RATING REPORT

Crescent Bahuman Limited

REPORT DATE:
June 24, 2024

RATING ANALYSTS:
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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	Positive		Stable	
Rating Action	Maintained		Reaffirmed	
Rating Date	*June 24, 2024*		*May 09, 2023*	

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)

Applicable Rating Criteria: Corporates:
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

VIS Issue/ Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Crescent Bahuman Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Crescent Bahuman Limited (CBL) was incorporated in 1993 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017).

CBL boasts a workforce of over 7500 employees.

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 51 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 reelected as the Director in September 2022.

Corporate Profile

Crescent Bahuman Limited ("CBL" or "the Company"), functions as a vertically integrated entity, encompassing spinning, dyeing, weaving, washing, stitching, and finishing units within its operational facilities. CBL commenced its operations on June 17, 1995, with production sites and a sales office situated on Sargodha Road, Pindi Bhattian, while its headquarters is positioned at Zafar Ali Road, Gulberg-V, Lahore.

The energy requirement of CBL ranges between 6 and 7 megawatts. This energy is obtained from a combination of in-house power generation methods such as gas, furnace oil, and diesel generators, supplemented by a solar power facility and access to the national grid.

Operational Performance

CBL's headquarters are situated in Lahore, while its production facilities are based in Pindi Bhattian. The Company maintained its production capacity throughout the period. However, there was a notable decrease in production levels during FY23, leading to reduced utilization rates. The main focus of the Company has remained on garments and denim fabric segment.

Table: Capacity & Production Data (Units in millions)

	FY21	FY22	FY23	HY'FY24
Yarn				
Installed Capacity – Ring Spindles	10.5	10.5	10.5	5.3
Actual Production	6.7	7.6	0.4	0
Utilization	***64%***	***72%***	***5%***	***0%***
Installed Capacity – Open-end Spinning	8.1	8.1	8.1	4.3
Actual Production	4.6	4.3	1.2	0.4
Utilization	***58%***	***54%***	***15%***	***9%***
Fabric				
Installed Capacity – Weaving	17.7	17.7	17.7	8.6
Actual Production	16.3	16.6	10.4	6.6
Utilization	***92%***	***94%***	***59%***	***76%***
Installed Capacity – Finishing	16.5	16.5	16.5	7.7
Actual Production	14.1	16.1	9.5	5.6
Utilization	***85%***	***98%***	***57%***	***74%***
Garments				
Installed Capacity – Cutting	10.6	11.5	12.5	6.2
Actual Production	8.5	10.3	8.5	4.6
Utilization	***80%***	***89%***	***68%***	***74%***
Installed Capacity – Stitching	10.6	11.5	12.5	6.2
Actual Production	8.4	10.2	8.6	4.5
Utilization	***79%***	***89%***	***69%***	***73%***
Installed Capacity – Garment Wet Processing	10.6	11.5	12.5	6.2
Actual Production	8.7	10.8	9.1	4.4
Utilization	***82%***	***94%***	***73%***	***71%***

During the fiscal year 2023, the utilization rates in the Fabric and Garments segment experienced a decrease, attributable to reduced demand resulting from an economic downturn. Conversely, in the spinning segment, utilization rates remained low due to the implementation of the Company's "Make vs Buy" strategy. CBL was able to procure yarn externally at a more cost-effective rate, therefore internal utilization was limited to meet specific requirements only. Nevertheless, a favorable trend has been noted in the first half of the fiscal year 2024, with utilization levels showing a rebound. CBL anticipates that utilization levels will return to normal by the end of the FY24.

Sector Update

The business risk profile of the textile sector in Pakistan is characterized by a high level of exposure to economic cyclicality and intense competition. This sector's performance is significantly influenced by the broader economic conditions in the country, making it inherently vulnerable to fluctuations in demand driven by economic factors.

In FY23, the textile sector faced challenges due to various economic and environmental factors. These included damage to the cotton crop resulting from flooding in 1HFY23, escalating inflation, and import restrictions due to diminishing foreign exchange reserves.

During FY23, Pakistan's yarn production registered a substantial decline, primarily due to reduced availability of cotton, as a result of crop damage and import restrictions. The sector's profitability was constrained by factors such as higher production costs, increased raw material costs, and rising energy expenses, all of which constrained the sector's profit margin. The industry's performance is closely intertwined with the outlook of the cotton and textile industries, both of which were affected in FY23. Reduction in cotton supply, coupled with global economic slowdown and contractionary economic policies, led to a decrease in demand for textile products and, consequently, cotton yarn.

While the global outlook for cotton production is expected to rebound, local challenges persist. These challenges include high interest rates, increasing energy costs and inflationary pressures. Additionally, the sector's vulnerability to global market dynamics and the domestic economic landscape further contribute to its high business risk profile. However, there is optimism as an anticipated bigger cotton crop in FY24 is expected to alleviate some pressure on input costs and margins.

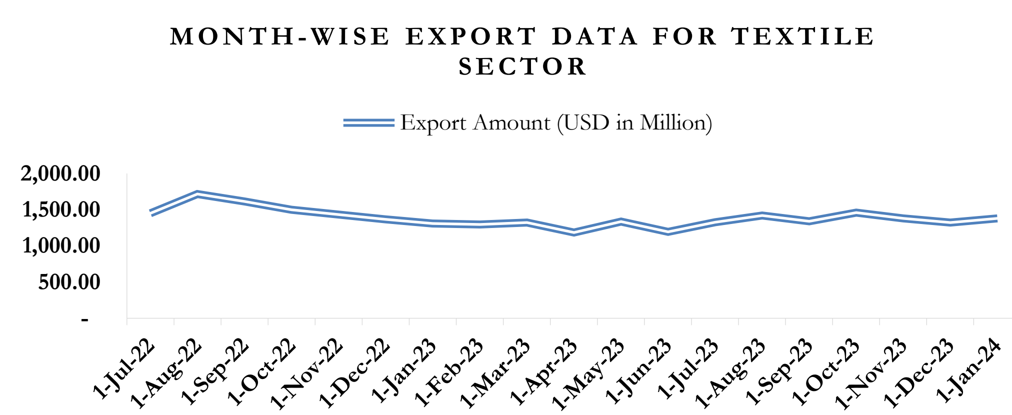

Figure 1: MoM Textile Exports (In USD' millions)
Source: SBP

Key Rating Drivers

Revenue growth driven by rupee depreciation resulting in higher profit margins; client concentration risk remains high. 1HFY24 topline registered a marginal decline.

