RATING REPORT

Bhimra Textile Mills (Pvt.) Limited (BTML)

REPORT DATE:

December 31, 2021

RATING ANALYSTS:

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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	BBB	A-2
Rating Date	*31st Dec, 2021*	
Rating Outlook	Stable	

COMPANY INFORMATION	
Incorporated in 2004	**External auditors:** Tariq Abdul Ghani Maqbool & Co. Chartered Accountants
Private Limited Company	
Key Shareholders (with stake 5% or more):	**Chairman of the Board:** Mr. Zahid Qadeer Alam
Mr. Zahid Qadeer Alam – 40%	**Chief Executive Officer:** Mr. Zahid Qadeer Alam
Mr. Afan Zahid – 60%	

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (August 2021)

https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Bhimra Textile Mills (Pvt.) Limited (BTML)

OVERVIEW OF THE INSTITUTION

Bhimra Textile Mills (Pvt.) Limited was incorporated as a private limited company in 2004 under the Companies Ordinance 1984 (now repealed companies act 2017). Registered office of the company is situated in Lahore while plant is situated in Sheikhupura district.

Profile of Chairman & CEO

Mr. Zahid Qadeer Alam has over 45 years' of experience in machinery import, trading & textile manufacturing. He is also the CEO of an associated company Bhimra (Pvt.) Limited which manages restaurant under the name of Freddy's Café in Lahore.

RATING RATIONALE

Bhimra Textile Mills Limited (BTML) is a spinning company with main shareholding vested with the sponsoring family. The assigned ratings factor in high cyclicality and competitive intensity for spinning segment along with volatility in cotton prices which translate into moderate to high business risk profile. On the other hand, holistically business risk profile of the textile industry is supported by stable and growing demand. Ratings also incorporate financial risk profile marked by improvement in margins & profitability indicators, sound liquidity and sizable debt service coverages. Further, owing to reduction in benchmark rates, a trend which has now reversed, the financing cost for the company had reduced, reflecting positively on the bottom line in the outgoing period. However, the ratings remain sensitive to lack of revenue diversification and limited scale of operations. The management's focus on expanding current operations with addition of 16,800 spindles bodes well for the company in terms of reaping economies of scale. Going forward, sales are expected to escalate on account of adequate orders in pipeline along with expansion of scale of operations. On the other hand, leverage indicators have increased on account of higher borrowings to fund capital expenditure and increasing working capital requirements. The capitalization plan of the expansion would need to be aligned with that existing capital structure and dovetailing of timely revenue from the same. The ratings are dependent on sustenance of margins, realization of projected targets, incremental cash flow generation from recent capital expenditure and maintenance of leverage indicators coupled with evolution of sector dynamics.

Local Spinning Segment during COVID-19: The coronavirus pandemic led to 3% drop in global trade volumes in the 1QFY20 according to United Nations conference on Trade and Development forecasts. Given most of the textile companies in Pakistan are heavily reliant on local cotton produce; the supply side risk was largely curtailed. However, due to the heavy rainfall and pest attack, cotton crop was badly damaged and the same was reported at a multi-year low. Subsequently, reduction in local cotton production pushed the cotton prices to 11 year high in Feb'21. Movement in cotton prices and cotton crop levels drives performance of spinning sector players; the same have depicted seasonality historically. The increase in global demand for value-added textile products coupled with diversion of orders to Pakistan from competing neighboring countries on account of more severe pandemic situation prevalent supports the business risk environment for local spinning units.

The business environment for textile spinning improved considerably in 2HFY21 due to resurgence in demand following easing of COVID-19 related lockdowns globally. Raw material prices along with many other commodities increased from the low levels seen last year, which in turn increased yarn prices. With higher international demand for Pakistani Textiles along with favorable government policies, large capacity enhancement projects in the downstream textile industry are expected, which will further strengthen demand for yarn. Going forward, the improvement in margins for the spinning segment will remain contingent on investment in technology and capital expansion to reap economies of scale.

