

RATING REPORT

Best Fibres (Pvt.) Limited

REPORT DATE:

April 05, 2021

RATING ANALYSTS:

Syed Fahim Haider Shah
fahim.haider@vis.com.pk

Maimoon Rasheed
maimoon@vis.com.pk

RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Rating Watch-Negative	
Rating Action	Maintained		Maintained	
Rating Date	5 th April'21		27 th April'20	

COMPANY INFORMATION

Incorporated in 2017	External auditors: RSM Avais Hyder Liaquat Nauman Chartered Accountants.
Private Limited Company	Chairman/CEO: Sheikh Zulfiqar Ali
Key Shareholders (with stake 5% or more):	
Ms. Madiha Asif – 75.35%	
Sheikh Zulfiqar Ali – 24.09%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (May 2019)

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

Best Fibres(Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Best Fibres (Pvt.) Limited was incorporated in 2017 as a private limited company. The principal object of the company is to manufacture and sale of viscose and cotton yarn.

Profile of the Chairman/CEO

Sheikh Zulfikar Ali more than has 50 years of experience in the textile sector. He started his career from the yarn market of Faisalabad and laid the foundation of Best Group of Companies in 1996.

Financial Snapshot

Tier-1 Equity: end-HY21: Rs. 1.55b; end-FY20: Rs. 1.19b; end-FY19: Rs. 928m.

Assets: end-HY21: Rs. 3.28b; end-FY20: Rs. 2.71b; end-FY19: Rs. 2.64b.

Net Profit: HY21: Rs. 250m; FY20: Rs. 152m; FY19: Rs. 376m.

RATING RATIONALE

Best Fibres (Pvt.) Limited (BFL) is a spinning unit located in Faisalabad, with shareholding vested within sponsoring family. The ratings assigned take into some recovery in revenue during HY21 after a notable decline in yarn sales due to imposition of CNIC condition and levy of sales tax during FY20. The ratings draw comfort from adequate coverages and declining debt levels which along with equity injection from the sponsors have led to increased financial flexibility and continuous improvement in leverage indicators. The ratings also incorporate management's focus on expanding the scale of spinning operations mainly from internal sources. However, the ratings remained constrained by vulnerability of spinning sector to raw material prices, exchange rate risk emanating from cotton and viscose, and any adverse changes in regulatory duties.

Key Rating Drivers:**Geared towards becoming a large-sized spinning mill**

BFL is geared to become a large-sized spinning mill as the completion of its first expansion project since spinoff from Best Exports (Pvt.) Limited in June 2017 is expected by end-March 2021. The expansion entails addition of 33,920 spindles (currently 76,080 spindles) for a capex of around Rs. 1.0b that has been funded through a mix of Rs. 240m debt and Rs. 661m equity. Machinery for the project has mainly been imported from China, Germany and Switzerland. To meet its power requirements, the company plans to complete the installation of a grid station (132 KV/11) for a capex of Rs. 150m by end-FY21 that is to be funded through internal sources. Going forward, BFL plans to add 50,000 spindles on land adjacent to the existing unit. The project is expected to be completed by end-FY22 for a capex of Rs. 1.5b and would mainly be funded through equity. The company is also in process of acquiring 26 acres of land at Sheikhpura Road for Rs. 50m for future expansion plans.

Asset base growth mainly driven by capital expansion

Asset base increased to Rs. 3.3b (FY20: Rs. 2.7b; FY18: Rs. 2.6b) by end-HY21. Fixed assets stood higher at Rs. 2.0b (FY20: Rs. 1.8b; FY19: Rs. 1.5b) on account of capex of Rs. 286m (FY20: Rs. 395m; FY19: Rs. 225m) mainly pertained to addition of 24 ring-frames(13,128 spindles) and high-performance carding machine during the period. Stock in trade was recorded higher at Rs. 988m (FY20: Rs. 721m; FY19: Rs. 902m) at end-HY21 mainly due to seasonal buying of cotton stock between October and December. BFL maintains buffer raw material inventory equivalent to four months of production as most of the raw material (viscose) is imported from China, Indonesia, and Australia. Trade debts increased to Rs. 129m (FY20: Rs. 2m; FY19: Rs. 2m) on account of credit period given to a major customer; the amount has been received subsequently. Tax refund due from government amounted to Rs. 43m (FY20: Rs. 28m; FY19: Rs. 43m) while cash & bank balance remained stable at Rs. 25m (FY20: Rs. 26m; FY19: Rs. 43m) at end-HY21.

