RATING REPORT

Crescent Bahuman Limited

REPORT DATE:
May 09, 2023

RATING ANALYSTS:
Muhammad Tabish
muhammad.tabish@vis.com.pk

Syed Ilyas Afridi
ilyas.afridi@vis.com.pk

RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	*May 09, 2023*		*May 13, 2022*	

COMPANY INFORMATION	
Incorporated in 1993	**External Auditors:** Munif Ziauddin & Co. Chartered Accountants
Public Limited Company – Unquoted	**Chairman:** Mr. Nasir Shafi
Key Shareholders (with stake 5% or more):	**CEO:** Mr. Rizwan Shafi
Directors & Individuals (Family Members) ~68.7%	
The Crescent Textile Mills ~13.9%	
International Finance Corp ~9.1%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Industrial Corporates (August 2021) https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

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Crescent Bahuman Limited (CBL) was incorporated in 1993 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017).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. 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:

Mr. Nasir Shafi is one of the founding members of CBL. He served as CEO of CBL since incorporation to April 2021. Now Mr. Nasir Shafi is serving as Chairman/Director of CBL. Mr. Nasir is an MBA from IBA, Karachi and has over 50 years of work experience

Profile of the CEO:

Mr. Rizwan Shafi holds a Bachelor's degree in Textile Engineering from USA. He is CEO of CBL since April 2021, and had been serving on the Board of Directors of Crescent Bahuman Ltd from 2001 till March 2021. He was re-elected as the Director in September 2022.

RATING RATIONALE

Corporate Profile

Crescent Bahuman Limited (CBL), operating for nearly three decades, is the first vertically-integrated denim setup that specializes in the production of denim fabric and garments, with operations covering spinning, weaving, dyeing, processing, cutting, stitching, and finishing. Total workforce stands over 7,500 employees. Average energy demand of 6.1MW is met through a mix of gas, furnace oil, and diesel generators, with additional support from solar power plant and national grid supply.

Operational Performance

CBL is headquartered in Lahore, with production facilities located in Pindi Bhattian. The company has expanded its production capacity for garments division by ~17% to 12.4m pieces per year since last review, while capacities in other segments remain unchanged. Production levels have slightly increased in FY22, resulting in higher utilization rates. However, the same has been impacted in the current fiscal year by global slowdown in demand and challenging macro-economic environment.

Table: Capacity & Production Data (Units in millions)

	FY21	FY22
Yarn		
Installed Capacity – Ring Spindles	10.5	10.5
Actual Production	6.7	7.6
Utilization	***64%***	***72%***
Installed Capacity – Open-end Spinning	8.1	8.1
Actual Production	4.6	4.3
Utilization	***58%***	***54%***
Fabric		
Installed Capacity – Weaving	17.7	17.7
Actual Production	16.3	16.6
Utilization	***92%***	***94%***
Installed Capacity – Finishing	16.5	16.5
Actual Production	14.1	16.1
Utilization	***85%***	***98%***
Garments		
Installed Capacity – Cutting	10.6	11.5
Actual Production	8.5	10.3
Utilization	***80%***	***89%***
Installed Capacity – Stitching	10.6	11.5
Actual Production	8.4	10.2
Utilization	***79%***	***89%***
Installed Capacity – Garment Wet Processing	10.6	11.5
Actual Production	8.7	10.8
Utilization	***82%***	***94%***

The company follows a make-to-order approach, scheduling production based on confirmed orders received, typically with a three-month advance duration. Customers provide a tentative annual sales plan for the same. At present, around one-quarter of yarn requirement is met through in-house production and the remaining is sourced from local market.

Key Rating Drivers

Business risk profile is constrained by current weak macroeconomic environment both globally and locally, demand slowdown, high interest rate situation, inflationary pressures and recent floods adversely affecting cotton crop while ongoing energy crisis in the country pose a challenge to margins sustainability and future growth.

Pakistan's export proceeds have oscillated in the range of USD 22-25b during the past decade (FY11-FY21), however, in FY22 exports finally broke the threshold, coming in at USD 32.4b. Textile sector contributes nearly one-fourth to industrial value-added segment and 8.5% to the country's GDP, with an estimated market size of around Rs. 4.0tr. Barring seasonal and cyclical fluctuations, textiles sector has maintained an average share of about 60% in national exports.

Table: Pakistan Export Statistics (in USD millions)

	FY20	FY21	FY22		9M'FY22	9M'FY23
Pakistan Total Exports	22,536	25,639	32,450		23,706	21,088
Textile Exports	12,851	14,492	18,525		13,577	12,992
PKR/USD Average rate	158.0	160.0	177.5		171.5	235.5

Source: SBP

Export revenues from textile sector have noted sizeable growth over the years (FY22: $19.3b FY21: $15.4b; FY20: $12.5b; FY19: $13.6b). Knitwear, Readymade and Bedwear segments continue to contribute higher than other segments, with a cumulative contribution of more than 60% in textile exports. While the growth was primarily driven by volume (excluding knitwear and cotton yarn), higher prices also boosted exports.

