RATING REPORT

Best Exports (Pvt.) Limited (BEL)

REPORT DATE:
June 30, 2022

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 Outlook	Stable		Stable	
Rating Date	*30th Jun'22*		*30th Jun'21*	

COMPANY INFORMATION	
Incorporated in 1996	External auditors: RSM Avais Hyder Liaquat Nauman Chartered Accountants
Private Limited Company	Chairperson/CEO: Mr. Waqas Ali
Key Shareholders (More than 5%):	
Mr. Waqas Ali – 85.0% Ms. Hajra Waqas – 15.0%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (August 2021) *https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf*

Best Exports (Pvt.) Limited

RATING RATIONALE

The ratings assigned to Best Exports (Pvt.) Limited (BEL) take into account the company's presence in the export-oriented value-added textile segment underpinned by stable demand and favorable regulatory regime. The company reported modest increase in topline with marginal improvement in gross margins during FY21 on the back of higher volumetric sales and favorable prices of textile made-ups, which contributed ~60% to the sales mix. In line with the continuing trend, net revenues depicted some growth in the ongoing year as well. Cash flow coverages have remained adequate on a timeline basis. Leverage indicators have remained comfortable with steady growth in equity base on account of profit retention, and limited reliance on long-term borrowings. Meanwhile, the ratings continue to remain constrained by relatively limited scale of operations. The ratings remain dependent on maintaining liquidity and capitalization indicators at adequate levels while achieving projected revenue and profitability. In addition, the implementation of the expansion plan within stipulated timeframe is considered important.

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 the Chairperson/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

Tier-1 Equity: end-9MFY22: Rs. 2.1b; end-FY21: Rs. 1.9b; end-FY20: Rs. 1.7b

Assets: end-9MFY22: Rs. 4.9b; end-FY21: Rs. 4.8; end-FY20: Rs. 4.7b

Profit After Tax: 9MFY22: Rs. 66.3; FY21: Rs. 77m; FY20: Rs. 65m

Key Rating Factors:

Production update: During FY21, capacity utilization of the weaving unit was reported at 83.8% (FY20: 83.2%). Installed capacities and actual production are tabulated below:

Capacity Analysis	FY19	FY20	FY21
Weaving Unit:			
Number of looms installed	445	445	445
Number of looms worked	445	445	445
Standard cloth production (Sq. meters)'000	24,000	24,000	24,000
Actual cloth production (Sq. meters)'000	21,120	19,963	20,125
Capacity Utilization %	88	83	84

Property, plant and equipment stood at Rs. 2.3b (FY21: Rs. 2.2b; FY20: Rs. 2.1b) at end-9MFY22 largely due to capital work in progress related to civil work and electrical installations. The civil work is related to backward integration project, on which Rs. 350m has been incurred till date, majorly during FY20 and FY21, and an additional amount of Rs. 250m is further required for completion. The civil work has been funded through internal cash flows.

Modest growth in topline along with some improvement in gross margins largely underpinned by favorable product prices: Net revenues were reported at Rs. 2.4b (FY20: Rs. 2.2b) during FY21. Contribution of exports in the sales mix increased to 93% (FY20: 90%) with a YoY growth of 12.7%. Export sales of home textile made-ups registered an increase of ~32% vis-à-vis preceding year, on account of higher volumetric sales and average prices, with increase in its proportion to 60.1% (FY20: 50.0%) in the sales mix. Export sale of dyed and printed cloth has remained largely muted while grey cloth sale has decreased along with decrease in proportion to 33% (FY20: 30%) and 3% (FY20: 7%) respectively, in the sales mix. Sales concentration in terms of top five clients has increased considerably to 48% (FY20: 24%) of the total revenue on account of higher orders from certain clients. The concentration risk is largely mitigated by long-standing business relations with customers and high customer satisfaction underpinned by focus on quality and product specifications. In terms of geographic distribution, sales have remained largely concentrated in Europe, which constituted around 49.5% (FY20: 47.1%) of the sales mix, followed by America (FY21: 19%; FY20: 14.2%), Middle East (FY21: 15.5%; FY20: 19.4%) and Asia (FY21: 11%; FY20: 5.5%). Meanwhile, export share of Russia and Africa has squeezed during the outgoing year.

