RATING REPORT

Best Exports (Pvt.) Limited (BEL)

REPORT DATE:
November 5, 2018

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	BBB	A-2
Rating Outlook	*Stable*	
Rating Action	Initial	
Rating Date	*November 5th,'18*	

COMPANY INFORMATION	
Incorporated in 1996	External auditors: Deloitte Yousuf Adil Chartered Accountants
Private Limited Company	Chairman of the Board/CEO: Mr. Waqas Ali
Key Shareholders (with stake 5% or more):	
Mr. Waqas Ali- 99.98%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria: *Industrial Corporates (October 2016)*
http://jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf

Best Exports (Pvt.) Limited (BEL)

OVERVIEW OF THE INSTITUTION

Best Exports (Pvt.) Limited was established in 1996 under the Companies Act, 1984 (now Companies Act, 2017). The company is a small sized weaving unit that is primarily involved in manufacturing and export of grey, bleached, dyed and made ups consisting of bed sets, pillow covers, quilt covers, cotton bags, table covers and curtains.

Profile of Chairman/CEO

Mr. Waqas Ali along with his father founded the company in 1996. Mr. Waqas has studied at Aitchison College, Lahore and has obtained Master's degree from Oxford University, UK.

Financial Snapshot

Total Equity: end-FY18: Rs. 1.34b; end-FY17: Rs. 1.27b.

Assets: end-FY18: Rs. 2.49b; end-FY17: Rs 2.68b

Profit After Tax: FY18: Rs. 64.9m

RATING RATIONALE

Rating Rationale

Best Exports (Pvt.) Limited (BEL) is a small sized export-oriented weaving and made-ups unit located in Faisalabad. Shareholding of the company is vested with Mr. Waqas Ali who assumed full control of the company after the spin-off from spinning business. The ratings take into BEL's presence in export oriented value-added textile segment and experienced management team. However, ratings are constraint by relatively small scale of operations and dated plant and machinery leading to compromised efficiency amidst stiff competition. The management's prudent expansion strategy while maintaining a low leverage capital structure and adequate coverage is also a key rating factor.

Key Rating Drivers

The spin-off from yarn spinning business

Previously, spinning and weaving units were operating under the umbrella of BEL; however, the owners decided to divide the company's assets as at June 30, 2017, amongst sponsoring family and operate the spinning and weaving as separate units. Subsequent to division of assets, Mr. Waqas Ali retained the ownership of BEL with weaving and stitching units having 562 shuttle less sulzer looms and 45 stitching machines, respectively. Product portfolio of BEL now mainly comprises grey & dyed/printed fabric and made-ups. Made-ups accounted over 50% of export sales in FY18 and included products such as bed sets, pillow covers, quilt covers, cotton bags, table covers and curtains. The most popular market for the company's exports has been Europe; which accounted for 57% of export sales in FY18. The company has been able to tap other export avenues in order to rationalize geographical concentration. Customer concentration is evident as top 10 customers accounted for about 59% of export sales during FY18 (FY17: 49%).

Growth in export sales subsequent to spin-off

Gross sales mainly comprised export sales (FY18: 87%). Total export sales for BEL during FY18 amounted to Rs. 2.2b and, out of these, Rs. 1.1b were attributed to the exported made-ups. Export sales for BEL have remained steady between FY15 and FY18 with a CAGR of about 1%. During FY18, net sales of the company were Rs. 2.5b while net income amounted to Rs. 64.9m. Gross margins and net margins of BEL were recorded at 10.9% and 2.5%, respectively. BEL projects net sales to reach Rs. 3b by FY20 mainly on account of higher proportion of made-ups in overall sales.

Weak liquidity profile but debt service coverage remained adequate

Funds from Operations (FFO) was Rs. 94.7m during FY18. FFO to total debt ratio was 0.09x during FY18 while debt service coverage ratio (DSCR) stood at 2.37x and is considered adequate. As the company intends to procure long-term debt of around Rs. 1b beginning FY20, therefore, FFO to total debt is expected to remain on the lower side. Current ratio of the company increased to 1.79x (FY17: 1.51x) by end-FY18. Cash conversion cycle was about 166 days during FY18. By end-FY18, trade debts stood lower as it included receivables from related party amounting Rs. 554m at end-FY17, which was adjusted subsequently by end-FY18.

Sound leverage indicators owing to no long term debt

Given profit retention, equity base of the company stood slightly higher at Rs. 1.33b (FY17: Rs. 1.27b) by end-FY18. The debt profile comprised short-term borrowings only, however, the management is contemplating to mobilize long-term finances to partly fund the vertical integration project in FY20, which is currently being evaluated. Estimated capex for the project is Rs. 1.7b planned to be financed through long-term debt and equity in a proportion of 60:40. With decline in borrowings, gearing and debt leverage indicators decreased to 0.76x and 0.86x (FY17: 0.96x and 1.11x), respectively. Going forward, leverage indicators may increase slightly, though gearing is expected to remain around 1x.

Best Exports (Pvt.) Limited (BEL) — Appendix I

FINANCIAL SUMMARY & Projections *(amounts in PKR millions)*

BALANCE SHEET	FY17	FY18	FY19	FY20
Property Plant & Equipment	177.8	266.3	278.1	266.1
Stock-in-Trade	424.9	598.9	920.8	1,175.0
Trade Debts	970.5	561.2	414.2	379.8
Other Receivables	60.5	101.6	70.1	83.0
Other Assets	975.0	813.2	377.0	180.2
Stores, Spares & Tools	51.0	74.5	46.9	49.0
Cash & Bank Balances	24.8	71.7	524.0	659.2
Total Assets	**2,684.5**	**2,487.4**	**2,631.1**	**2,792.2**
Trade and Other Payables	96.3	72.9	99.5	127.0
Short-term Debt	1,226.2	1,017.9	996.7	992.6
Other Liabilities	89.8	59.5	49.8	52.7
Total Liabilities	**1,412.3**	**1,150.3**	**1,146.1**	**1,172.3**
Total Equity	**1,272.2**	**1,337.1**	**1,485.0**	**1,619.9**
INCOME STATEMENT	FY17	FY18	FY19	FY20
Net Sales	-	2,544.4	2,732.5	3,010.1
Gross Profit	-	278.0	341.1	381.3
Operating Profit	-	90.9	139.1	165.0
Profit After Tax	-	64.9	111.8	134.9
FFO	-	94.7	127.2	147.4
RATIO ANALYSIS	FY17	FY18	FY19	FY20
Gross Margin (%)	-	10.9%	12.5%	12.6%
Net Margin (%)	-	2.6%	4.1%	4.5%
FFO to Total Debt	-	0.09	0.13	0.15
Debt Leverage	-	0.86	0.77	0.72
Gearing	-	0.76	0.67	0.61
DSCR	-	2.37	2.94	3.14
ROAE (%)	-	5.0%	7.9%	8.7%
ROAA (%)	-	2.5%	4.4%	5.0%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES Appendix III

Name of Rated Entity	Best Exports (Pvt.) Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
Instrument Structure	N/A
Statement by the Rating Team	JCR-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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
11/5/2018	BBB	A-2	Stable	Initial