

RATING REPORT

Best Fibres (Pvt.) Limited

REPORT DATE:

May 13, 2022

RATING ANALYSTS:

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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		Stable	
Rating Action	Reaffirmed		Maintained	
Rating Date	13 th May'22		5 th April'21	

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):	
Sheikh Zulfiqar Ali – 24.09%	
Ms. Madiha Asif – 75.35%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (May 2021)

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

Best Fibres (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Best Fibres (Pvt.) Limited was incorporated in 2017 as a private limited company.

Profile of the Chairman/CEO

Sheikh Zulfiqar 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 early 2000.

RATING RATIONALE

The principal objective of the Company is to manufacture and sell yarn made from viscose, staple, fiber, cotton and / or man-made fiber. The registered office and spinning unit of the Company is situated at 22-KM Sheikhpura road, Khurrianwala, Tehsil Jaranwala, District Faisalabad in the province of Punjab.

Assigned ratings take note of noticeable improvement in the company's topline attributable to uptick in local sales and improvement in margins led by inventory gains during FY21. The Company was able to recover from the slowdown experienced in FY20 on account of COVID-19. Furthermore, ratings take into account the ongoing expansion and BMR activities leading to additional capacities. While cotton crop prospects remain upbeat for next year, ratings remain constrained by vulnerability of the industry to commodity price fluctuations as well as exchange rate volatility.

Key Rating Drivers:

Recovery in revenues in FY21 post slowdown in FY20

Post COVID-19 impact led to surge in demand for yarn in the local markets, allowing the company to recover revenues lost due to COVID slowdown. In FY21, BFL's revenues witnessed increase of 67%. The Company's product mix includes of cotton yarn and viscose. Local yarn sales increased by 66%, growth in revenues is attributable to both volumetric increase and increase in and average selling price of yarn during FY21.

The company's clientele remains saturated in Punjab, major geographical market is Faisalabad which constitutes around 3/4th of the total yarn sold to customers, remaining is segregated among Jhang, Gujranwala, Multan and Lahore.

Margins to revert going forward after increasing in FY21

Higher yarn prices in FY21 contributed towards inventory gains and resulted in uptick in gross margins for the Company, in line with the spinning sector. Improved gross margins tricked down to higher net margins. Net margin was reported to be 10.7% (FY20 3.5%) during FY21. However, with current raw material prices in the ongoing season, margins have streamlined as reflective in HFY22 financials. Given the inflationary pressures, we expect margins to remain range bound with historical levels. Sustainability and improvement of margins over time will remain important for ratings.

Ongoing capacity expansion to contribute towards revenue augmentation

The Company has newly replaced and installed 32,736 spindles during FY21 with total number of spindles amounting to 108,816 (FY20 76,080), additionally the company had planned to add 50,000 spindles to the land adjacent to its existing facility. Overall capacity utilization declined to 57% in FY20 (FY19 97%), although the same improved to 64% during FY21 post installation of new spindles. The drastic decline in production capacity is also attributable to consistent capacity enhancement BMR activities that took place during the last season. Full outcome of newly installed spindles is expected to be evident by the end of the ongoing fiscal

year. During FY21, the company obtained a new PKR 240m TERF in order to purchase new machinery for its plant expansion and capacity enhancement, the same is expected to arrive by FY24. The Company has also purchased new land adjacent to the existing spinning facility for future expansions.

Capitalization indicators have improved on a timeline basis, however, liquidity profile remains constrained.

On account of balance sheet mismatch, liquidity profile of the company remains constrained with current ratio at 0.88x in FY21, although at HY22 it does reflect some improvement to 0.98x. Gearing and leverage indicators has improved on a timeline basis, however on account of capex funding, we may expect gearing and leverage to increase going forward.

Best Fibres (Pvt.) Limited
Annexure I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>				
<u>BALANCE SHEET</u>	FY19	FY20	FY21	HFY22
Non-Current Assets	1,482	1,772	2,325	2,338
Stores, Spares. And Loose Tools	15	33	24	27
Stock-in-Trade	707	721	1,074	1,470
Trade Debts	2	2	19	41
Advances, Deposits and Other Receivables	352	123	111	64
Tax Refund Due From Government	43	28	6	108
Cash and Bank Balance	43	26	8	12
Total Assets	2,644	2,705	3,571	4,062
Trade and Other Payables	209	284	286	859
Long-Term Borrowings <i>(Inc. current maturity)</i>	336	317	240	210
Short-Term Borrowings	792	581	944	777
Tier-1 & Total Equity	928	1,193	1,813	2,010
Paid-up Capital	327	327	536	536
<u>INCOME STATEMENT</u>				
Net Sales	8,193	4,346	7,248	4,280
Gross Profit	739	421	891	360
Operating Profit	679	351	775	298
Profit Before Tax	526	200	719	260
Profit After Tax	376	152	511	197
FFO	502	249	762	255
<u>RATIO ANALYSIS</u>				
Gross Margin (%)	9.0	9.7	12.3	8.4
Net Margin (%)	4.6	3.5	7.1	4.6
Net Working Capital	(320)	(348)	(174)	(42)
Current Ratio	0.78	0.72	0.88	0.98
FFO to Long-Term Debt (x)	1.49	0.79	3.17	2.43
FFO to Total Debt (x)	0.45	0.28	0.64	0.52
DSCR (x)	2.52	1.47	2.80	5.44
ROAA (%)	13.0	5.7	16.3	10.3
ROAE (%)	51.3	14.3	34.0	20.6
Gearing (x)	1.22	0.75	0.65	0.49
Debt Leverage (x)	1.85	1.27	0.97	1.02
Inventory + Receivable/Short-term Borrowings (x)	0.89	1.24	1.16	1.95

**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>				
	13-05-2022	A-	A-2	Stable	Reaffirmed
	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.				
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Due Diligence Meeting	Name	Designation	Date		
	Mr. Mansoor Zafar	Manager Finance	March 17, 2022		