Gross profit was reported at Rs. 415.6m (FY20: Rs. 376.4m) with a marginal increase in gross margins to 17.4% (FY20: 16.9%) due to some increase in contribution of exports to the revenue mix. Cost of sales was recorded at Rs. 2.0b (FY20: Rs. 1.8b) during the outgoing year. The company has remained heavily reliant on local yarn for its weaving unit while the fabric requirement for made-ups division has been largely met in-house. Administrative expenses increased to Rs. 67.0m (FY20: Rs. 57.1m) mainly in line with higher salaries and benefits due to inflationary adjustments. Selling and distribution expenses increased to Rs. 75.0m (FY20: Rs. 54.0m) mainly due to higher freight expenses in line with surge in oil prices increasing transportation charges for Karachi bound shipments and container shortage globally causing hike in ocean freight. Finance cost was recorded at Rs. 159.5m (FY20: Rs. 162.3m). Accounting for taxation, the bottomline was reported at Rs. 77.0m (FY20: Rs. 65.0m) with net margin of 3.2% (FY20: 2.9%).

During 9MFY22, net sales were recorded higher at Rs. 2.0b, on annualized basis led by continuing trend of favorable demand dynamics of textile industry. Gross margins decreased marginally to 16.7% while net margins remained at 3.3%. The management expects to close FY22 at around Rs. 2.7b of net revenue.

Adequate liquidity profile in terms of cash flow coverages: Liquidity position of the company has remained adequate on a timeline basis as reflected by cash flows in relation to outstanding obligations. The company generated Rs. 147.5m (FY21: Rs. 189.3m; FY20: Rs. 182.1m) in funds from operations (FFO) during 9MFY22. FFO to total debt and FFO to long-term debt remained sizeable at 0.22 (FY21: 0.20x; FY20: 0.13x) and 1.81x (FY21: 1.86x; FY20: 2.43x). Debt service coverage ratio (DSCR) has remained adequate at 1.69x (FY21: 1.91x; FY20: 2.11x); a slight decrease in DSCR was due to quarterly repayments of loan for financing salaries and wages under SBP scheme.

Tarde debts stood at Rs. 667.2m (FY21: Rs. 653.2m; FY20: Rs. 499.1m). Aging is considered satisfactory given 96% of the trade receivables fall due within 3 months credit bracket. Majority of export sales are made on maximum of 120 days credit. Generally, the company avails a credit period of 7 to 30 days on raw material procurement while owing to significant increase in yarn prices during FY21 and the ongoing year, the company paid higher advances to suppliers to secure favorable rates. The same is reflected in increase in advances and prepayments which stood at Rs. 279m (FY21: 283m; FY20: Rs. 227m), out of which advance payments to suppliers amounted to Rs. 219.1m (FY21: 225.5m; FY20: Rs. 128.4m). Trade and other payables stood at Rs. 109.9m (FY21: Rs. 125.3m; FY20: Rs. 86.8m) at end-9MFY22. Net operating cycle of the company has remained higher (9MFY22: 239 days; FY21: 271 days; FY20: 324 days) relative to industry median mainly on account of slower inventory turnover. Meanwhile, current ratio has remained adequate on a timeline basis. In addition, coverage of short-term borrowings via stock in trade and trade receivables has also remained adequate at 1.35x (FY21: 1.38x; FY20: 1.26x).

