RATING REPORT

Bhanero Textiles Mills Limited

REPORT DATE:
January 30, 2025

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A+	A1	A+	A1
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	*Jan 30, 2025*		*Sept 26, 2023*	

COMPANY INFORMATION	
Incorporated in 1980	**External Auditors:** M/s Mushtaq & Co. Chartered Accountants
Public Listed Company	**Chairman:** Mr. Mohammad Shaheen
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Khurrum Salim
Admiral (Pvt) Ltd ~16.5%	
Mrs. Saima Bilal ~11.1%	
Mr. Muhammad Qasim ~8.65%	
Mrs. Fatima Amin ~5.7%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Industrial Corporates (May 2023) *https://docs.vis.com.pk/docs/CorporateMethodology.pdf*

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale: *https://docs.vis.com.pk/docs/VISRatingScales.pdf*

Bhanero Textiles Mills Limited

OVERVIEW OF THE INSTITUTION

Bhanero Textiles Mills Limited (BHAT), part of Umer Group of Companies, was incorporated as a public limited company in 1980, under the Companies Ordinance, 1984. BHAT is listed on Pakistan Stock Exchange (PSX) and registered office of the company is based in Karachi.

Profile of CEO:
Mr. Khurram Salim holds the position of CEO and is responsible for supervision of all divisions of the company.

RATING RATIONALE

Group Profile

Founded in 1980, Umer Group of Companies is a leading textile conglomerate in Pakistan, with an annual turnover exceeding USD 390 million. In addition to its strong presence in the textile industry, the group has diversified its operations into power generation, footwear, leather, dairy, and construction.

With 45 years of experience in the textile sector, Umer Group manages three textile entities that collectively operate seven spinning mills, three weaving mills, and one finishing unit. Each unit is supported by its own dedicated power generation capacity, totaling over 35 MW, ensuring an uninterrupted power supply. Over the years, the group has secured a substantial market share in both domestic and export markets. Its major export destinations include China, Italy, Japan, Turkey, Belgium, and various other European countries.
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Table: Key Indicators – Umer Group (In PKR millions)

	FY19	FY20	FY21	FY22	FY23	FY24
Total no. of Spindles	186,956	186,956	186,956	186,956	224,400	224,400
Total no. of Looms	567	567	567	567	577	577
Sales Revenue	41,036	41,921	50,493	71,358	80,373	109,907
- Exports	*49%*	*52%*	*50%*	*62%*	*67.23%*	*75.41%*
- Locals	*51%*	*48%*	*50%*	*38%*	*32.77%*	*24.60%*
Yarn Sales	21,970	21,894	28,555	29,085	47,676	70,194
Fabric Sales	13,752	14,283	15,083	40,571	28,768	33,684

The collective average energy demand of all three group textile companies exceeds 35 MW, met through mix of wind, solar and gas-based generators. While, the remaining is drawn from National grid.

Corporate Profile
Bhanero Textile Mills Limited ("BHAT" or "the Company") has been manufacturing and trading yarn (cotton, rayon, ring-spun & carded) and knitted fabric (mixed ranges of fine woven greige cloths from light to heavy, wider width, plain, textured, twills, and luxurious satins) for both domestic and international markets for over four decades. Integrated operations and an in-house power plant ensure continuity, while numerous export standards and trade certifications reflect a quality commitment. The sponsors actively manage daily business affairs, with experienced senior management in place. Facilities in Sindh and Punjab employ over 1,600 staff.

Operating Performance
Headquartered in Karachi, the company operates 3 spinning and 1 weaving unit in Kotri, District Jamshoro and Ferozewatan, Sheikhupura. During FY24, production level in both spinning and weaving segment registered growth.

