base of the company comprises leading multinational denim retail chains. The concentration risk is considered high as top-10 customer account for majority of total revenue. However, the established business relations, high customer satisfaction underpinned by focus on quality and sustainability, and fairly cumbersome supplier switching process help mitigate the intensity of concentration risk.

The debt profile of the company comprises a mix of short-term and long-term debt, though the proportion of former is higher. The outstanding balance of short-term borrowings stood lower at period end. Going forward, the utilization of short-term debt is projected to remain around at the current levels over the next three years. Tier-1 equity of the company augmented with the retention of profits, which resulted in improved gearing and debt leverage ratios.

The revision in rating outlook reflects prevailing uncertainty in textile sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand and challenging economic environment. It is expected that the entire value chain of the textile industry will be effected by these developments. 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-Developing’ status. Given that company has low borrowings compared to its equity level, it is expected that ratings will remain stable post-recovery of the ongoing situation; nevertheless as scenario is evolving rapidly, VIS will closely monitor and will accordingly take action to resolve the outlook status.

**Crescent Bahuman Limited**

**Annexure I**

<b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions)</i>				
	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>1HFY20</b>
<b>Paid-up Capital</b>	3,454	3,454	4,053	4,053
<b>Tier-1 Equity</b>	3,035	3,769	4,395	4,498
<b>Net Sales</b>	9,091	12,156	14,047	7,636
<b>Profit Before Tax</b>	94	701	707	179
<b>Profit After Tax</b>	10	600	572	103
<b>FFO</b>	473	1,168	883	397
<b>Gearing (x)</b>	1.44	1.07	0.84	0.86
<b>Current Ratio (x)</b>	0.98	1.10	1.20	1.20

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Annexure 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](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		Annexure III			
<b>Name of Rated Entity</b>	Crescent Bahuman Limited				
<b>Sector</b>	Textile				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Ratings				
<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>				
	22/04/2020	A-	A-2	Rating Watch – Developing	Maintained
	20/12/2019	A-	A-2	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.				
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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>		
	Mr. Attiq Ur Rehman	AVP. Finance	20 <sup>th</sup> Apr'20		