Business Model: product portfolio & capacity utilization: BTML manufactures 100% cotton carded compact yarn from imported and locally procured cotton with counts ranging from 12/S to 30/S for multiple uses. The coarser yarn mainly caters to denim, towel and socks while fine carded compact yarn caters to shirt fabric etc. Sales are usually made on advance payment. On the other hand, for purchase of cotton, 95% of payment is made on arrival while the remaining 5% is paid within two months. There was no change in the operational capacity of the company during the rating review period. Moreover, the capacity utilization of the company was recorded at 92% during FY21. The breakdown of production capacity and utilization is tabulated below:

Spinning	FY19	FY20	FY21
Total Spindles (All operational)	20,640	20,640	20,640
Installed Capacity Converted to 30/S Count (m Kgs)	6.64	6.64	6.64
Actual Production (m Kgs)	6.23	6.09	6.11
Capacity Utilization %	93.8%	91.7%	92.0%

In line with almost optimal capacity utilization of current production facilities, the management has planned for capacity enhancement of the spinning operations with addition of 16,800 spindles during the ongoing year. As per the management, 10,800 new spindles along with two carding machines, three simplex machines & two auto cones will become operational by end-Jan'22; meanwhile, shipment of the remaining 6,000 spindles will be received by end-Feb'22. The projected cost for the capex is estimated around Rs. 950m which will be met by a mix of equity (Rs. 550m) and debt (Rs. 400m). As per the management, the company would procure funding under SPB's concessionary scheme, Temporary Economic Refinance Facility (TERF). The current cumulative power requirement of the unit is 2.5 MW which is met through gas fired generators of 2.2 MW while the remaining 0.3MW is met through WAPDA. However, the total load requirement post expansion will increase to 3.9MW. To cater to this, BTML has arranged extension / enhancement of WAPDA load from 2.8MW to 4.2MW. Moreover, for gas fired generation, the company is planning to add one engine of 2MW in FY22.

Topline & profitability indicators picked pace during the outgoing year: BTML's topline was recorded higher at Rs. 2.8b (FY20: Rs. 2.2b) during FY21 as a combined outcome of increase in prices of final product along with higher quantum of goods sold. However, the increase was largely driven by higher prices as the volumetric increase in yarn sales was only nominal at 1.2%; BTML sold 6,142,969 kgs (FY20: 6,069,349 kgs) of yarn during FY21. Given the company largely is operating at full capacity, any sizable increase in quantum sales is not possible until capacity expansion is undertaken. The company predominantly operates in the local market. Although the company ventured into export market during the outgoing year with sale of Rs. 41.7m recorded outside Pakistan; the same in proportion to total sales remains insignificant. Further, the company was able to reap higher average prices of yarn at Rs. 448.5/kg during FY21 as opposed to Rs. 369.3/kg in the preceding year; the same reflected positively on the margins that were recorded higher at 10.5% (FY20: 8.5%) during FY21. The enhancement of margins is also a function of improved business risk dynamics of the spinning and textile sector in line with capitalizing of market gap presented by prolonged lockdowns in competitor countries. Given local cotton has lower yield owing to high moisture & trash content along with general scarcity of local cotton faced, the company follows a mix of local and imported cotton in the proportion of 60:40. For FY22, the company plans on utilizing equal proportions of local and imported cotton. BTML maintains cotton stock for around 3-4 months of projected production.

The selling & distribution expenses were recorded higher at Rs. 4.1m during FY21 vis-à-vis Rs. 2.7m in FY20 on account of increase in employee related cost in line with annual salary increments coupled with higher average headcount of 582 (FY20: 513) during the outgoing year. In addition, the administrative & general expenses were also recorded slightly higher at Rs. 60.2m (FY20: Rs. 58.1m); however, the increase in operating expenses is largely rationalized in terms of growth in scale of operations. Moreover, the finance cost also reduced to Rs. 56.3m (FY20: Rs. 89.8m) during FY21 in the line with benchmark rates being at the very bottom end of the spectrum coupled with reduced utilization of borrowings during the period under review. On the other hand, other charges were recorded higher at Rs. 17.6m (FY20: Rs. 6.9m) during FY21 on account of higher contribution made to employee participation fund. As an outcome of positive trajectory of revenues, enhancement of margins and rationalization of operating and financial expenses, BTML reported sizable profit of Rs. 90.8m (FY20: Rs. 2.2m) during FY21.