Table: Capacity & Production Data (Units in millions)

	FY21	FY22	FY23	FY24
Spinning				
No. of spindles	80,112	80,112	99,696	99,696
Installed Capacity - Kgs	14.8	14.8	22.18	22.18
Actual Production – Kgs	12.2	13.0	13.4	26.18
Capacity Utilization	***83%***	***88%***	***60%****	***118%***
Weaving				
No. of looms	162	162	162	162
Installed Capacity – Meters (in Mn)	26.6	34.0	34.0	34.0
Actual Production – Meters (in Mn)	21.1	24.0	22.0	22.7
Capacity Utilization	***79%***	***71%***	***65%***	***67%***

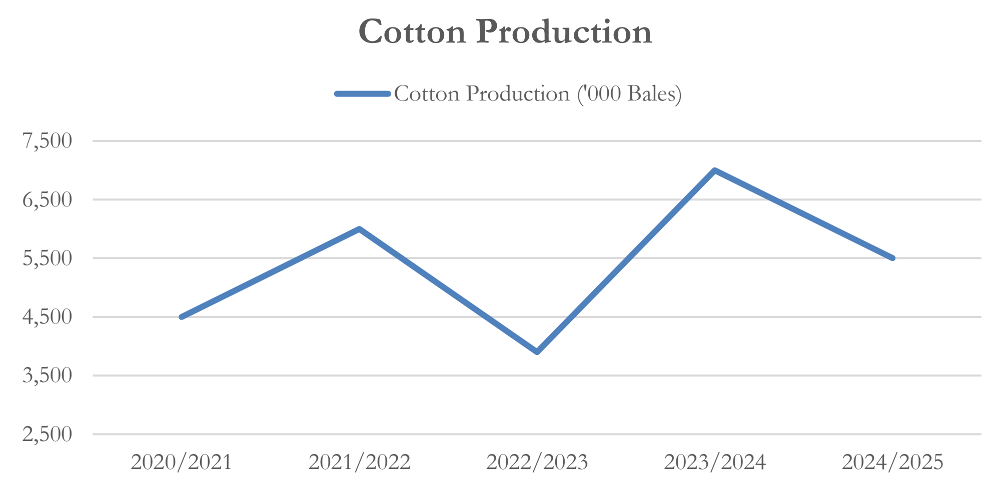
The main reason of increase in production of spinning sector is that the company installed a new unit which started its trial production later during last year.

<u>Sector Update</u>

The business risk profile of Pakistan's textile sector is highly influenced by economic cyclicality and intense competition. The sector's performance is closely tied to broader economic conditions, making it particularly vulnerable to demand fluctuations driven by these factors.

In FY23, the textile sector faced several challenges stemming from both economic and environmental factors. These included damage to the cotton crop due to flooding in the 1HFY23, escalating inflation, and import restrictions resulting from dwindling foreign exchange reserves. As a result, Pakistan's yarn production saw a substantial decline, primarily driven by the reduced availability of cotton caused by crop damage and import restrictions. The sector's profitability was further constrained by rising production costs, including higher raw material and energy expenses, which impacted profit margins.

In FY24, cotton production increased by 79% compared to FY23, but this surge was largely due to the low base of cotton production in FY23. When compared to FY22, cotton production in FY24 saw only a 17% increase. While global cotton production is expected to rebound in FY25 due to higher yields, Pakistan's cotton production was down 59.4% as at October'24 compared to the same period in 2023, with only 2.04 million bales produced. The USDA forecasts that Pakistan will produce 5.55 million bales of cotton in 2024/25. Further, the USDA Foreign Agricultural Service estimates that the cotton area in 2024/25 will be reduced to 2 million hectares, down from previous years. The country faces rising energy costs, the absence of subsidies for agricultural inputs, and a lack of an organized market system, which further complicates production. Additionally, climate change has severely impacted cotton crops, with extreme heat, heatwaves, torrential rains, and pest infestations, including whitefly, pink bollworm, and cotton leaf curl virus, contributing to decreased yields. Furthermore, the area under cultivation has been steadily shrinking, exacerbating these challenges.



Source: USDA

Despite the decline in local cotton production, Pakistan's textile exports have experienced growth in the 1QFY25 compared to the same period last year. This growth can be attributed to the reliance on imported cotton which is cheaper now a days compared to local cotton along with the increasing focus on value-added segment. While the global demand of textile is on a recovery phase, the global and local cotton market dynamics and local inflation including fuel and power prices along with FX risk in imported cotton pricing will play a crucial role in terms of profitability of the textile exporters.