Conservative capital structure with minimal reliance on long-term funding: The Tier-I equity of BEL has increased steadily on a timeline basis to Rs. 2.1b (end-FY21: Rs. 1.9b;

end-FY20: Rs. 1.7b) at end-9MFY22 on the back of profit retention. The debt matrix is heavily tilted towards short term borrowings to meet working capital requirements while reliance on long-term finance has remained limited. Long-term debt including current portion amounted to Rs. 108.1m (FY21: 101.6m; FY20: Rs. 75.1m), out of which Rs. 50.8m (FY21: Rs. 9.4m; FY20: Rs. 4.7m) pertained to lease liabilities against vehicles while the rest included outstanding amount of SBP refinance scheme for payment of salaries and wages and demand finance obtained for solar project. Overall debt level of the company has remained unchanged at Rs. 1.4b (FY21 & 20: Rs. 1.4b) at end-9MFY22. With increase in equity base, gearing and debt leverage has improved steadily to 0.66x (FY21: 0.72x; FY20: 0.79x) and 0.75x (FY21: 0.83x; FY20: 0.88x), respectively, by end-9MFY22.

The expansion plan entails addition of 30,000 spindles has encountered delays largely amidst funding constraints and cost escalation; total project outlay has been revised from Rs. 1.9b to Rs. 2.3b. The management is pursuing to raise funds for the capex through the sale of a non-operating land and intends to cover around two-third of the project cost through own sources. As per management, the land is presently being valued at Rs. 1.3b and the sale is expected to be executed by end-Dec'22. Additional bank borrowings requirement for the capex is estimated at Rs. 500m. The expansion is expected to be completed by end-Dec'23, which, in turn is contingent upon timely execution of the sale of land.

Best Exports (Pvt.) Limited — Appendix I

BALANCE SHEET *(Rs. Millions)*	June 30, 2020	June 30, 2021	Mar 31, 2022
Property, Plant and Equipment	2,066	2,210	2,281
Store, Spares and Loose Tools	134	156	162
Stock-in-Trade	1,137	1,098	1,047
Trade Debts	499	653	667
Advances and Prepayments	227	283	279
Tax Refunds Due from Government	322	328	333
Cash and Bank Balances	84	7	84
Other Assets	217	73	73
Total Assets	**4,686**	**4,808**	**4,926**
Trade and Other Payables	87	125	110
Short Term Borrowings	1,296	1,273	1,267
Long Term Borrowings *(including current maturity)*	75	102	108
Total Debt	1,371	1,375	1,375
Total Liabilities	**1,525**	**1,568**	**1,551**
Tier-1 Equity	1,741	1,897	2,073
Paid-up Capital	411	411	411
Total Equity	3,161	3,239	3,374
INCOME STATEMENT	**June 30, 2020**	**June 30, 2021**	**Mar 31, 2022**
Net Sales	2,223	2,391	2,032
Gross Profit	376	416	339
Profit Before Tax	96	111	93
Profit After Tax	65	77	66
Funds from Operations	182	189	147
RATIO ANALYSIS	**June 30, 2020**	**June 30, 2021**	**Mar 31, 2022**
Gross Margin (%)	16.9	17.4	16.7
Net Margins (%)	2.9	3.2	3.3
Current Ratio (x)	1.83	1.76	1.82
Net Working Capital	1,181	1,113	1,181
Net Operating Cycle (Days)	324	271	239
FFO to Total Debt (x)	0.13	0.20	0.22*
FFO to Long Term Debt (x)	2.43	1.86	1.81*
Debt Leverage (x)	0.88	0.83	0.75
Gearing (x)	0.79	0.72	0.66
Debt Servicing Coverage Ratio (x)	2.11	1.91	1.69
ROAA (%)	1.4	1.6	1.8*
ROAE (%)	3.9	4.2	4.4*
(Stock +Trade Debt) to Short-Term Borrowings (x)	1.26	1.38	1.35

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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				
30-06-2022	BBB	A-2	Stable	Reaffirmed
30-06-2021	BBB	A-2	Stable	Maintained
27-04-2020	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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Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Rohan Tariq	General Manager Finance	28-06-2022