Going forward, the management projects to close FY22 with a topline of Rs. 4.8b; VIS expects that the target is realistic and achievable given incremental revenue generation is expected from capacity enhancement with 10,800 new spindles becoming operational post Feb'22 coupled with positive outlook on the sector. The company has already booked Rs. 859.4m during 1QFY22. Moreover, the margins are projected to remain healthy at around 8.5% for FY22. The same depicts a downward movement from current margins; the management has deliberately given a conservative figure given increase in cotton prices is anticipated and any timing differential in transfer pricing can impact margins.

Liquidity position exhibited improvement stemming from enhanced scale of operations & improved margins: Liquidity profile of the company has exhibited positive trajectory with significant improvement during the ongoing year in line with growth in margins and profitability indicators. Funds from Operations (FFO) were recorded sizable at Rs. 146.8 (FY20: Rs. 57.2m) during FY21 owing to growth in scale of operations and enhancement of margins. As a result, FFO to total debt was recorded significantly higher at 0.33x (FY20: 0.08x) at end-FY21. The company has limited reliance on long-term funding therefore FFO to long-term debt was recorded high at 0.84x (FY20: 0.41x) at end-FY21. In addition, the debt service coverage improved and was sizable at 2.63x (FY20: 1.10x) in line with growth in FFO; the same depicts that the company is comfortably placed to meet its contractual obligations due in one year.

Stock in trade subsided to Rs. 349.1b (end-FY20: Rs. 726.6m) owing to offloading of inventory that was retained on company's books during covid by end-FY21. Despite increase in scale of operations, the management has rationalized inventory levels to avoid unnecessary carrying costs. Moreover, slight increase in stock to Rs. 467.3m by end-1QFY22 pertains to raw material inventory held to meet forecasted demand; the same is linked with growth in scale of business operations. Further, given the company deals largely in cash, trade debts as a proportional of total assets and revenue are negligible. Loans and advances were recorded at Rs. 26.4m (FY20: Rs. 24.8m) during FY21 primarily owing to higher advances extended to suppliers & contractors; the amounts are non-adjustable and are refundable after the contract with the supplier is concluded. In addition, trade deposits and prepayments were also recorded higher at Rs. 238.5m (FY20: Rs. 181.7m) on account of higher value LCs open amounting to Rs. 112.7m (FY20: Rs. 79.4m) pertaining to increased quantum of cotton import at end-FY21. Further, liquidity of the company is impacted due to sizable tax refunds amounting to Rs. 52.8m (end-FY20: Rs. 41.9m) due from government at end-FY21; the company is unable to rectify the situation given it is an exogenous factor and inherent in the local textile industry.

On the other hand, trade and other payables largely remained range bound; the same were recorded at Rs. 226.4m (end-FY21- Rs. 235.3; end-FY20: Rs. 229.5) at end-1QFY22 with majority pertaining to tax liability, advances from customers and trade creditors. Given decline in short-term borrowings, current ratio of the company improved on a timeline basis; moreover, the same was comfortably maintained over 1.0x at all times.