Table: Textile Export Details (in USD millions)

	FY20	FY21	FY22		9M'FY22	9M'FY23
High Value-Added Segment	**9,669**	**12,427**	**15,605**		**11,482**	**10,318**
- Knitwear	2,794	3,815	5,121		3,730	3,390
- Readymade Garments	2,552	3,033	3,905		2,864	2,657
- Bedwear	2,151	2,772	3,293		2,449	2,032
- Towels	711	938	1,111		820	745
- Made-up Articles	591	756	849		627	535
- Art, Silk & Synthetic Textile	315	370	460		344	309
- Others	555	743	866		650	650
Low to medium Value-Added Segment	**2,858**	**2,972**	**3,717**		**2,760**	**2,158**
- Cotton Cloth	1,830	1,921	2,438		1,795	1,538
- Cotton Yarn	984	1,017	1,207		908	573
- Others	43	34	72		56	47
Total	**12,527**	**15,399**	**19,332**		**14,243**	**12,476**

Source: PBS

Cotton prices rose to a new 12-year high of ~Rs. 22,935/maund as of Sept'22, as a result of the shortage and higher input costs of fertilizer and energy. Cotton imports were also up 19.8%, in USD terms, for FY22 vis-à-vis preceding year.

Table: Cotton Prices Trend (In Rs.)

	FY19	FY20	FY21	FY22	9M'FY23
Per Maund	8,770	8,860	13,000	17,380	18,935
YoY % Change	26%	1%	32%	34%	9%

Floods in Sindh and Southern Punjab during recent monsoon season have caused significant damage to the cotton crop. According to industry estimates, ~45% of the crop has been washed, worth more than $2.5b, resulting in significant price increases. The government has announced facilitation for raw materials imports to compensate for domestic shortages. Nonetheless, in addition to affecting profit margins, higher raw material pricing is expected to increase the working capital requirements, which is likely to have a negative impact on the liquidity profile of textile operators, particularly spinners, weavers and dying companies.

Global and domestic challenges, such as slowdown in export demand (primarily from North America and the EU, which has begun to materialize in Pakistan's monthly export proceeds) due to recessionary trend, industrial gas load shedding expected in the country, and rising production costs due to inflation, will weigh on the business risk profile going forward. These factors may result in competitive market pricing for exporters.

Revenue growth driven by volumetric uptick, higher prices and rupee devaluation impact; client concentration risk remains high.
Sales revenue posted a strong double-digit annual growth rate for the second year in a row, reaching Rs. 22.8b in FY22. The YoY increase of ~37% can be explained by ~17% rupee devaluation, ~11% uptick in volume and ~9% higher prices in dollar terms. This positive trend has continued in the current fiscal year, with projected topline of over Rs. 26b for full year FY23.

Export sales contribute to over 95% of entire revenues on a timeline, while the rest is derived from local sales. Garments continue to make up more than four-fifth of export revenues, and remaining is shared by fabric and others. Meanwhile, local sales comprise a mix of fabric, garment, yarn, and retail sales. In value terms, exports grew by ~33%, whereas local sales noted a three-fold increase, driven by strong growth in fabric sales during the year.

Majority of exports are directed to US, with the remaining spread out across diverse regions such as UK, Turkey, Sweden, Bangladesh, Germany, and others. Client concentration risk is elevated, with heavy reliance on a single client, Levi Strauss Co.; however, long-term association of over 25 years along with high customer satisfaction underpinned by focus on quality provide sustainability and comfort. On the flip side, large-sized customers and strong competition for denim exports limit the pricing power.

Profitability margins noted a significant improvement in the current fiscal year.
Following a decline in FY22, gross margins have rebounded and shown a significant improvement in the current fiscal year, which is attributed to inventory gains and upward revision of contract prices with major clients. Management anticipates margins to eventually revert to their historical level of 14%. Moreover, sufficient inventory levels are kept for the next 2-3 months of confirmed sales orders while average cotton cost has nearly doubled in the last 18 months, with entire procurement sourced locally.

Administrative overheads noted a significant increase over the review period on the back of inflation, while distribution expenses remained limited. Financial charges also went up considerably in line with higher benchmark rates during the year.

