CRESCENT BAHUMAN LIMITED

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APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology –Corporates (https://docs.vis.com.pk/docs/CorporateMethodology.pdf)

Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A-	A2	A-	A2
RATING OUTLOOK/ WATCH	Stable		Positive	
RATING ACTION	Maintained		Maintained	
RATING DATE	June 27, 2025		June 24, 2024	

RATING RATIONALE

The assigned ratings reflect Crescent Bahuman Limited's ("CBL" or "the Company") sustained revenue growth supported by a stable operational profile. The Company operates primarily in the export-oriented denim and garments segment, with a diversified customer base and geographical footprint across the United States, Europe, and other regions.

Despite top-line gains, profitability indicators remained constrained due to elevated freight costs, rising minimum wages, and lower average selling prices offered to attract new customers. These factors resulted in compression in gross and net margins during the review period. Management expects a gradual improvement in profitability, backed by procurement efficiencies and cost-saving initiatives in energy usage.

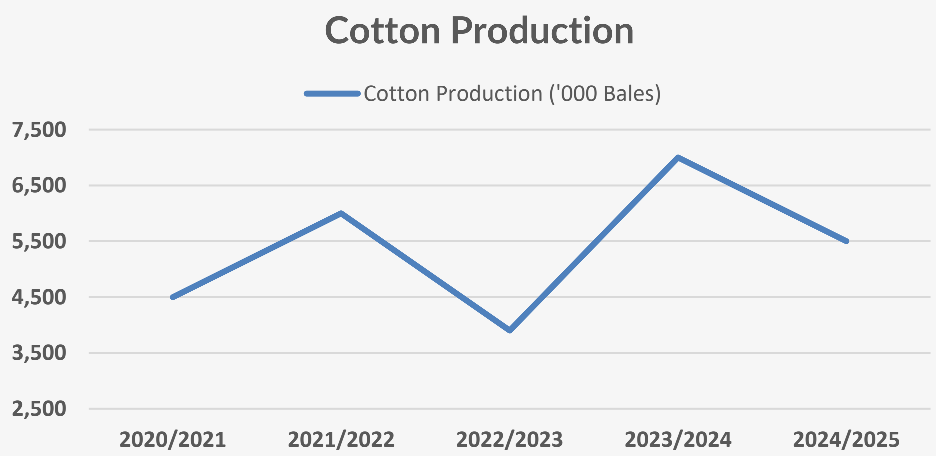
Ratings also incorporate the Company's overall financial risk profile, where borrowings have remained at manageable levels, keeping the gearing ratio conservative. However, leverage remained elevated due to increased trade payables and a rise in short-term borrowings. Liquidity and debt service coverage remained adequate, while FFO coverage metrics declined in line with profitability. Ratings will remain sensitive to improvement and sustainability in profitability indicators.

COMPANY PROFILE

Crescent Bahuman Limited is a public unlisted company operating a vertically integrated textile manufacturing unit specializing in denim production. The Company's operations include spinning, weaving, washing, stitching, and finishing. CBL began commercial operations in June, 1995, and has since evolved into one of Pakistan's leading denim exporters. The Company's production facilities and sales office are located in Pindi Bhattian, near Sargodha, while its corporate headquarter is based in Lahore.

INDUSTRY PROFILE & BUSINESS RISK

The business risk profile of Pakistan's textile sector is shaped by economic cyclicality, intense competition and structural challenges. The sector is highly sensitive to domestic and international demand fluctuations, making it vulnerable to broader economic conditions. In FY24, Pakistan's cotton production surged by 79% compared to FY23, though this increase was largely due to the low base in FY23. However, cotton production decreased by 59.4% YoY by October 2024, with a total of 2.04 million bales. The USDA forecasts a rebound to 5.55 million bales in FY25, contingent on overcoming several challenges, including a declining area under cotton cultivation, rising energy costs, and adverse climatic conditions such as heatwaves, floods, and pest infestations that have further pressured yields.



Source: USDA

Pakistan's textile exports in 3QFY25 demonstrated growth, primarily fueled by the value-added segment, despite challenges in domestic cotton production necessitating reliance on imported cotton. Exporter profitability remains vulnerable to cotton market volatility, inflationary pressures, and exchange rate fluctuations, while persistently high energy costs continue to strain overall cost structures. Furthermore, rising input costs and regulatory changes are creating a challenging environment for the sector.

A key issue is the 23% gas price hike for captive power plants, starting March 2025, as part of Pakistan's IMF agreement. Gas prices are set to rise to PKR 4,291 per MMBTU, reaching PKR 6,000 per MMBTU by August 2026. This increase combined with the shift from the Final Tax Regime (FTR) to the Normal Tax Regime (NTR), may put further pressure on textile manufacturers' financial performance. Rising input costs and regulatory changes are creating a challenging environment for the sector.