Moderately leveraged capital structure: The equity base of BTML augmented considerably to Rs. 714.5m (FY21: Rs.632.6m; FY20: Rs. 564.1m) by end-1QFY22 on account of internal capital generation. The equity includes loans extended by related parties of Rs. 79.7m (FY21: Rs. 102.7m; FY20: Rs. 126.6m) at end-1QFY22; these are interest-free loans repayable at the discretion of the company. On the other hand, long-term borrowings also increased to Rs. 336.3m (FY21: Rs. 175.7m; FY20: Rs. 139.3m) at end-1QFY22 as BTML procured additional debt amounting to Rs. 130.0m under SBP TERF facility to fund capex incurred on installation of spindles during the ongoing year. In addition to that, the company had also obtained loan amounting to Rs. 44.7m during FY21 under salaries refinance scheme at a subsidized markup rate of 3% per annum. The loan is repayable in two years in 8 equal quarterly installments starting from Jan'21. As per the management, three installments pertaining to salary refinance have already been made till date. Majority of company's borrowings are under SBP subsidized facilities therefore the interest cost is on the lower side. In addition, during FY21 for all existing long-term facilities, banks deferred the loan installments for the period of one year under SBP directive as a relief to the company during COVID-19 pandemic. Long term borrowings also include loans procured from associate company amounting to Rs. 60.9m (FY21: Rs. 64.3m; FY20: Rs. 68.2m) at end-1QFY22; these are two loans carrying markup arrangement at 3M-Kibor plus 2.25-2.75%. One of the facilities amounting to Rs. 40.0m will expire on 30th Nov, 2024 while the other's maturity is reported for 22nd June'2023; both loans are renewable subject to mutual consent of both parties.

There has been a shift in the debt matrix of the company as by end-FY20 the same was heavily dominated by short-term funding; however, with the retirement of short-term funds during FY21 in line with offloading of excess inventory on the books, short-term debt comprised 53% (FY21: 61%; FY20: 80%) of total debt at end-1QFY22. In line with high inventory carried at end-FY20; the short-term borrowing peaked to Rs. 567.2m; however, the situation has now been rectified. The company had un-availed short-term credit lines of around Rs. 1.0b from different financial institutions at end-FY21. The leverage indicators, both gearing and debt leverage, exhibited volatility during the rating review period with improvement in FY21 owing to considerable growth in equity base. However, both gearing and leverage increased from FY21's level to 1.28x (FY21: 0.93x; FY20: 1.72x) and 1.88x (FY21: 1.63x; FY20: Rs. 2.59x) respectively owing to procurement of long-term funding for capex requitements coupled with increased utilization of short-term credit to meet higher working capital requirements in line with increase in scale of operations. Moreover, for the setup and procurement of additional 6,000 spindles, the company plans to procure additional debt of Rs. 250m during FY22. Given the expansion plans in perspective, the gearing is projected to increase in the current year.

Bhimra Textile Mills (Pvt.) Limited — Appendix I

FINANCIAL SUMMARY *(Amounts in PKR millions)*

BALANCE SHEET	30-Jun-18	30-Jun-19	30-Jun-20	30-Jun-21	30-Sep-21
Non-Current Assets	623.9	659.4	630.8	698.7	761.0
Stock-in-Trade	434.0	658.0	726.6	349.1	467.3
Trade Debts	3.3	8.7	2.1	11.8	23.8
Trade Deposits & Short-Term Prepayments	107.2	99.0	181.7	238.5	429.6
Tax Refund from Government	30.8	36.8	41.9	52.8	52.9
Cash & Bank Balances	12.4	4.0	0.8	16.0	3.8
Total Assets	1,231.3	1,486.8	1,624.9	1,412.0	1,766.5
Trade Payables	105.8	167.5	229.5	235.3	226.4
Short Term Borrowings	376.7	483.8	567.2	271.1	381.1
Long-Term Borrowings	238.8	199.9	139.3	175.7	336.3
Total Borrowings	615.5	683.7	706.5	446.8	717.4
Total Liabilities	804.3	955.3	1,060.8	779.4	1,052.0
Tier 1 Equity	297.4	401.6	409.9	478.4	560.2
Revaluation Reserves	129.7	129.6	154.2	154.2	154.2
Total Equity including Revaluation Reserves	427.1	531.2	564.1	632.6	714.5
Paid Up Capital	191.0	191.0	191.0	191.0	191.0