Notable recovery in revenue during HY21 after lower yarn sales in the previous year

BFL product mix mainly constituted viscose (of 20s-40s count) and cotton yarn (of 10s-60s count), sold in the local market. During FY20, around 80% of the yarn was sold in Faisalabad, followed by 7% in Gujranwala, 6% in Jhang, 5% in Multan and 2% in Lahore. According to the management, yarn market is majorly unorganized; characterized by less than 1% registered players.

BFL reported net revenue of Rs. 3.2b (FY20: Rs. 4.3b; FY19: Rs. 8.2b), with yarn sales accounting for 81.6% (FY20: 94.2%; FY19: 81.2%) of overall revenue mix, followed by viscose raw material 18.1% (FY20: 5.3%; FY19: 18.4%) and waste sales 0.3% (FY20: 0.5%; FY19: 0.3%). Revenue from yarn amounted to Rs. 2.6b (FY20: Rs. 4.1b; FY19: Rs. 6.7b) as the company sold 0.16m bags of viscose yarn (FY20: 0.25m bags; FY19: 0.41m bags) at a marginally lower selling price of Rs. 16,362/bag (FY20: Rs. 16,727/bag; FY19: Rs. 16,423/bag) during HY21. As BFL's majority sales are to individual buyers, yarn volumes were adversely impacted during FY20 due to imposition of CNIC condition on unregistered persons and imposition of sales tax thereon. However, the company has exhibited notable

recovery in yarn volumes during HY21 mainly on account of improvement in customer confidence.

Revenue from viscose raw material increased to Rs. 570m (FY20: Rs. 229m; FY19: Rs. 1.5b) with higher volumetric sales of 2.4m kgs (FY20: 1.0m kgs; FY19: 6.2m kgs) at marginally improved selling price during HY21. Waste sales amounted to Rs. 9m (FY20: Rs. 23m; FY19: Rs. 27m) during the period. With the continued recovery in buyer confidence and favorable dynamics of textile sector, the company is projecting net revenue of Rs. 6.4b during FY21. Going forward, the management is projecting its net revenue to grow at a CAGR of 18% to reach Rs. 10.0b in FY24, driven largely by ongoing capacity enhancement and favorable pricing.

Cost of sales amounted to Rs. 2.8b (FY20: Rs. 3.9b; FY19: Rs. 7.5b) out of which 68% (FY20: 70%; FY19: 79%) pertained to raw materials, fuel & power 24% (FY20: 22%; FY19: 14%) and employees' cost 8% (FY20: 7%; FY19: 6%). BFL reported gross profit of Rs. 386m (FY20: Rs. 421m; FY19: Rs. 739m) with improved gross margin of 12.1% (FY20: 9.7%; FY19: 9.0%). The company incurred operating expenses of Rs. 58m (FY20: Rs. 75m; FY19: Rs. 97m) mainly represented by staff salaries and workers profit participation fund. Finance cost was recorded lower at Rs. 34m (FY20: Rs. 151m; FY19: Rs. 121m) on account of lower utilization of borrowings and decrease in average interest rates. Resultantly, the company reported net profit of Rs. 250m (FY20: Rs. 152m; FY19: Rs. 376m) during HY21. Going forward, the company is projecting largely stable bottom line on the back of increase in sales despite decrease in margins.

Liquidity supported by improving operating cash flows generation with adequate coverages

In line with the profits, the company generated higher funds from operations (FFO) amounting to Rs. 304m during HY21 (FY20: Rs. 249m; FY19: Rs. 502m) mainly on account of lower finance cost. The company's capacity to meet financial obligations is considered adequate, as reflected in improved FFO-to-long-term debt and FFO-to-total debt ratios to 2.53x (FY20: 0.79x; FY19: 1.49x) and 0.90x (FY20: 0.28x; FY19: 0.45x), respectively, on account of both decrease in borrowings and higher FFO. The debt service coverage ratio (DSCR) was also recorded higher at 3.20x (FY20: 1.47x; FY19: 2.52x). With largely stable cash flows generation and decreasing long-term loans, the DSCR is projected to remain adequate, going forward.