Despite experiencing a volumetric decline, CBL achieved a notable 15.5% year-on-year growth in sales revenue during the fiscal year 2023. This growth can be attributed to increase in effective prices due to rupee depreciation. The Company maintained its focus on exports, with a significant 96.5% of net sales stemming from international markets. Garment sales remained the primary driver of revenue, constituting 85.9% of total sales, while fabrics accounted for 12.6% of sales, ranking second in the product mix. In terms of sales' geographic concentration in FY23, US was the top contributor around 40.3% (FY22: 42.0%) followed by the UK with 21.7% (FY22: 18.9%). Client concentration also is considered high, with more than 75% of sales deriving from a single client. However, the process of onboarding new customers is currently in development, with a focus on reducing client concentration in the future.

Backed by the effective price increase and inventory gains, the Company's gross profit margin increased from 9.5% in FY22 to 17.7% in FY23.

Administration expenses experienced a growth of 1.93x from FY22 to FY23 attributed to an abnormal surge in freight charges. Moreover, Other expenses of the Company surged by 11.3x in FY23 primarily attributed to Duty drawback of taxes and levies written off and impairment loss booked on capital work in progress. Finance cost of the Company also rose by 1.8x in FY23 attributed to high interest rates prevailing in the country. The defined increase in operating expenses and finance cost has negatively affected the bottom impact of increased gross margins which resulted in lower growth in the Company's net margins in FY23. The Company's net profit margin has risen from 2.1% in FY22 to 4.6% in FY23.

The Company's sales inched down in HY'FY24 compared to HY'FY23. Additionally, this period witnessed a decline in profitability margins, with gross profit margins at 16.9% (HY'FY23: 17.2%) and net profit margin at 4.3% (HY'FY23: 4.4%). This decline can be attributed to a slight decrease in effective prices and higher input costs and finance costs incurred by the Company.

The company anticipates FY24 sales to slightly dip compared to FY23, with the net profit margin projected to hover around 4%.

Higher FFO in FY23 and HY'FY24 Enhances Debt Coverage; Liquidity Profile Remains Adequate during FY23 and HY'FY24.

The improvement in profitability drove an increase in Funds from Operations ("FFO") during FY23 compared to FY22. Consequently, the Debt Service Coverage Ratio ("DSCR") improved to 2.3x in FY23 from 1.2x in FY22. FFO to Total Debt also saw improvement, rising to 0.5x in FY23 from 0.1x in FY22 due to higher FFO and reduced borrowings. Similarly, FFO to Long-term Debt coverage increased from 0.9x in FY22 to 3.1x in FY23. These enhancements can be attributed to higher profitability and loan repayments. Furthermore, the Company's Current Ratio inched up from 1.3x in FY22 to 1.5x in FY23, indicating an adequate liquidity profile.

Similarly for HY'FY24, CBL's FFO clocked in slightly higher than FFO of HY'FY23. Consequently, DSCR of the Company inched up from 2.5x in HY'FY23 to 2.6x in HY'FY24. FFO to Total Debt and FFO to Long Term Debt has shown improvements. FFO to Total Debt stood at 0.6x in HY'FY24 compared to 0.5x in HY'FY23. FFO to Long Term Debt increased from 3.0x in HY'FY23 to 4.2x in HY'FY24. The Company's liquidity profile remained adequate, demonstrated by a current ratio of 1.4x in HY'FY24.

Capitalization indicators remain within manageable levels

The Company's equity base excluding revaluation surplus (tier-1 equity) saw a growth of 22% as of Jun'23 compared to Jun'22, primarily fueled by strong profit retention. In terms of debt, the Company reduced its short-term and long-term borrowing, resulting in reduction in total debt as of Jun'23 compared to Jun'22. Consequently, the Company's gearing ratio improved from 0.7x in FY22 to 0.5x in FY23 due to equity growth and decreased borrowings. The debt profile reveals that 84.7% of the total debt comprises short-term debt, while long-term debt accounts for 15.3% of the total debt as of Jun'23.

As of Dec'23, the Company observed an increase in tier-1 equity driven by profit retention, while total debt decreased. Consequently, the Company's gearing ratio showed minimal improvement from 0.52x in Jun'23 to 0.48x in Dec'23.

Going forward, the Company is prioritizing repayments of its short-term loans because of the elevated interest rates prevailing in the economy. Additionally, the Company adheres to a policy wherein the majority of its capital expenditures are funded through internal cash.

REGULATORY DISCLOSURES — Appendix I

Name of Rated Entity	Crescent Bahuman Limited
Sector	Textile
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				
24-06-2024	A-	A-2	Positive	Maintained
09-05-2023	A-	A-2	Stable	Reaffirmed
13-05-2022	A-	A-2	Stable	Reaffirmed
11-06-2021	A-	A-2	Stable	Maintained
22-04-2020	A-	A-2	Rating Watch Developing	Maintained
20-12-2019	A-	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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Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Ehsan S. Assad	AVP Banking & Treasury	June 06, 2024