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

Key Rating Drivers

Revenue growth in FY24 was primarily driven by higher volumetric sales; however, profitability impacted by higher raw material cost and inflationary pressures

Net sales grew by 78.40% YoY, reaching an all-time high of Rs. 33.06 billion (FY23: Rs. 18.55 billion), with growth observed in both segments (spinning and weaving). This increase is mainly attributed to surge in sales volumes. However, the gross margin declined to 9.18% (FY23: 16.12%) due to higher raw material prices, decline in international yarn prices compounded with sharp hike in fuel prices and stable PKR/USD.
This led to a 1.4% YoY increase in gross profit to Rs. 3.03 billion (FY23: Rs. 2.99 billion).

In FY24, local sales increased by 30% to Rs.19.5 b (FY-23: 15.0 b). Moreover, Exports accounted for 47% (FY-23: 28%) of total revenue, with 55% of total exports directed towards China. Whereas, operating costs increased by 44% YoY due to higher volumetric sales, elevated inflation, and higher commissions compared to the previous year. Meanwhile, finance costs surged by 150.3% primarily due to elevated interest rates (KIBOR and LIBOR), resulting into a net loss of PKR -131.75 million (FY23: Rs. 1,544.5 million).

During 1QFY25, revenue remained largely unchanged compared to the same period last year (SPLY). However, the gross margin contracted to 8.70%, compared to 12.51% in 1QFY24. This decline is primarily attributed to higher energy costs and high raw material prices which the company was not able to pass on in its sales price. Operating costs increased slightly by 15.38% compared to SPLY, driven mainly by inflation. Conversely, finance costs decreased by 43.00% due to reduced utilization of credit lines and decreased interest rates. Despite this reduction, finance cost has reduced but still somewhat remains elevated, resulting in contraction of net margin to 0.28% (1QFY24: 1.23%). Consequently, Net profit declined to PKR 24.5 Mn (1Q'FY24: Rs. 102.78 million).

As per the management, the main cause of a depressed profitability was procurement of raw material at higher cost which has declined sharply afterwards, leading to a notable drop in the Company's profitability during the review period. With the clearance of higher priced inventory, management expects a rebound in profitability indicators mainly during the 2HFY25. Going Forward, the Company's performance is expected to remain influenced by external factors, including any changes to Pakistan's GSP+ status given the current political situation and potential economic slowdown in key export markets (China, EU, and UK) as more than 50%, of exports are to these countries. Additionally, high energy costs and persistent competition may continue to pressure profitability in the near term.

Liquidity profile remains satisfactory with stressed cashflow and debt coverages

The liquidity profile of the company remains satisfactory, supported by a current ratio of 1.54x (FY23: 1.65x). Although, the current ratio has declined due to an increase in trade payables, short-term borrowings, and the current portion of long-term financing, the same remains adequate from a given ratings perspective. Additionally, the cash conversion cycle has improved notably to 170 days (FY23:320 days) due to an inventory drawdown.

Short-term borrowings are covered over 2x by trade debts and inventory, further bolstering the company's liquidity position. In 1QFY25, the current ratio improved slightly to 1.65x (FY24: 1.54x), driven by better cash generation resulting from inventory drawdowns and short-term debt reduction.

On cashflow and debt service coverages front, the Company's debt coverage weakened in FY24 due to reduced funds from operations (FFO), mainly attributed to higher interest expenses as interest rates remained elevated. DSCR clocked in at 0.92x (FY23: 1.81x) in FY24. However, the comfort has drawn from available cash balances on balance sheet and sponsor commitment. Nevertheless, the annualized DSCR of 1QFY25 came in at 1.09x. Also, the FFO-to-total debt ratio declined to 0.06x (FY23: 0.18x) at the end of FY24.

