

## RATING REPORT

### Bhimra Textile Mills (Pvt.) Limited (BTML)

**REPORT DATE:**

December 15, 2023

**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		Negative	
Rating Action	Maintained		Maintained	
Rating Date	December 15, 2023		December 29, 2022	

#### COMPANY INFORMATION

Incorporated in 2004	External auditors: Ilyas Saeed & 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(IES)

Applicable Rating Criteria: 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>

## 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 Limited was incorporated as a private limited company in 2004 under the Companies Ordinance 1984 (now repealed companies act 2017).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 Sheikhpura 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

## Company Profile

Bhimra Textile Mills (Private) Limited ('BTML' or 'the Company') was incorporated as a private limited company in 2004. The principal activity of the Company is manufacturing and sale of yarn. The registered office of the Company is located at 12-C-II M.M. Alam Road, Gulberg III, Lahore. The manufacturing facility is located at 37-KM Sheikhpura Road, Mouza Manawala, District Sheikhpura.

## Key Rating Drivers

**Business risk profile constrained by cyclicity, and high competition in the sector.**

The business risk profile of the spinning sector in Pakistan is characterized by high level of exposure to economic cyclicity and intense competition. This sector's performance is significantly influenced by the broader economic conditions in the country, making it inherently vulnerable to fluctuations in demand driven by economic factors.

In FY23, the spinning sector faced challenges due to various economic and environmental circumstances. These included damage to the cotton crop resulting from flooding in 1HFY23, escalating inflation, and diminishing foreign exchange reserves.

The spinning sector in Pakistan comprises ~407 spinning mills, which include both composite units and spinning units. This industry exhibits a competitive market structure with a large number of players producing a relatively homogenous product.

During FY23, Pakistan's yarn production registered a substantial decline, primarily due to reduced availability of cotton, as a result of crop damage and import restrictions. The sector's profitability was constrained by factors such as higher production costs, increased raw material costs, and rising energy expenses, all of which constrained the sector's profit margin. The industry's performance is closely intertwined with the outlook of the cotton and textile industries, both of which were affected in FY23. Global economic slowdown and contractionary economic policies led to a decrease in demand for textile products and, consequently, cotton yarn.

While the global outlook for cotton production is expected to rebound, local challenges persist. These challenges include high interest rates, increasing energy costs, and difficulties with obtaining letters of credit (LCs). These factors are likely to result in continued sluggish performance for the spinning sector in FY24.

**Margins improved, despite deterioration in the topline.**

In FY23, the Company witnessed a decrease in total revenue, amounting to PKR 3,583 million (FY22: PKR 4,551 million), reflecting subdued demand influenced by economic recession in both local and export markets. Despite the revenue reduction, gross margins improved to 14.6% compared to 10.8% in FY22, driven by inventory gains from timely acquisition of raw materials at lower prices.

However, gross margins experienced a slight decline in 1QFY24, attributable to sustained inflationary pressure in input costs. Moreover, inventory gains eased as cotton prices receded during this period, leading to lower yarn prices in the market.

Net margins experienced constraint during FY23 and 1QFY24 due to an increase in the finance burden. This increase stemmed from higher debt utilization amid heightened policy rates in the country.

**Capitalization profile reported deterioration with higher short-term debt utilization to meet increasing working capital needs.**

In FY23, the company experienced a buildup in inventory due to subdued demand both internationally and domestically. This led to an inflation in the days to sell inventory, reaching 94 days (FY22: 42 days) in FY23 and further increasing to 102 days in 1QFY24. Consequently, the Cash Conversion Cycle expanded to 84 days in 1QFY24 from 65 days in FY22, widening the working capital gap. This resulted in an elevated short-term debt drawdown resulting in significant stress on the capitalization profile. Gearing and leverage ratios stand at 2.8x (FY23: 1.9x, FY22: 1.5x) and 3.4x (FY23: 2.4x, FY22: 2.0x), respectively in 1QFY24.

