

RATING REPORT

Best Exports (Pvt.) Limited (BEL)

REPORT DATE:

April 27, 2020

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB	A-2	BBB	A-2
Rating Date	April 27, 2019		Dec 30, 2019	
Rating Outlook	Rating Watch- Developing		Stable	

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

VIS Entity Rating Criteria: Corporates (May 2019)

<https://www.vis.com.pk/kc-meth.aspx>

Best Exports (Pvt.) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>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.</p> <p style="text-align: center;">Profile of the Chairman/CEO</p> <p>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.</p> <p style="text-align: center;">Financial Snapshot</p> <p>Core Equity: end-FY19: Rs. 1.6b; end-FY18: Rs. 1.4b</p> <p>Assets: end-FY19: Rs. 4.5b; end-FY18: Rs. 4.2b</p> <p>Profit After Tax: FY19: Rs. 86.5m; FY18: Rs. 130.4m</p>	<p>The ratings assigned to Best Exports (Pvt.) Limited (BEL) take into account its presence in export-oriented value-added textile segment. The management’s focus on expanding current operations and growth in value-added products exports bodes well for the company. Adequate liquidity and coverages has provided comfort to the assigned ratings. However, the ratings remained constrained by relatively limited scale of operations. Further, maintenance of low leverage capital structure is considered a key rating factor.</p> <p>Key Rating Drivers:</p> <p>Expansion of operations: BEL has 445 Suzler looms installed, running at 88% (FY18: 84%) capacity utilization during FY19. The management intends to expand its weaving operations by adding 72 Airjet looms; total capex on the project is estimated to be around Rs. 1.4b, out of which Rs. 377m will be incurred on land & building, installation and local machinery. As per management, Rs. 450m will be mobilized through internal sources/equity injection. For the same purpose, advance paid against land (8-Acres) amounted to Rs. 36.2m and capital work in progress of Rs. 4.6m pertained to the civil work on land during FY19. For import of machinery costing Rs. 1.1b, the company plans to avail LITF in FY21. The management expects the civil work to complete by end-FY21, while the project is projected to be completed by end-FY22. Further, the company has added 40 new stitching machines worth Rs. 4.5m during FY19, to increase production of made-ups.</p> <p>The management’s plan for downward integration of adding spinning unit of 31,680 spindles has been shelved, due to elevated revised cost for the project, an outcome of currency devaluation and higher mark-up rates.</p> <p>Augmentation in topline with largely stagnant export sales: Export sales have remained the major revenue driver, however its contribution in total sales mix decreased to 64% (FY18: 83%) during FY19. Exports sales including exchange gain stood at Rs. 2.1b (FY18: Rs. 2.2b), mainly included sales of made ups, which remained at prior year’s level of Rs. 1.1b (FY18: Rs. 1.1b). Meanwhile, sale of grey cloth decreased to Rs. 278.0m (FY18: Rs. 397.4m) and export sale of dyed, printed cloth stood at Rs. 630.4m (FY18: Rs. 642.3m). As a result of local currency depreciation, exchange gain increased to Rs. 184.2m (FY18: Rs. 54.5m) during the review period. Export sales were largely targeted in Europe, with around 71% (FY18: 57%) share in revenue, followed by increased exposure in North America to 17% (FY18: 3%) and South America to 9% (FY18: 6%). Local sales comprising grey cloth, increased to Rs. 1.1b (FY18: Rs. 263.9m) during FY19. According to management, higher local sales were made to sustain production capacity, while increase in export sales of made-ups is expected during the ongoing year. Export sales during 5MFY20, amounted to Rs. 1.02b; 62% of which constituted export sales of made-ups. Client concentration, though improved, have remained moderate, as sales to top ten customers accounted for 33.5% (FY18: 48.4%) of the total sales during FY19.</p> <p>Coronavirus to result in uncertainty in textile sector dynamics: The revision in rating outlook reflects prevailing uncertainty in textile sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand, sharp fall in cotton prices and challenging economic environment. It is expected that the entire value chain of the textile industry will be impacted by these developments. Status of the assigned rating is therefore uncertain as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action, warranting a ‘Rating Watch-Developing’ status. Given the low leveraged capital structure, it is expected that ratings will remain stable</p>

post recovery of the ongoing situation; nevertheless, as scenario is evolving rapidly, VIS will closely monitor and will accordingly take action to resolve the outlook status.

Best Exports (Pvt.) Limited
Appendix I

BALANCE SHEET	FY17	FY18	FY19
Non-Current Assets	180	2,089	2,025
Long-Term Receivables (including current portion)	454	314	181
Store, Spares and Loose Tools	51	77	109
Stock-in-Trade	425	640	774
Trade Debts	971	555	880
Other Receivables	254	253	222
Tax Refunds Due from Government	326	218	208
Cash and Bank Balances	25	42	63
Total Assets	2,686	4,189	4,461
Trade and Other Payables	96	58	55
Long Term Debt (including current maturity)	-	-	-
Short Term Debt	1,226	1,033	1,247
Other Liabilities	92	52	123
Tier-1 Equity	1,272	1,403	1,585
Surplus on Revaluation of PP&E	-	1,643	1,451
Total Equity	1,272	3,046	3,036
Paid-up Capital	411	411	411
INCOME STATEMENT	FY17	FY18	FY19
Net Sales	-	2,593	3,220
Gross Profit	-	329	293
Profit Before Tax	-	156	75
Profit After Tax	-	130	87
Funds from Operations	-	149	174
RATIO ANALYSIS	FY17	FY18	FY19
Gross Margin (%)	-	12.7	9.1
Net Margins	-	5.0	2.7
Current Ratio (x)	-	1.7	1.8
Net Working Capital	-	774	1,069
FFO to Total Debt (x)	-	0.14	0.14
FFO to Long Term Debt (x)	-	-	-
Debt Leverage (x)	0.96	0.81	0.90
Gearing (x)	1.10	0.74	0.79
Debt Servicing Coverage Ratio (x)	-	2.8	2.5
ROAA (%)	-	3.8	2.0
ROAE (%)	-	9.7	5.8
(Stock in Trade+Trade Debt) to Short-Term Borrowing Ratio	1.1	1.2	1.3

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.

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	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	27-04-2019	BBB	A-2	Rating Watch-Developing	Maintained
	30-12-2019	BBB	A-2	Stable	Reaffirmed
	05-11-2018	BBB	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.				
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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