Figure 1: MoM Textile Exports (USD Million)
Source: PBS

Portfolio and Capacity

	2024			1HY25		
	Production capacity	Actual production	Capacity Utilization	Production capacity	Actual production	Capacity Utilization
		000'			000'	
Yarn						
Open end spinning	8,050	523	6%	4,025	562	14%
Fabric						
Weaving	17,688	15,072	85%	8,844	8,615	97%
Finishing	16,500	13,136	80%	8,700	8,593	99%
Garments						
Stitching	12,480	10,071	81%	6,240	5,794	93%
Garment wet processing	12,480	9,817	79%	6,240	5,800	93%

During FY24, Fabric and Garment segments showed improved utilization, with Weaving rising to 85% (FY23: 59%) and Finishing to 80% (FY23: 57%). In Garments, Stitching reached 81% (FY23: 69%) and Wet Processing 79% (FY23: 73%). While operations were initially impacted by softer global demand and broader economic pressures, performance improved notably in the first half of fiscal year 2025. Weaving and finishing operations recorded strong throughput, with activity levels nearing full capacity. Similarly, garment stitching and wet processing showed consistent improvement, supported by increased export orders from newly onboarded clients.

In the Spinning segment, utilization remained minimal throughout the period, as the Company has largely shifted to more feasible external procurement. As a result, the open-end spinning unit has been closed.

FINANCIAL RISK

Capital Structure

The Company's total debt increased during the review period, primarily due to higher short-term borrowings related to export refinance and bill discounting facilities. In contrast, long-term debt declined, in line with scheduled repayments.The equity base grew during the period on the back of retained earnings, keeping the gearing ratio low and below 1x. However, overall leverage rose from 1.13x in FY23 to 1.39x in 1HFY25, reflecting higher short-term borrowings and an increase in trade and other payables. Going forward, the Company plans to undertake a CAPEX of PKR 1.16 billion in FY25, primarily aimed at capacity expansion. Of this amount, PKR 965 million is expected to be funded through long-term borrowings, with net long-term financing projected to stand at approximately PKR 943 million by FY25 (up from PKR 194 million by end FY24). Based on projections, gearing and leverage ratios are expected to increase but remain within acceptable limits.

Profitability

The Company posted a 9% year-on-year increase in net sales for FY24, reaching PKR 28.62 billion, with sales for 1HFY25 standing at PKR 17.55 billion. Revenue remained largely export-driven, with international sales accounting for 97% of total revenue, while local market demand showed mixed trends during the period. Garments and fabrics continued to dominate the product mix, collectively accounting for approximately 98% of total sales, with garments contributing 83.09% and fabrics 14.99%. The client concentration improved, with the top customer's share reducing from 75% in FY23 to 53% in 1HFY25, reflecting the Company's ongoing efforts to diversify its customer base. The U.S. remained the largest export destination, accounting for 35% of total sales in 1HFY25 (FY24: 38%), followed by Germany at 11% (FY24: 13%).

Despite topline growth, gross and net margins declined in FY24 and 1HFY25 due to competitive pricing strategies adopted to broaden the client base, which impacted overall profitability. Administrative and distribution expenses rose, driven by elevated freight costs and an increase in minimum wages, while other expenses spiked due to higher provisioning for expected credit losses following default by a key client. Further margin compression was noted in 1HFY25, largely driven by lower average selling prices to new customers; however, this was partially offset by reduced operating expenses. Finance costs rose to PKR 1,160 million in FY24 (FY23: PKR 863 million) and remained elevated at PKR 589 million in 1HFY25, largely due to higher short-term borrowings and rising benchmark interest rates, while profitability was further weighed down by a decline in other income. Going forward, the Company remains focused on expanding and diversifying its customer base while undertaking cost optimization measures, particularly in procurement and energy use, to improve profitability.

Debt Coverage & Liquidity

In 1HFY25, MTML faced a significant decline in funds from operations (FFO), primarily driven by pressure on margins. The contraction in earnings, combined with an increase finance cost accruing from rise in short-term borrowings (from PKR 3.46 billion in FY24 to PKR 4.26 billion in 1HFY25), resulted in weakened FFO coverage metrics. Despite this, overall liquidity and Debt Service Coverage Ratio (DSCR) remained adequate during FY24 and 1HFY25. Coverage of short-term borrowings through inventory and receivables remained above 2x, supported by high stock-in-trade levels. The Company's cash conversion cycle remained favorable, aided by receivables being realized within 30 days. Going forward, maintaining an adequate liquidity profile and coverage metrics will remain critical from a ratings perspective.

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<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>
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<tr><th colspan="5">Rating Type: Entity</th></tr>
<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>27-06-2025</td><td>A-</td><td>A2</td><td>Stable</td><td>Maintained</td></tr>
<tr><td>24-06-2024</td><td>A-</td><td>A2</td><td>Positive</td><td>Maintained</td></tr>
<tr><td>09-05-2023</td><td>A-</td><td>A2</td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>13-05-2022</td><td>A-</td><td>A2</td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>11-06-2021</td><td>A-</td><td>A2</td><td>Stable</td><td>Maintained</td></tr>
<tr><td>22-04-2020</td><td>A-</td><td>A2</td><td>Rating Watch Developing</td><td>Maintained</td></tr>
<tr><td>20-12-2019</td><td>A-</td><td>A2</td><td>Stable</td><td>Initial</td></tr>
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<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>
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<tr><td>Due Diligence Meetings Conducted</td><td>
<table>
<tr><th>S.No.</th><th>Name</th><th>Designation</th><th>Date</th></tr>
<tr><td>1</td><td>Mr. Yousaf Arshad Munir</td><td>VP Finance & CSO</td><td rowspan="2">June 16, 2025</td></tr>
<tr><td>2</td><td>Ms. Umm ul Baneen</td><td>SOF</td></tr>
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