INCOME STATEMENT	30-Jun-18	30-Jun-19	30-Jun-20	30-Jun-21	30-Sep-21
Net Sales	1,725.6	2,213.8	2,241.7	2,755.2	859.4
Gross Profit	133.4	169.6	190.5	289.3	148.9
Finance Cost	48.1	79.9	89.8	56.3	12.8
Profit Before Tax	33.7	39.5	33.0	149.3	115.6
Net Profit	19.0	14.7	2.2	90.8	104.9

RATIO ANALYSIS	30-Jun-18	30-Jun-19	30-Jun-20	30-Jun-21	30-Sep-21
Gross Margin (%)	7.7	7.7	8.5	10.5	17.3
Net Margin (%)	1.1	0.7	0.1	3.3	12.2
Current Ratio (x)	1.12	1.15	1.16	1.14	1.38
Debt Leverage (x)	2.70	2.38	2.59	1.63	1.88
Gearing (x)	2.07	1.70	1.72	0.93	1.28
FFO	73	80.6	57.2	146.8	-
FFO to Total Debt (x)	0.12	0.12	0.08	0.33	-
FFO to Long Term Debt (x)	0.30	0.40	0.41	0.84	-
Debt Servicing Coverage Ratio (x)	1.82	1.26	1.10	2.63	-
(Inventory + Receivables)/Short-term Borrowings (x)	1.13	1.34	1.28	1.33	1.29

Bhimra Textile Mills (Pvt.) Limited — Appendix II

PROJECTIONS	*(Amounts in PKR millions)*		
BALANCE SHEET	**30-Jun-22**	**30-Jun-23**	**30-Jun-24**
Non-Current Assets	1,128.6	1,546.0	1,546.00
Stock-in-Trade	928.2	1,154.0	1,234.7
Trade Debts	30.6	38.8	40.7
Advances, Deposits & Other Prepayments	150.0	150.0	150.0
Cash & Bank Balances	11.5	191.8	503.6
Total Assets	2,658.0	2,953.8	3,236.1
Trade & Other Payables	315.1	245.0	96.6
Short Term Borrowings	749.2	815.8	871.5
Long Term Borrowings	427.5	417.9	323.4
Total Borrowings	1,176.7	1,233.7	1,194.9
Total Liabilities	1,607.8	1,600.9	1,417.3
Tier 1 Equity	894.0	1,198.7	1,664.6
Revaluation Reserves	154.2	154.2	154.2
Total Equity including Revaluation Reserves	1,048.3	1,353.0	1,818.9
Paid Up Capital	191.0	191.0	191.0
INCOME STATEMENT	**30-Jun-22**	**30-Jun-23**	**30-Jun-24**
Net Sales	4,794.5	6,087.0	6,375.9
Gross Profit	410.0	550.9	738.4
Finance Cost	70.2	97.7	89.9
Profit Before Tax	259.5	363.1	545.6
Net Profit	187.6	287.1	465.9
RATIO ANALYSIS	**30-Jun-22**	**30-Jun-23**	**30-Jun-24**
Gross Margin (%)	8.6	9.0	11.6
Net Margin (%)	3.9	4.7	7.3
Current Ratio (x)	0.92	1.26	1.72
Debt Leverage (x)	1.80	1.34	0.85
Gearing (x)	1.32	1.03	0.72
FFO	285.4	315.1	494.5
FFO to Total Debt (x)	0.24	0.26	0.41
FFO to Long Term Debt (x)	0.67	0.75	1.53
(Inventory + Receivables)/Short-term Borrowings (x)	1.28	1.46	1.46

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix III

<u>Medium to Long-Term</u>

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

<u>Short-Term</u>

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.

REGULATORY DISCLOSURES — Appendix IV

Name of Rated Entity	Bhimra Textile Mills (Pvt.) Limited
Sector	Textiles
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
31/12/2021	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. Muhammad Shuaib	CFO	23-Dec-2021