Current ratio, though still low, improved to 0.90x (FY20: 0.72x; FY19: 0.78x) by end-HY21. Low current ratio was mainly a function of higher advances from customers and capex payable to Best Exports (Pvt.) Limited against spinning mill that was acquired during the spin-off. Inventory plus receivables in relation to short-term borrowings stood higher at 2.54x (FY20: 1.24x; FY19: 1.14x) as the company also takes customer advances to partially fund its working capital requirements.

Improving leverage indicators on the back of growing equity base and lower debt levels

Paid up capital of the company increased to Rs. 536m (FY20: Rs. 327m; FY19: Rs. 327m) on conversion of directors' loan into equity during HY21. Retention of profits led to enhanced equity base to Rs. 1.55b (FY20: Rs. 1.19b; FY19: Rs. 928m) by end-HY21. Increase in total liabilities to Rs. 1.73b (FY20: Rs. 1.51b; FY19: Rs. 1.72b) was mainly a function of higher customer advances amounting to Rs. 665m (FY20: 169m; FY19: Rs. 52m). Debt profile of the company comprised a mix of long-term and short-term loans. Increased customer advances helped the company to reduce its short-term borrowings to Rs. 439m (FY20: Rs. 581m; FY19: Rs. 792m) by end-HY21.

To partially fund the expansion project, BFL mobilized long-term loan facility of Rs. 240m in August 2020 for a period of 5 years inclusive of 1-year grace period. The facility was converted into the SBP's Temporary Economic Refinance Facility (TERF) at a markup rate of 3.0% per annum. The facility is repayable in 8 equal bi-annual installments of Rs. 30m each, starting from March 03, 2022 and ending on September 03, 2025. Due to lower debt levels and higher equity base, gearing and debt leverage ratios of the company improved to 0.44x (FY20: 0.75x; FY19: 1.22x) and 1.12x (FY20: 1.27x; FY19: 1.85x) by end-HY21. Going forward, gearing is projected to increase to 0.80x by end-FY21 due to increased utilization of short-term borrowings, and subsequently is projected to gradually improve due to scheduled repayments of TERF and profits retention.

Best Fibres (Pvt.) Limited
Annexure I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>				
BALANCE SHEET	FY18	FY19	FY20	HY21
Non-Current Assets	1,352	1,482	1,772	1,993
Stores, Spares. And Loose Tools	11	15	33	34
Stock-in-Trade	1,337	707	721	988
Trade Debts	1	2	2	129
Advances, Deposits and Other Receivables	399	352	123	71
Tax Refund Due From Government	16	43	28	43
Cash and Bank Balance	17	43	26	25
Total Assets	3,133	2,644	2,705	3,282
Trade and Other Payables	319	209	284	756
Capital Expenditure Payables <i>(Inc. current matu)</i>	314	181	181	181
Long-Term Borrowings <i>(Inc. current matur)</i>	461	336	317	240
Short-Term Borrowings	1,330	792	581	439
Other Liabilities	174	198	149	118
Tier-1 & Total Equity	537	928	1,193	1,548
Paid-up Capital	315	327	327	536
INCOME STATEMENT				
Net Sales	5,695	8,193	4,346	3,195
Gross Profit	449	739	421	386
Operating Profit	416	679	351	332
Profit Before Tax	318	526	200	298
Profit After Tax	223	376	152	250
FFO	379	502	249	304
RATIO ANALYSIS				
Gross Margin (%)	7.9	9.0	9.7	12.1
Net Margin (%)	3.9	4.6	3.5	7.8
Net Working Capital	(316)	(320)	(348)	(146)
Current Ratio		0.78	0.72	0.90
FFO to Long-Term Debt	0.82	1.49	0.79	2.53
FFO to Total Debt	0.21	0.45	0.28	0.90
DSCR (x)	2.53	2.52	1.47	3.20
ROAA (%)	8.2	13.0	5.7	16.7
ROAE (%)	52.6	51.3	14.3	36.5
Gearing (x)	3.34	1.22	0.75	0.44
Debt Leverage (x)	4.84	1.85	1.27	1.12
Inventory + Receivable/Short-term Borrowings (x)	1.01	0.89	1.24	2.54

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Annexure 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		Annexure III			
Name of Rated Entity	Best Fibres (Pvt.) Limited				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	05-04-2021	A-	A-2	Stable	Maintained
	27-04-2020	A-	A-2	Rating Watch-Developing	Maintained
	31-12-2019	A-	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.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2021 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meeting Conducted	Name	Designation		Date	
	Mr. Mansoor Zafar	CFO		February 12, 2021	