Slight Increase in Capitalization Indicators in FY24, Improvement Noted in 1QFY25

The equity base of the Company registered a minor decrease of 2% to Rs. 10.9b (end-FY23: Rs. 11.1b) at end-FY24 coupled with a 3% increase in total debt to Rs. 11.9b (end-FY23: Rs. 11.6b) at end-FY24 due to higher short-term borrowings. Resultantly, gearing and leverage ratio registered a slight uptick to stood at 1.10x (end-FY23: 1.04x) and 1.45x (end-FY23: 1.36x) at end-FY24.

The Company's long term debt profile comprises of commercial loans (36% of total long term debt) and SBP-subsidized loans (64% of total long term debt).
However, at end-1QFY25, both the gearing and leverage ratios improved to 0.87x) and 1.26x respectively. This improvement was primarily driven by debt reduction through better cash generation as a result of inventory drawdowns, and an augmentation of the equity base amid positive bottom-line.

Bhanero Textiles Mills Limited **Appendix I**

Financial Summary				*(Amount in Million)*
BALANCE SHEET	**FY22**	**FY23**	**FY24**	**3MFY25**
Property, Plant & Equipment	6,777	9,171	9,052	8,835
Long-term Advances & Deposits	42	44	65	65
Trade Debts	1,884	2,520	3,595	3,628
Short-term Advances	66	172	77	50
Cash & Bank Balances	641	349	736	474
Other Assets	6,135	13,968	13,140	11,557
Total Assets	**15,545**	**26,224**	**26,665**	**24,609**
Trade and Other Payables	1,865	2,045	2,463	2,935
Short Term Borrowings	-	7,322	7,771	5,417
Long-Term Borrowings *(Inc. current matur)*	3,154	4,266	4,161	4,055
Deferred Liabilities	710	937	732	686
Other Liabilities	315	551	675	625
Total Liabilities	**6,044**	**15,122**	**15,802**	**13,718**
Issued, Subs, and Paid Up Capital	30	30	30	30
Equity	**9,500**	**11,103**	**10,863**	**10,890**
INCOME STATEMENT	**FY22**	**FY23**	**FY24**	**3MFY25**
Net Sales	17,253	18,545	33,057	8,681
Gross Profit	4,075	2,990	3,034	756
Operating Profit	3,322	2,526	2,036	472
Profit Before Tax	3,184	1,781	170	136
Profit After Tax	2,759	1,581	(131)	25
FFO	3,280	2,061	700	191
RATIO ANALYSIS	**Dec'21**	**FY23**	**FY24**	**3MFY25**
Gross Margin (%)	23.6%	16.1%	9.2%	8.7%
Net Margin (%)	16.0%	8.5%	-0.4%	0.3%
FFO to Long-Term Debt*	1.04	0.48	0.17	0.19
FFO to Total Debt*	1.04	0.18	0.06	0.08
Debt Servicing Coverage Ratio (x)*	7.15	1.81	0.92	1.09
ROAA (%)*	22.0%	7.6%	-0.5%	0.4%
ROAE (%)*	33.9%	15.3%	-1.2%	0.9%
Gearing (x)	0.33	1.04	1.10	0.87
Debt Leverage (x)	0.64	1.36	1.45	1.26
Current Ratio	3.78	1.65	1.54	1.66
Inventory + Receivables/Short-term Borrowings	N/A	2.02	1.97	2.45
Cash Conversion Cycle	157	320	170	137

**Annualized*

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Bhanero Textiles Mills Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see table below
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 Meeting Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		Rating Type: Entity		
30/01/2025	A+	A1	Stable	Reaffirmed
26/09/2023	A+	A1	Stable	Reaffirmed
15/08/2022	A+	A1	Stable	Reaffirmed
27/05/2021	A+	A1	Stable	Maintained
22/04/2020	A+	A1	Rating Watch-Developing	Maintained
21/2/2019	A+	A1	Stable	Reaffirmed
17/12/2018	A+	A1	Stable	Initial

Due Diligence Meeting Conducted

Name	Designation	Date
M. Salim	Director	9/12/24