Cash flows mirror the profitability performance trend; adequate working capital days compare favorably to peers.
Positive profitability trend led to a significant improvement in funds flow from operations (FFO) during the review period (FY22: Rs. 587.3m; FY21: Rs. 1.0b). Strong uptick in cash flow generation with slight decline in debt levels resulted in improved debt coverage metrics. Current ratio is consistently reported above 1.2x for the last four fiscal years and coverage of short-term borrowings in relation to trade debts and inventory remains sufficient, indicating a sound liquidity profile. In the last 18 months, working capital days have reduced by more than half mainly due to drop in inventory holdings. Aging profile of trade debts remain strong as all receivables are outstanding within a 6-month period.

Adequate capitalization levels; leverage ratios have trended downwards on a timeline.
Equity base (excluding revaluation surplus) has noted a consistent growing trend driven by additional share capital, positive bottom-line and all-out retention. Debt profile is a mix of short-term and long-term debt, with total interest bearing liabilities declining in the current fiscal year; ~85% constituted short-term debt, with majority being the ERF facility. Gearing and leverage ratios have improved on a timeline basis.

Crescent Bahuman Limited **Appendix I**

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**FY20**	**FY21**	**FY22**
Fixed Assets	4,175.9	4,624.3	5,343.2
Stock-in-Trade	4,828.6	4,825.8	5,335.8
Trade Debts	1,571.1	1,022.4	1,187.1
Cash & Bank Balances	267.6	573.9	1,251.8
Total Assets	**12,815.8**	**14,081.0**	**16,735.8**
Trade Payables	2,855.2	2,877.4	4,406.1
Long Term Debt *(incl. current maturity)*	310.4	1,035.4	632.7
Short-term Debt	4,026.6	3,509.3	3,635.0
Total Debt	4,337.0	4,544.7	4,267.7
Total Liabilities	**7,255.4**	**7,499.7**	**8,993.8**
Paid up Capital	1,360.0	5,265.1	5,836.3
Tier-1 Equity	**4,395.1**	**4,602.6**	**5,623.6**
INCOME STATEMENT			
Net Sales	13,375.9	16,643.5	22,779.1
Gross Profit	1,918.9	2,349.4	2,165.3
Profit/(Loss) Before Tax	**315.6**	**617.6**	**717.0**
Profit/(Loss) After Tax	**182.9**	**449.7**	**487.6**
RATIO ANALYSIS			
Gross Margin (%)	14.3%	14.1%	9.5%
Net Margin (%)	1.4%	2.7%	2.1%
FFO	605.1	1,024.9	587.3
FFO to Total Debt (x)	0.14	0.23	0.14
FFO to Long-term Debt (x)	1.95	0.99	0.93
Debt Leverage (x)	1.58	1.33	1.50
Gearing (x)	0.94	0.81	0.71
DSCR (x)	2.26	3.31	1.21
Current Ratio (x)	1.24	1.38	1.32
Inventory plus Receivables/Short term Borrowings (x)	1.59	1.67	1.79
ROAA (%)	1.4%	3.3%	3.2%
ROAE (%)	4.1%	8.8%	8.4%

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.

<table>
<tr><th colspan="2">REGULATORY DISCLOSURES — Appendix III</th></tr>
<tr><td>Name of Rated Entity</td><td>Crescent Bahuman Limited</td></tr>
<tr><td>Sector</td><td>Textile</td></tr>
<tr><td>Type of Relationship</td><td>Solicited</td></tr>
<tr><td>Purpose of Rating</td><td>Entity Ratings</td></tr>
<tr><td>Rating History</td><td>
<table>
<tr><th>Rating Date</th><th>Medium to Long Term</th><th>Short Term</th><th>Rating Outlook</th><th>Rating Action</th></tr>
<tr><td colspan="5"><u>Rating Type: Entity</u></td></tr>
<tr><td>09-05-2023</td><td>A-</td><td>A-2</td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>13-05-2022</td><td>A-</td><td>A-2</td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>11-06-2021</td><td>A-</td><td>A-2</td><td>Stable</td><td>Maintained</td></tr>
<tr><td>22-04-2020</td><td>A-</td><td>A-2</td><td>Rating Watch Developing</td><td>Maintained</td></tr>
<tr><td>20-12-2019</td><td>A-</td><td>A-2</td><td>Stable</td><td>Initial</td></tr>
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<tr><td>Instrument Structure</td><td>N/A</td></tr>
<tr><td>Statement by the Rating Team</td><td>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.</td></tr>
<tr><td>Probability of Default</td><td>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.</td></tr>
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<tr><td>Due Diligence Meeting Conducted</td><td>
<table>
<tr><th>Name</th><th>Designation</th><th>Date</th></tr>
<tr><td>Mr. Yousaf Arshad</td><td>CFO</td><td rowspan="2">March 21, 2023</td></tr>
<tr><td>Mr. Ehsan S. Assad</td><td>AVP Banking & Treasury</td></tr>
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