**Liquidity profile remains stable. The Debt Service Coverage profile saw significant stress in FY23, however, managed to recover in 1QFY24. Meanwhile, short-term debt coverage continues to face pressure.**

The Company has continued to maintain a stable liquidity profile throughout the years. The current ratio remained at 1.0x (FY23: 1.0x, FY22: 1.0x) in 1QFY24. The debt service coverage (DSCR) reported severe stress, dropping to 0.5x in FY23 as funds from operations came under pressure from lower quantum of operating profits amid higher finance costs. Moreover, BTML continues to report short-term debt coverage under 1.0x at 0.9x (FY23: 0.9x FY22: 0.9x) in 1QFY24.

However, the Company managed to recover its DSCR in 1QFY24 to 1.2x (FY22: 1.5x) on account of improvement in quarterly operational performance.

#### **Key Considerations for Future Ratings**

Going forward, ratings will remain sensitive to management's capacity to realize projected plans. Moreover, improvement of key financial metrics to be commensurate with assigned ratings will remain an important consideration for future ratings.

**Bhimra Textile Mills (Pvt.) Limited**
**Appendix I**

<b>FINANCIAL SUMMARY</b>				
	<i>(PKR Millions)</i>			
<b>Balance Sheet</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23A</b>	<b>3MFY24A</b>
Property, plant and equipment	520.2	1,350.6	1,317.6	1,582.5
Stock in Trade	349.1	592.2	986.2	1,709.1
Trade receivables	11.8	14.8	19.7	18.9
Cash and bank balances	16.0	5.7	15.5	8.7
<b>Total Assets</b>	<b>1,412.0</b>	<b>2,693.2</b>	<b>3,203.0</b>	<b>3,861.1</b>
Trade payables	235.3	244.3	274.9	229.0
Long-term Debt (incl. current portion)	122.5	516.3	468.6	447.7
Short term loan	271.1	673.1	1,122.6	1,848.2
<b>Total Debt</b>	<b>393.6</b>	<b>1,189.4</b>	<b>1,591.2</b>	<b>2,295.9</b>
<b>Total Liabilities</b>	<b>726.2</b>	<b>1,602.9</b>	<b>2,062.4</b>	<b>2,757.5</b>
Issued, Subscribed and Paid-up Capital	191.0	191.0	191.0	191.0
Equity (excl. Revaluation Surplus)	531.6	798.8	845.6	808.6
<b>Income Statement</b>				
	<b>FY21A</b>	<b>FY22A</b>	<b>FY23A</b>	<b>3MFY24A</b>
Net Sales	2,755.2	4,551.0	3,582.9	1,365.4
Gross Profit	289.3	490.7	522.9	162.0
Operating Profit	205.6	399.7	416.0	137.8
Finance Costs	56.3	111.6	300.9	102.4
Profit Before Tax	149.3	293.4	124.7	35.4
Profit After Tax	90.8	234.4	79.9	18.3
<b>Ratio Analysis</b>				
	<b>FY21A</b>	<b>FY22A</b>	<b>FY23A</b>	<b>3MFY24A</b>
Gross Margin (%)	10.5%	10.8%	14.6%	11.9%
Net Margin (%)	3.3%	5.2%	2.2%	1.3%
Funds from Operation (FFO)	146.8	222.0	-92.7	47.6
FFO to Total Debt* (%)	37.3%	18.7%	-5.8%	8.3%
FFO to Long Term Debt* (%)	119.8%	43.0%	-19.8%	42.5%
Gearing (x)	0.7	1.5	1.9	2.8
Leverage (x)	1.4	2.0	2.4	3.4
Debt Servicing Coverage Ratio* (x)	1.5	1.5	0.5	1.2
Current Ratio	1.1	1.0	1.0	1.0
(Stock in trade + trade debts) / STD (x)	1.3	0.9	0.9	0.9
Return on Average Assets* (%)	6.0%	11.4%	2.7%	2.2%
Return on Average Equity* (%)	18.0%	35.2%	9.7%	9.1%

\*Annualized, if required

<b>REGULATORY DISCLOSURES</b>		<b>Appendix II</b>			
<b>Name of Rated Entity</b>	Bhimra Textile Mills (Pvt.) Limited				
<b>Sector</b>	Textiles				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Ratings				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	15/12/2023	BBB	A-2	Stable	Maintained
	29/12/2022	BBB	A-2	Negative	Maintained
	31/12/2021	BBB	A-2	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>		
	1	Mr. Muhammad Shuaib	CFO	11-Dec-2023	